DELIVERING GROWTH

We continue to reshape our brand portfolio, prioritising our high-quality Asset Brands to drive growth. These brands consist of tobacco and Next Generation Products (NGP) and account for 65.9 per cent of our tobacco & NGP net revenue, up 120 basis points on last year.

ASSET BRANDS

- Gauloises
- L&B
- Fine
- News
- Bastos
- Kool
- Horizon
- Jade
- Montecristo
- Cohiba
- Romeo Y Julieta
- Backwoods
- Golden Virginia
- Rizla
- Knox
- Skruf

ASSET BRANDS

We continue to reshape our portfolio to meet evolving consumer preferences for a broader repertoire of nicotine products, prioritising our Asset Brands and focusing resources behind these brands to drive quality, profitable growth.

We have strong brand positions in cigarettes, fine cut tobacco, papers and cigars. Our NGP focus has been primarily on our blu vapour brand but has expanded in the year to include other nicotine assets in heated tobacco and oral nicotine.

Earlier in the year we launched our first heated tobacco product, Pulze. To date, the brand is only available in Japan and is not currently included in Asset Brands. We also rolled out trials of modern oral products in several European markets.

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Net revenue	£m	5,269	4,977	+5.9%	+4.4%
Percentage of tobacco & NGP net revenue	%	65.9	64.7	+120 bps	+ 140 bps

2018 net revenue restated for the adoption of IFRS 15 and brand reclassifications outlined below.

Our Asset Brands now represent two thirds of our revenues.

Net revenue from Asset Brands grew by 4.4 per cent at constant currency, supported primarily by strong growth in Davidoff, blu, Backwoods and Kool. Our Skruf, Rizla and Premium Cigar brands also performed well, contributing to revenue growth. Asset Brand performance was adversely impacted by the decision in Spain to reverse the migration of Ducados to JPS, following consumer feedback which continued to stress the equity value of the Ducados brand.

Tobacco Asset Brand investment was prioritised behind equity building campaigns and key consumer growth segments, such as queen size, low tar and crushball.

NGP Asset Brand investment was focused behind the *my*blu brand in both equity building campaigns and activations. This investment has supported the creation of the closed system pod category and secured market-leading retail positions in many markets.

TOBACCO BRANDS

JPS

JPS performance has benefited from the roll-out of the Blue Stream variant to meet consumer demand in the low tar range. However, price differentials between value and other segments in JPS's largest markets of the UK, Germany and Australia have negatively impacted results.

WEST

West's performance has been driven by growth in value formats, such as super king size, fine cut tobacco and big box, resulting in share growth in Spain, Germany, Russia and Japan. In addition to the strong performance of value formats across a number of markets, the introduction of a fresh seal variant in the Middle East has partly offset the impact of the decline in West's traditional range.

WINSTON

Winston's share performance has been relatively resilient, despite the premium segment in the USA remaining under pressure from the growth in deep discount. We are managing price promotions and targeted direct marketing activities to support the share performance.

DAVIDOFF

Two new Davidoff ranges are driving the overall positive performance of the brand, offsetting declines in the core premium line range. Davidoff Reach, a queen size variant, has been launched in 25 markets, achieving sizeable share gains in its main markets of Russia, Ukraine and Slovakia. The new king size range, Davidoff Evolve, has been launched in nine markets, achieving strong share gains in the Middle East.

PARKER & SIMPSON

The performance of Parker & Simpson has benefited from the growth of crush-ball and modern filter variants, which have partly offset declines in traditional formats. To address demand in other key segments, Parker & Simpson has been launched in Australia, where it has delivered significant share growth.

VAPOUR

Continued growth from our blu brand, driven by the *my*blu closed system pod format, has contributed to constant currency net revenue gains from NGP of 48 per cent this year to £285 million.

In the year we have been building out blu sales across our markets, within a challenging regulatory and competitive environment. We have created the pod category in several countries and achieved market-leading retail positions in many European markets and Japan. Investment levels were substantially increased to build brand equity and drive consumer off-take in a rapidly evolving vapour category.

We did not make as much progress with blu in the USA as we anticipated. Our performance was also impacted by increased competitor discounting and regulatory uncertainty, including individual state actions, leading to the market deteriorating considerably in the second half of the year. The uncertainty resulted in an increasing number of wholesalers and retailers not ordering or not allowing promotion of vaping products. We continue to actively engage with regulators for a clear regulatory framework in the USA that supports high product standards and responsible sales and marketing behaviours.

In Europe and Japan, we have delivered good year-on-year growth, consolidating strong vaping share positions, following the successful build out of *my*blu. The vaping category in Europe did not grow as fast as we originally anticipated, although we have established market leading retail positions in Germany, Spain and Italy. The UK and France are largely open system markets, providing an opportunity to promote closed systems and higher product standards. In Japan our zero-nicotine variant of *my*blu is now available nationally and has created the pod category.

Revenue delivery from the vapour category was below our expectations in 2019, while profitability was affected by increased investment, provisions for slow-moving inventory and supply chain termination costs.

Learnings from 2019 have enabled us to evaluate the success of different markets and channels in the context of a changing environment and to inform our future investment choices. We have reset our vapour investment plans for 2020, prioritising the markets with the highest potential for sustainable, profitable growth.

Investment will be focused around markets with the best closed system opportunities and towards activities that build the profitability of the category. Continuing to enhance our innovation and leading-edge science will enable us to further differentiate blu to meet consumer needs. Increased profitability of the category will also be driven by investment behind more consumer loyalty activities targeted at building consumer connections, supported by improving our online channel focus. Our regulatory engagement activities encourage the adoption of higher product and marketing standards to create the right operating environment.

We continue to view our blu brand and vapour as a significant opportunity to deliver additive growth and remain focused on managing the operational and regulatory challenges associated with a rapidly evolving category.

HEATED TOBACCO

In 2019 we launched our Pulze heated tobacco product and iD heat sticks in the Japanese city of Fukuoka. The product and brand received positive consumer feedback and we have started to roll-out Pulze nationally via convenience store key accounts. In addition to focusing on distribution, investment will be channelled towards new experience touch points, embedding learnings from other NGP categories and supporting adult smokers with using the Pulze product. In 2020 production capacity will be increased, with plans for further geographical expansion.

MODERN ORAL NICOTINE

Building on our traditional oral nicotine credentials in Scandinavia, in 2019 we launched modern formats in multiple markets, building our presence in Europe. Modern white formats were launched under the Skruf brand name in cities in Germany and Austria and under the brand name Zone X in the UK. Sales have grown strongly from a low base and we will continue to expand our national distribution in 2020.

PORTFOLIO 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 Asset Brands.

Reflecting our focus on Asset Brands, Portfolio volumes were down 4.1 per cent. On a constant currency basis net revenue fell 1.9 per cent, with Portfolio Brands now representing only 34.1 per cent of our overall revenue at actual rates.

EUROPE DIVISION

"Our results reflect the resilience of our tobacco business and additive net revenue growth from Next Generation Products."

JOERG BIEBERNICK
Division Director, Europe

EUROPE

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Tobacco volume	bn SE	135.0	141.3	-4.4%	
NGP net revenue	£m	131	32	>100%	>100%
Tobacco net revenue	£m	3,505	3,491	+0.4%	+0.8%
Total net revenue	£m	3,636	3,523	+3.2%	+3.6%
Adjusted operating profit	£m	1,699	1,701	-0.1%	-0.3%
Asset Brands % of net revenue	%	74.7	72.4	+230 bps	+210 bps

2018 revenue restated following adoption of IFRS 15.

Our performance demonstrates the resilience of our tobacco business across European markets, with financials driven by strong pricing and cost efficiency savings. In NGP, we have delivered good year-on-year growth, creating strong vaping retail share positions, following the successful build out of *my*blu.

We have continued to balance financial returns with optimising our share positions in our priority markets, ensuring that we continue to deliver quality growth in the right markets, with the right brands.

Overall volumes decreased by 4.4 per cent, reflecting tobacco market trends in Western Europe and volume pressure in the Ukraine. Ukraine volumes impacted the region by c150 bps, although this had a limited impact on profitability.

Net revenue was up 3.6 per cent, benefiting from strong pricing in our tobacco business particularly in Germany, the UK and Italy. In NGP we grew revenues to £131 million (FY18 £32 million), with higher growth in the first half as we built national distribution for *my*blu in the UK, Germany, France, Spain and Italy.

The European vapour category did not grow as fast as we originally anticipated in the year with a slowdown in the second half. In the UK and France, the evolution of the vapour category towards closed system devices has been slower than we initially expected, with open system devices and price promotions impacting the development of the category. We have factored this into our plans for 2020 and continue to engage with stakeholders to raise regulatory standards for vapour products.

In NGP we have also been active with our modern oral nicotine products, generating growth across the division including in Austria, Germany, the UK, Slovakia, Denmark and Switzerland.

Our focus on Asset Brands, supported by our Market Repeatable Model, continues to improve the quality of our revenue, with 74.7 per cent now coming from Asset Brands.

Adjusted operating profit was down 0.3 per cent at constant currency, with pricing in tobacco offset by the additional investment to support *my*blu market launches, as well as provisions for slow-moving inventory and the termination of an NGP supply contract in the second half.

While driving the performance of the business, we continue to focus on ensuring our products are only ever sold to adult smokers and vapers. Our retailer engagement programmes have a strong focus on responsible selling, including e-learning tools that reinforce the importance of prohibiting NGP and tobacco sales to minors. We have robust age-verification mechanisms for online sales and the stringent way we market our brands avoids any association with other products that are popular with youth.

We also continue to partner with governments, law enforcement agencies and customs and excise authorities to combat the smuggling and counterfeiting of tobacco products. Our security intelligence led to raids on significant production sites in Poland that were counterfeiting Imperial tobacco brands for the German, UK and Polish markets. In all, 120 million illegal cigarettes were seized and 81 arrests were made.

Priority Markets Tobacco Share	Performance
UK *40.6%* *(-140bps)*	Strong price/mix supported net revenue growth. Overall tobacco share was down following our price increase in February, which led to a period of price disadvantage against competitors. Share trajectory improved in the second half, supported by cigarette and fine cut tobacco growth in the sub-economy segment. Following its launch last year, *my*blu has continued to achieve good growth in the closed system category with 6.0 per cent share of traditional retail in September, although the category growth is slower than anticipated. A city trial launch of modern oral nicotine brand Zone X received positive reviews with plans to expand distribution further.
Germany *21.6% (-70bps)*	Financial delivery remained strong, with pricing and second half trade promotions driving growth. Share declines are being addressed through reshaping our brand portfolio, including migrating some Portfolio Brands, and larger format pricing strategies. *my*blu has strengthened its market leadership in retail, with advertising and promotional activities supporting category leading performance and high brand awareness. *my*blu spot share in September was 35.4 per cent of the traditional retail channel. We made good progress with the modern oral nicotine launch of Skruf, leading the establishment of the category.
Spain *28.9% (-10bps), with blonde share +10bps*	The successful launch of Horizon in the fine cut tobacco natural segment and investment in West and Fortuna cigarettes resulted in positive fine cut tobacco and blonde cigarette share delivery. *my*blu gained a market leading share of the tobacconist channel, following its national launch in January, holding a 75.0 per cent spot value share in September. Market leadership was supported by distribution expansion and retailer advocacy programmes.
France *18.1% (-160bps)*	We have continued to prioritise financial returns and quality share, following significant excise increases. The price repositioning of JPS and News has supported an improved share trajectory and fine cut tobacco share is growing. *my*blu sell out and market share are stable, but revenue performance has been impacted by slower category development and competitor price promotions. *my*blu in September was the number two vapour brand with 12.7 per cent value share of offtake data in tobacconists.
Italy *5.4% (+30bps)*	Continued market share growth has been driven by investment behind JPS, retailer advocacy and multi-channel consumer activations. *my*blu continues to maintain a market leading retail share with a September spot value share of 51.5 per cent, supported by increased distribution and a targeted city advertising campaign.

AMERICAS DIVISION

> “Our strong US tobacco performance was driven by share growth in cigarette and mass market cigars.”

DOMINIC BRISBY
Division Director, Americas & Africa, Asia, Australasia

AMERICAS

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Tobacco volume	bn SE	**21.7**	22.1	-2.0%	
NGP net revenue	£m	**111**	151	-26.5%	-30.5%
Tobacco net revenue	£m	**2,361**	2,097	+12.6%	+6.8%
Total net revenue	£m	**2,472**	2,248	+10.0%	+4.3%
Adjusted operating profit	£m	**1,068**	1,036	+3.1%	-2.6%
Asset Brands % of net revenue	%	**54.1**	54.4	(30) bps	(20) bps

2018 revenue restated following adoption of IFRS 15.

We delivered a strong tobacco performance, with our overall USA cigarette share now in growth for the first time since the US asset acquisition in 2015. Cigarette share was 8.8 per cent, up 10 bps, benefiting from our portfolio strategy and share gains from our Sonoma brand as demand for brands in the deep discount segment grows. Demand in the deep discount segment marginally impacted Winston's share performance, which was down by 8 bps, with the share of Kool and Maverick stable.

We also delivered share growth in mass market cigars, with Backwoods up 81 basis points and our total share of the category now 15.1 per cent, 79 basis points higher than last year.

Volumes were down 2.0 per cent with a second half benefit from an increase in wholesaler inventory towards the end of the period as wholesalers bought ahead of an expected October price increase. Excluding the impact of shipment timings, volumes were down by 5.3 per cent, slightly better than the industry decline of 5.5 per cent.

On a constant currency basis, we grew tobacco net revenue by 6.8 per cent, reflecting strong pricing and a mix benefit from mass market cigars led by growth from Backwoods and Dutch Masters.

NGP revenues of £111 million were £46 million lower than last year at constant currencies (FY18: £151 million includes IP revenue of c. £51 million). We increased brand investment and enhanced consumer promotions in the second half to address the increasingly competitive environment and declining *my*blu share. This increase led to an improvement in value share trajectory to 6.2 per cent at the end of the year, although second half gains were less than expected, reflecting the recent slowdown in the US vapour category and increased competitor discounting. Rising regulatory uncertainty reduced consumer off-take and shipments to wholesalers and retailers.

We continue to monitor developments in the USA vapour market. We have factored flexibility into our future plans and investment levels and remain focused on building blu consumer loyalty and managing the operational and regulatory challenges associated with a rapidly evolving category. The environment is expected to improve following action by the Food and Drug Administration (FDA).

We are engaging with the FDA and other key stakeholders to create a regulatory framework that raises standards and supports the development of the legal vapour category. This is critically important given the growing number of US reports of ill-health being linked to the use of illicit vapour products.

We share the FDA's concerns about young people using vapour products and are committed to enforcing stringent youth access prevention measures. In September we reinforced this view in a keynote speech at the annual Global Tobacco & Nicotine Forum held in Washington.

Adjusted operating profit was 2.6 per cent lower, with strong growth in tobacco profit offset by losses in NGP, last year's IP profit apportioned to Americas of £50 million and the £40 million profit on the sale of our other tobacco products business. Excluding these gains, adjusted operating profit would have increased by 6.7 per cent at constant currency despite the step-up in NGP investment.

AFRICA, ASIA, AUSTRALASIA DIVISION

		Full Year Result		Change	
		2019	2018	Actual	Constant Currency
Tobacco volume	bn SE	**87.5**	92.1	-5.0%	
NGP net revenue	£m	**43**	4	>100%	>100%
Tobacco net revenue	£m	**1,847**	1,922	-3.9%	-4.8%
Total net revenue	£m	**1,890**	1,926	-1.9%	-2.9%
Adjusted operating profit	£m	**764**	820	-6.8%	-8.1%
Asset Brands % of net revenue	%	**64.2**	62.5	+170 bps	+210 bps

2018 revenue restated following adoption of IFRS 15.

Full year tobacco volumes were 5.0 per cent lower, although ameliorating declines in the Middle East and South East Asia contributed to a stronger second half performance.

We grew our share position in Australia, Japan and Russia with a second half improvement in Saudi Arabia.

Tobacco net revenue was down 4.8 per cent at constant currency. This was largely driven by tobacco declines in Russia, Australia and the Middle East, which more than offset growth in Ivory Coast, Turkey and New Zealand.

Lower revenue in Russia was primarily due to channel mix with an increased proportion of market volumes discounted in key accounts, with lower price/mix in Australia driven by lower margin volumes in the growing fifth price tier.

In Saudi Arabia, performance was affected by an increase in lower priced cross border duty-free volumes. Despite this impact on the profitability of the market, the launch of Davidoff Evolve and the rejuvenation of West with a fresh seal pack supported share growth.

Total net revenue was supported by a continued strong NGP performance in Japan following a national roll-out of *my*blu zero nicotine, which led the creation of the closed system pod category. NGP revenues contributed an additional £39 million to £43 million.

We also launched our Pulze heated tobacco product and iD sticks in Japan with a national roll-out underway via convenience store key accounts following positive consumer feedback.

Our Asset Brands now make up 64.2 per cent of our total net revenue, up 210 bps at constant currency.

Adjusted operating profit at 8.1 per cent down was impacted by tobacco performance in Australia, Russia and Saudi Arabia. Reported operating profit was lower due to a provision for historic Russian excise liabilities and a goodwill impairment of the Premium Cigar Division.

Priority Markets Tobacco Share	Performance
Australia *32.6% (+70bps)*	Investment behind Parker & Simpson resulted in share gains in the growing economy segment. Revenue and profit were impacted by negative mix from growth in lower margin product. Profit was also affected by a lower FY19 benefit from duty paid inventory around the September excise increase.
Japan *1.3% (+30bps)*	West is continuing to grow, benefiting from continued downtrading following excise driven price increases. Expanded national distribution of *my*blu supported accelerated sales growth in H2. *my*blu held an 85.4 per cent spot share of convenience stores in September.
Russia *7.9% (+10bps)*	Market declines were driven by increases in illicit volumes. Positive share progression was supported by growth in Davidoff Evolve and Parker & Simpson crush-ball variant, which more than offset declines in Maxim. Financial performance was impacted by increased competitor discounting and ongoing volume shift into the key accounts channel.
Saudi Arabia *14.3% (+1bps)*	Share performance benefited from the launch of Davidoff Evolve in April which performed strongly in the second half. The introduction of West fresh seal, supported by optimisation of field coverage, also led to an improvement in second half volumes. Financial performance was impacted by increased cross border duty free flow.