

DELIVERING QUALITY GROWTH

GROWTH BRANDS



We achieved another excellent performance with our Growth and Specialist Brands. These are the most important assets in our portfolio and together they now account for 66.9 per cent of our tobacco & NGP net revenue, up 420 basis points on last year.

SPECIALIST BRANDS



OUR BRANDS

The rest of our portfolio consists of Portfolio Brands; some of these are strong local brands that support our volume and revenue development, while others are delisted or migrated into Growth Brands. A number of migrations were completed in the year, as we continued to streamline our portfolio and improve our quality of growth.

Total Group tobacco volumes were 255.5 billion stick equivalents (2017: 265.2 billion), with volumes down by 3.6 per cent, outperforming industry volume declines of 5.0 per cent.

Growth Brands increased volume by 2.1 per cent and market share by 70 basis points, with share gains in all divisions. Excluding the benefit of brand migrations, Growth Brands also outperformed the industry.

GROWTH BRANDS

| | | Full Year Result | | Change | |
|---|----|------------------|-------|----------|-------------------|
| | | 2018 | 2017 | Actual | Constant Currency |
| Market share | % | 9.2 | 8.5 | +70 bps | |
| Net revenue | £m | 3,799 | 3,690 | +2.9% | +3.9% |
| Percentage of Group volumes | % | 63.8 | 60.2 | +360 bps | |
| Percentage of tobacco & NGP net revenue | % | 49.1 | 47.6 | +150 bps | |

Growth Brands have broad consumer appeal and are comprised of: Davidoff, Gauloises Blondes, JPS, West, Lambert & Butler, Bastos, Fine, Winston, News and Parker & Simpson.

Growth Brand volumes outperformed the market in the period and net revenue grew by 3.9 per cent at constant currency. Growth Brand investment was prioritised behind equity building campaigns and key consumer growth segments such as queen size, low tar and crushball.

Growth Brands now account for 63.8 per cent of total Group tobacco volumes, an increase of 360 basis points, and 49.1 per cent of overall tobacco & NGP net revenue, an increase of 150 basis points.

| Brand Chassis | Highlights |
|---|--|
| JPF (<i>JPS, Parker & Simpson and Fine</i>) | JPF delivered excellent results in the year, driven by JPS and Parker & Simpson. JPS generated strong net revenue and profit growth in Australia and increased market share in the UK. The positive performance of Parker & Simpson reflects growth in Russia, Czech Republic and Poland, supported by investment in growth areas such as queen size, low tar and modern filter formats. |
| West (<i>West, Lambert & Butler, News and Bastos</i>) | West has benefitted from the growth in value-oriented variants such as make-your-own in Germany and superkings in Spain. We launched the West queen size range in a number of markets, including Saudi Arabia, to capitalise on this growing segment. In France we took the decision to increase the price of News to support our financial delivery, which affected volumes and share. |
| Winston | Winston continued to perform well, gaining share in the year as we supported the brand's growth trajectory with direct mail promotions and increased advertising. We also strengthened the brand franchise with the launch of Winston Black. |
| Davidoff | Davidoff's revenue contribution was lower than last year due to the impact of excise increases in the Middle East and Taiwan. We continued to successfully roll out our new queen size range, Davidoff Reach, which is now in 14 markets and performing well. |
| Gauloises | Gauloises delivered strong volume growth in a number of territories including Morocco, where volumes were up, supported by the introduction of Gauloises New Generation. These good performances were offset by Germany. |

SPECIALIST BRANDS

| | | Full Year Result | | Change | |
|---|----|------------------|-------|----------|-------------------|
| | | 2018 | 2017 | Actual | Constant Currency |
| Net revenue | £m | 1,375 | 1,172 | +17.3% | +20.9% |
| Percentage of tobacco & NGP net revenue | % | 17.8 | 15.1 | +270 bps | |

Specialist Brands appeal to specific consumer groups and are comprised of: blu, Kool, Gitanes, Jade, Cohiba, Montecristo, Romeo Y Julieta, Backwoods, Skruf, Golden Virginia and Drum.

Our Specialist Brands continue to perform well, with particularly strong growth from blu, Backwoods, Kool, Skruf and premium cigars. Our mass market cigar brand Backwoods delivered strong revenue and share growth in the USA. In premium cigar we achieved good growth from Cohiba, Montecristo and Romeo Y Julieta; these three brands now deliver more than half of our premium cigar revenues.

Net revenue from Specialist Brands grew 20.9 per cent at constant currency and these brands now represent 17.8 per cent of overall tobacco & NGP net revenue, up 270 basis points on last year.

BLU

We delivered a significant step change in the performance of our vapour brand blu this year through new product launches and market roll outs. Net revenue from our NGP business grew substantially to £200m or 2.6 per cent of tobacco & NGP net revenue, reflecting the growing number of smokers we are transitioning to blu.

The *myblu* pod format gathered momentum in the second half, resulting in an acceleration in revenue growth and an annualised full year exit run-rate of around £300 million. We expect this rapid growth to continue into 2019 and subsequent years as we further build the brand and extend distribution, supported by innovation and leading-edge science.

Performance highlights included the excellent progress we made in the USA, the world's biggest vapour market. Here, we focused on maximising the availability of *myblu* and leveraging our considerable distribution network in traditional retail outlets, while also building a presence in the specialist vape channel and online. Successful promotions generated added momentum behind the brand and a rapidly growing level of sales as we exited the year.

In the UK we have been very active with *myblu* and the blu ACE open system device. These are both high quality devices that resonate with smokers. Again, we are taking an omnichannel approach and the accelerating sales growth we achieved during the second half of the year clearly demonstrates repeat purchases and growing brand loyalty.

myblu in the USA and UK also benefitted from *myblu* Intense, a nicotine salt variant that more closely replicates the experience and satisfaction of smoking a cigarette. This is an important addition to our portfolio, which we believe will enhance our ability to transition smokers to blu.

We are taking an innovative approach to establishing blu in Japan (where the sale of nicotine-based liquids is currently prohibited), launching a non-nicotine *myblu* variant in the city of Fukuoka and generating an excellent response from smokers.

We also launched *myblu* in France, Italy, Spain, Germany, Russia and Canada and have more launches planned for 2019.

PORTFOLIO BRANDS

Volumes were down 14 per cent. Six per cent of the decline was due to migrations to Growth Brands; the rest were delistings and other market driven volume declines. Net revenue declined by 7.7 per cent at constant currency, with price mix of 6.3 per cent, as we further optimised the profitability of these brands.