

IMPERIAL TOBACCO GROUP PLC
INTERIM MANAGEMENT STATEMENT FOLLOWING THE THREE MONTHS ENDED 31 DECEMBER 2014

FURTHER STRATEGIC PROGRESS IN Q1 AND FULL YEAR OUTLOOK CONFIRMED

Imperial Tobacco today updates the market on trading for the three months to 31 December 2014.

Overview		3 months to 31 December 2014 Reported	Reported Change	Constant Currency Change	Underlying Change
Growth Brands volume	bn SE	35.4	+23%		+11%
Tobacco net revenue	£m	1,486	-2%	+4%	-1%
Total Tobacco volume	bn SE	71.8	+1%		-4%

Unless otherwise stated all comments relate to year to date underlying performance, which excludes the impact of stock optimisation. All net revenue development is underlying performance, reported at constant currency. Prior year tobacco net revenue has been restated following the adoption of IFRS 11 – Joint arrangements.

Strengthening our Portfolio

- Strong performance from Growth Brands with volumes up 11 per cent and net revenue up 15 per cent
- Brand migration programme continues to progress well; 10 now completed
- Good progress from Specialist Brands with net revenue growth of 5 per cent
- Growth and Specialist Brands now up to 60 per cent of reported tobacco net revenue

Developing our Footprint

- US acquisition now approved by shareholders; regulatory approval awaited in spring 2015
- Share and volume gains in a number of Growth Markets; continued robust performance in Returns Markets
- Underlying net revenue impacted by timing of price increases, Iraq and US mass market cigar

Cost Optimisation

- Cost optimisation programme on schedule to deliver further incremental savings of £85 million in FY15

Capital Discipline

- Capital discipline continues to be a key priority with ongoing focus on strong cash conversion and debt reduction
- Dividend growth of at least 10 per cent confirmed

Alison Cooper, Chief Executive, said:

“We’ve continued to make good progress against our strategic agenda in the quarter and confirm our outlook for FY15. We delivered another strong performance from our Growth Brands with volume and net revenue up 11 per cent and 15 per cent respectively, supported by the on-going success of our brand migration programme. We continue to focus on our priorities for success in our Growth and Returns Markets and are well advanced with our US integration plans. The US deal received overwhelming support from our shareholders and will further strengthen our platform for growth.”

BUSINESS REVIEW

Overview

Underlying tobacco volumes for the quarter were down just under 4 per cent, broadly in line with the decline in our market footprint, with our overall market share stable. We grew volumes, net revenues and market share of our Growth Brands, further enhancing the quality of our business. The timing of pricing activity in a number of markets, impact of reduced trading in Iraq and the mix impact of lower sales of mass market cigars in the US ahead of a brand re-launch, resulted in a decline in tobacco net revenue of 1 per cent. Tobacco net revenue was flat in Returns Markets (down 2 per cent in South and up 1 per cent in North) and declined 4 per cent in Growth Markets. The majority of our pricing is now embedded and remains broadly in line with our plans for the full year.

Strengthening our Portfolio

Growth Brands performed strongly, supported by brand migrations, with volumes up 11 per cent, net revenue by 15 per cent, and market share up 70 basis points. JPS has continued to perform well in Australia and the UK, Parker & Simpson has grown in Poland and the Czech Republic, and West grew in Asia and Eastern Europe. Davidoff made strong gains in Taiwan and Gauloises performed well in Algeria and Germany. Growth Brands accounted for 49 per cent (up 870 bps) of reported Group tobacco volumes and 47 per cent (up 800 bps) of reported tobacco net revenue.

Specialist Brands net revenue was up 5 per cent driven by Golden Virginia in the UK, Skruf in Scandinavia and our premium cigar brands. Specialist Brands accounted for 13 per cent of reported tobacco net revenue.

Developing our Footprint

We continue to focus on maximising growth opportunities across our footprint. In Growth Markets we are building our presence in Italy, Japan and Egypt, maintained stable market share in Russia, with Maxim continuing to perform well, and in the US, grew volumes of USA Gold in our key target states. We also made further gains through Skruf in Sweden and Norway.

In Returns Markets we've built on our progress in Australia and grown net revenue in Germany and in Ukraine. In the UK, L&B Blue and Gold Leaf have grown share in what remains a competitive market. Increases in illicit trade in Morocco and further declines in dark tobacco in France held back our results. In Spain we strengthened our portfolio with brand migrations and have continued to see improvement in our share of Blond tobacco.

Acquisition of US Assets

In January our shareholders approved the acquisition of a number of assets in the USA from Reynolds American. These assets are being sold as a result of the acquisition of Lorillard by Reynolds American and include a portfolio of US cigarette brands and blu, a leading e-cigarette brand in the USA. The acquisition is subject to regulatory approval, which we expect to receive in the spring of 2015.

Fontem Ventures

Our standalone non-tobacco subsidiary Fontem Ventures continues to focus on widening the availability of its Puritane e-cigarette brand in the UK and launched a second e-vapour product in Europe during the second quarter.

Cost Optimisation

We expect to deliver further incremental savings of £85 million in 2015 through a number of initiatives that are reducing complexity in the business and remain on track to save £300 million per annum from September 2018. Consultations in relation to the closure of our cigarette factory in Nantes and the consolidation of French R&D facilities have now been concluded.

Capital Discipline

Enhanced capital discipline is a key ongoing objective. We have continued to prioritise improved cash conversion, primarily focusing on reductions in leaf inventory and finished goods, but also on opportunities to improve efficiency across all areas of our balance sheet.

Financial Position

There has been no material change in the Company's financial position in the first quarter.

Exchange

At our full year results in November, we indicated that the impact on earnings for FY15 at existing spot rates was expected to be c.2%. While still early in the financial year, movements in exchange since November mean that the current impact on earnings per share for FY15 is now estimated at c.4%.

OTHER INFORMATION

Investor Contacts		Media Contacts	
Matt Sharff	+44 (0)117 933 7396	Alex Parsons	+44 (0)7967 467 241
Jo Brewin	+44 (0)117 933 7549	Simon Evans	+44 (0)7967 467 684

Conference Call

Imperial Tobacco Group PLC will be holding a conference call for investors and investment analysts with senior management following the publication of our Interim Management Statement on 12 February 2015. The call will be hosted by Alison Cooper, Chief Executive, Oliver Tant, Chief Financial Officer and Matthew Phillips, Corporate Affairs Director and will commence at 09:00am GMT. A replay of this call will be available for one week.

Call-in Details

UK number*: +44(0)20 3427 1903
Conference Call ID: 9050591
Start time: 09:00 GMT (please dial in 10 minutes before start time)

**For telephone numbers from all other geographies and replay numbers, refer to final page of this release.*

Notes to Editors

Imperial Tobacco Group PLC is a multi-national tobacco company, with international strength in cigarettes and world leadership in fine cut tobacco, premium cigars, rolling papers and tubes. The Group has 44 manufacturing sites and around 33,000 employees and operates in over 160 markets.

In 2013, the Company realigned its geographic footprint into Growth Markets and Returns Markets and now manages markets based on the strategic role they play, rather than their geographic proximity.

Growth Markets are characterised by large profit and/or volume pools. We tend to have shares below 15 per cent and see considerable opportunities for share and profit growth over the long term. Our main Growth Markets include the USA and selected markets in the EU, Eastern Europe, Asia, and the Middle East. We measure the performance of our Growth Markets against market share and revenue metrics and our quality of growth by the progress our Growth Brands are making.

In Returns Markets we have relatively large shares, mostly above 15 per cent. Our objective is to maximise profit, whilst actively managing our market share. Our main Returns Markets include UK, Germany, and other markets in the EU, Australia, Eastern Europe and Africa. We measure the performance of our Returns Markets against market share and revenue metrics and our quality of growth by the progress our Growth Brands are making.

Cautionary Statement

Certain statements in this announcement constitute or may constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is or may be a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied in any forward-looking statement. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the Company for current or future financial years will necessarily match or exceed the historical or published earnings per share of the Company. This announcement has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this announcement is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

Call-in Details

Location	Local number
Australia	+61(0)2 9253 5963
Belgium	+32(0)2 404 0662
Canada	+1514 841 2153
Denmark	+4532 71 16 58
Finland	+358(0)9 6937 9590
France	+33(0)1 76 77 22 31
Germany	+49(0)30 3001 90539
Hong Kong	+8523068 9885
Ireland	+353(0)1 2465601
Italy	+3906 8750 0876
Japan	+81(0)3 4455 6450
Luxembourg	+352342 080 8654
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Singapore	+656622 1089
South Africa	+2711 019 7015
Spain	+3491 114 6581
Sweden	+46(0)8 5065 3937
Switzerland	+41(0)44 580 7216
United Kingdom	+44(0)20 3427 1903
United States of America	+1212 444 0481

Replay Numbers (available for one week from noon today)

Location	Local number
Australia - Sydney	+61 (0)2 8014 7928
Austria - Vienna	+43 (0)1 25300 85404
Belgium - Brussels	+32 (0)2 789 7487
Czech Republic - Prague	+420 228 882 073
Denmark - Copenhagen	+45 32 71 09 13
Finland - Helsinki	+358 (0)9 2310 1650
France - Paris	+33 (0)1 74 20 28 00
Germany - Frankfurt	+49 (0)69 2222 2236
Germany - Munich	+49 (0)89 2030 3201
Hong Kong	+852 3011 4669
India - Mumbai	+91 22 6150 1507
Ireland - Dublin	+353 (0)1 4860902
Italy - Milan	+39 02 3041 3127
Italy - Rome	+39 064 521 7196
Japan - Tokyo	+81 (0)3 5767 9615
Netherlands - Amsterdam	+31 (0)20 708 5013
Norway - Oslo	+47 2100 0498
Poland - Warsaw	+48 (0)22 212 6214
Singapore	+65 3158 1174
South Africa - Johannesburg	+27 11 019 7025
Spain - Madrid	+34 91 788 9967
Sweden - Stockholm	+46 (0)8 5051 3897
Switzerland - Geneva	+41 (0)22 592 7553
Switzerland - Zurich	+41 (0)44 567 1860
United Kingdom - London	+44 (0)20 3427 0598
United States of America - New York	+1 347 366 9565