

**IMPERIAL TOBACCO GROUP PLC**

**Interim Management Statement following the 9 months ended 30 June 2013**

The following relates to the nine months to 30 June 2013 unless otherwise stated.

**Overview**

- Nine month performance confirms our full year expectations
- Significant progress made with next phase of strategic transition to optimise long-term growth potential:
  - new sales divisions established, reinforcing the strategic role of each market;
  - strategic review of cigarette and fine cut brands portfolio completed, now being built into execution plans;
  - cost optimisation programme on track, with savings of at least £30m to be realised this year;
  - new Group Marketing Director appointed
- Encouraging core portfolio performance in an environment of weak industry volumes:
  - underlying<sup>1</sup> stick equivalent volume and revenue declines of 5 per cent and 1 per cent
  - reported stick equivalent volume and revenue declines of 7 per cent and 3 per cent
  - key strategic brands outperforming market trends: underlying<sup>1</sup> volumes declined 1 per cent, with growth in total market share; reported volumes were down 4 per cent
  - excellent fine cut tobacco performance and good growth in premium cigar and snus.
  - notable progress in many key markets including Germany, Greece, Scandinavia, Australia, Taiwan, Vietnam, Algeria, Kazakhstan and Turkey.

Summarising today's announcement Alison Cooper, Chief Executive, said:

"I'm pleased with the significant progress we're making with the strategic transition of the business, which is strengthening our sustainable sales growth capabilities and optimising our costs in line with our strategy.

"Our full year expectations remain unchanged. We continue to focus on maximising opportunities for our total tobacco portfolio in the EU against a backdrop of weak industry volumes and are driving good in-market performances in Asia-Pacific and Africa and Middle East, with our share improving in many markets.

"Whilst opportunities to grow sales in the short term are being impacted by the environment challenges, we remain focused on generating high quality returns and sustainable growth from our portfolio."

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<sup>1</sup> Excluding the impact of trade destocking and for revenues, foreign exchange

## **Conference Call**

As part of our ongoing dialogue with the investment community, which includes half-year and full-year results presentations and attendance at various industry conferences, we will now also be holding conference calls for investors and investment analysts with senior management following the publication of our three-month and nine-month Interim Management Statements. Accordingly, a conference call, hosted by Alison Cooper, Chief Executive, will be held at 10:00 a.m., BST today. Dial in and replay details are provided at the end of this release.

## **Management Update**

We are delighted that Peter Corijn, formerly of Procter & Gamble, joined the Company as Group Marketing Director on 1 August to lead our international marketing and brand development strategies. At Procter & Gamble Peter held a number of senior marketing positions covering a wide range of consumer brands, including Gillette. His extensive experience has been accumulated from working with brands and consumers in both mature and emerging markets, including in Europe, the Middle East and Africa.

## **Transition Update**

We continue to transition the business in line with our sales growth strategy to create long-term sustainable value for shareholders. Since the half year we have made significant progress: we have realigned our geographic footprint and we are optimising our total tobacco portfolio to maximise future growth opportunities.

## **Realigned Footprint**

We now manage our footprint based on the strategic role of the market rather than its geographic proximity, with markets prioritising Returns or Growth<sup>2</sup>.

Returns markets are typically mature; in these markets we have relatively large shares (mostly above 15 per cent) and our objective is to maximise return on invested capital over the long-term by growing profits, whilst actively managing our market share.

Growth markets are mainly large profit and/or volume pools, where we typically have shares below 15 per cent and where our total tobacco approach provides many opportunities for share and profit growth both now and in the future.

Our sales structure has been aligned to this new market classification and this will strengthen our ability to deliver high quality sales growth over the long term. We intend to transition to this as a reporting structure from our 2013 full year results.

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<sup>2</sup> Aligned with our investor day presentations available at [www.imperial-tobacco.com](http://www.imperial-tobacco.com). Returns markets are profit markets and Growth markets are share and scale markets.

## **Optimising our Portfolio**

We've completed the strategic review of over 250 cigarette and fine cut tobacco brands, focussing on optimising the growth potential of our portfolio and strengthening our market positions. We're now in the process of implementing the conclusions from the review so that we can further prioritise investment and resources behind the development of brands that will, together, deliver sustainable quality growth.

## **Optimising Costs and Cash**

Our cost optimisation programme will deliver savings of £300 million per annum from September 2018; at least £30 million of this will be realised this year.

As we outlined at our investor day and in our half year report, the next phase of the transition provides us with opportunities to optimise our product costs and operating model. It also supports the development of a programme to reduce our days of stock in trade, to improve our supply efficiency and the effectiveness of our portfolio, innovation, pricing and trade engagement initiatives.

We continue to invest the cash we generate in capital investments supporting our sales growth agenda; buying back shares (£432 million to 30 June this financial year) and increasing dividends, which we intend to grow by at least ten per cent per annum over the medium term.

## **Operating Performance Update**

### **Footprint**

Industry volumes in EU and a number of non-EU markets remain weak.

We estimate EU stick equivalent industry volumes declined 6 per cent over the nine-month period against 5 per cent for the half year as a result of austerity measures, rising unemployment and increased illicit trade with Spain remaining particularly weak. We continue to make encouraging progress in this environment, with our market share in numerous markets across the EU on an improving trend over the last quarter.

Outside the EU we estimate stick equivalent industry volumes declined 2 per cent in our major markets with ongoing weakness in Eastern Europe including in Russia and Ukraine. We continue to drive good performances in Asia-Pacific and Africa and Middle East, with our share improving in many markets. We're on track in the USA with portfolio and customer engagement initiatives and a sales restructuring strengthening our competitive position, while in Russia our focus on maximising opportunities in high growth segments is improving our market share. We also completed the acquisition of our Cambodian distributor, giving us scope to further expand our business and profitability in the market.

## **Portfolio**

We continue to focus on generating quality growth across our total tobacco portfolio.

Our key strategic brands are outperforming market trends, with underlying<sup>1</sup> volumes declining 1 per cent and growth in their total market share. Reported volumes were down 4 per cent.

We're achieving excellent results in fine cut tobacco, with particularly strong growth in the make your own segment and volume gains in the EU. We're also driving further good growth in premium cigar and snus.

In addition, we continue to make good progress with our initiatives in the e-vapour sector through our subsidiary Fontem Ventures and remain on track to launch our own products in 2014.

## **Logistics**

The operating environment in logistics remains difficult given the weakness in industry EU tobacco volumes and we continue to focus on new services, cost management and business integration to maximise profitability.

## **Enquiries**

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Copies of our announcements are available on our website: [www.imperial-tobacco.com](http://www.imperial-tobacco.com).

**Conference call**

10.00 AM BST 15 August 2013

Conference Call ID: 4635153  
Start time: 10:00 BST (please dial in 10 minutes before start time)  
Conference Title: Imperial Tobacco Interim Management Statement  
Leader: Gerry Gallagher

Conference call access numbers:

<b>Location</b>	<b>Local number</b>	<b>Toll-Free</b>
Australia	61-2-9112-4653	1800 730 050
Austria	43-268-2205-6208	0800-1025-1553
Belgium	32-2290-1608	0800-50747
Canada	Not Available	1-866-228-9189
Denmark	45-3271-4826	80-88-49-19
Finland	358-969-379-458	0800-117-013
France	33-1-55-69-5751	0800-940-234
Germany	49-69-5899-90706	0800-111-1176
Hong Kong	852 3009-5027	800-908-530
Ireland	353-1436-4236	1800-943-037
Italy	39-023-0350-9038	800-149-038
Japan	81-36-404-0431	00531 440 034
Luxembourg	352-3420-808-109	800-23922
Netherlands	31 20 794 8504	0800-265-8528
Singapore	65 6823-2087	800-448 1303
South Africa	Not Available	0800-991-276
Spain	34-9-1788-9582	900-800-638
Sweden	46-8-5052-0189	0200-125-744
Switzerland	41-2-2592-7091	0800-560-749
United Kingdom	44-208-515-2301	0800-358-5271
USA	1-480-629-9866	1-888-549-7750



## PRESS RELEASE

**Replay Numbers** (available for one week from noon today)

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