

# RETURNS MARKETS



“We continue to focus on balancing returns with market share growth and achieved a stronger second half performance, leaving us well-placed for future growth.”

**JOERG BIEBERNICK**  
Division Director, Returns

## RETURNS MARKETS

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	<b>159.9</b>	167.1	-4.3%	
Net revenue	£m	<b>4,264</b>	4,324	-1.4%	-1.1%
Net revenue per '000 SE	£	<b>26.67</b>	25.88	+3.0%	+3.4%
Adjusted operating profit	£m	<b>2,153</b>	2,171	-0.9%	-0.4%
Growth Brand % of net revenue	%	<b>62.2</b>	58.0	+420 bps	
Growth Brand market share	%	<b>17.8</b>	16.7	+110 bps	

We delivered some good performances in our Returns Markets. We maintained investment behind our Growth Brands in priority markets, aligned with our Market Repeatable Model.

We grew our overall share in the UK, Netherlands and Poland. We also improved our fine cut tobacco share and strengthened our share in blonde cigarettes in Spain. In line with our strategy for Returns Markets, we balanced financial delivery with share progression in France and Australia.

First half performance was affected by the carry over of 2017's tough trading environment, resulting in net revenue declining 3.7 per cent at constant currency. The environment improved considerably in the second half and we delivered net revenue growth of 1.4 per cent, resulting in full year net revenue down 1.1 per cent.

Our quality of growth further improved with Growth Brands now generating 62.2 per cent of tobacco & NGP net revenue, an increase of 420 basis points. Growth Brand volumes increased 2.3 per cent, while industry volumes declined 3.5 per cent. Growth Brand share increased 110 basis points, supported by migrations and strong organic brand performances.

Adjusted operating profit was down 0.4 per cent at constant currency, reflecting investment and the lack of price mix in the first half. Second half adjusted profits were up 4.1 per cent at constant currency due to the improved environment and cost initiatives.

## RETURNS MARKETS NORTH

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	<b>86.6</b>	89.8	-3.5%	
Net revenue	£m	<b>2,749</b>	2,755	-0.2%	+0.4%
Net revenue per '000 SE	£	<b>31.73</b>	30.69	+3.4%	+4.1%
Adjusted operating profit	£m	<b>1,507</b>	1,485	+1.5%	+2.4%
Growth Brand % of net revenue	%	<b>62.7</b>	60.2	+250 bps	
Growth Brand market share	%	<b>17.0</b>	16.6	+40 bps	

### Country Performance

UK	Players and Gold Leaf continued to perform well, improving our overall market share. Price mix improved in the second half as we lapped the impact of EUTPD regulations and increased prices.
Germany	Our financial delivery was strong, with both revenue and profit up. We grew our fine cut tobacco share with West, although this was offset by a lower cigarette share mainly as a result of Gauloises.
Benelux	We grew share in the Netherlands through the launch of larger cigarette formats, supported by consumer activation, while Belgium has seen an improving cigarette share trajectory as a result of focused investments.
Australia	Balancing financial delivery with volume and share progression ensured further good revenue and profit growth. JPS continued to perform well. Our overall share declined but our spot share recovered, reflecting the success of portfolio initiatives.
Ukraine	Increased prices and a focus on cost optimisation supported profit growth, although revenue was impacted by significant market size declines. We improved Davidoff's performance with the successful launch of Davidoff Reach queen size but share was down as we prioritised financial delivery.
Poland	We grew share in both cigarette and fine cut tobacco, driven by Parker & Simpson and supported by increased brand investment.

## RETURNS MARKETS SOUTH

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	<b>73.3</b>	77.3	-5.3%	
Net revenue	£m	<b>1,515</b>	1,569	-3.4%	-3.7%
Net revenue per '000 SE	£	<b>20.68</b>	20.29	+1.9%	+1.6%
Adjusted operating profit	£m	<b>646</b>	686	-5.8%	-6.4%
Growth Brand % of net revenue	%	<b>61.1</b>	54.2	+690 bps	
Growth Brand market share	%	<b>18.8</b>	16.8	+200bps	

### Country Performance

Spain	The dark tobacco segment continues to decline. Our blonde tobacco share was supported by refocused investment and the strong performance of larger formats and fine cut tobacco, resulting in an improved share trajectory.
France	Following significant excise increases we chose to prioritise profitability and value share growth at the expense of volume share.
Algeria	Over the years we have substantially increased our market share, although our recent performance was impacted by excise pressure and disruption to local third party production.
Morocco	Positive performances from Gauloises Blondes and Marquise enhanced our financial performance, with growth in both revenue and profit.