IMPERIAL TOBACCO GROUP PLC
INTERIM MANAGEMENT STATEMENT FOR THE NINE MONTHS ENDED 30 JUNE 2015

STRATEGIC PROGRESS CONTINUES – ON TRACK FOR FULL YEAR

Strengthening our Portfolio
- Excellent results from Growth Brands; underlying net revenue, underlying volume and market share up 14 per cent, 10 per cent and 100 bps respectively
- Continued success of brand migrations; 13 complete (8 in FY15), 21 ongoing; high level of consumer retention
- Growth and Specialist Brands proportion of reported tobacco net revenue up 580 bps to 59 per cent

Developing our Footprint
- Continued progress in Growth Markets: underlying net revenue down 1 per cent; up 3 per cent ex Iraq
- Improving underlying net revenue growth of 1 per cent in Returns Markets
- Total underlying net revenue flat and volumes down 6 per cent (net revenue up 1 per cent and volumes down 4 per cent ex Iraq)
- Acquisition of US assets completed; ITG Brands fully operational and integration progressing to plan

Cost Optimisation
- Focus on complexity reduction, improved ways of working and cost efficiencies ongoing
- Cost optimisation programme remains on track to deliver £85 million savings in FY15

Capital Discipline
- Expect cash conversion of c.90 per cent for the full year with consistent focus on managing working capital
- Continuing commitment to ongoing debt reduction
- On track to deliver dividend growth of 10 per cent for the full year

Overview		**9 months to 30 June**		**Change**		
		2015	2014	Actual	Constant Currency[1]	Underlying[2]
Growth Brands volume	bn SE	**105.4**	91.7	+15%	-	+10%
Tobacco net revenue[3]	£m	**4,435**	4,632[R]	-4%	+2%	0%
Total Tobacco volume[3]	bn SE	**207.4**	213.3	-3%	-	-6%

[1] Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations.
[2] Underlying change additionally removes from constant currency the impact of the stock optimisation programme which adversely affected the reported results in FY14. References in this document to percentage growth and increases or decreases in our results for volumes and net revenue are on an underlying basis unless stated otherwise.
[3] Reported, constant currency and underlying tobacco net revenue and total tobacco volume includes the contribution from the US asset acquisition which completed on 12 June 2015
[R] FY14 results restated for the adoption of IFRS 11: Joint Arrangements.

Alison Cooper, Chief Executive, said:

“This has been another good quarter, building on the progress we made in the first half. Our continued focus on improving the consistency and quality of our performance has delivered excellent results from our Growth Brands which continue to grow net revenue, volume and market share. We’ve strengthened our performance in Returns Markets and maintained positive momentum in Growth Markets. We completed the US acquisition towards the end of the quarter and I am pleased with the successful start we’ve made in implementing our commercial and integration plans for ITG Brands. This consistent delivery against our strategic agenda leaves us on track to deliver against full year expectations and to create further sustainable value for our shareholders.”

Overview

We're continuing to make good progress against our key strategic objectives. The consistent application of our strategy, supported by focused investment, is continuing to build momentum across the business. Our Growth Brands are outperforming the market and we continue to grow our Specialist Brands, which together represent an increasing proportion of our business. Our footprint provides both stability and opportunities for growth, with improving revenue in Returns Markets and continued top line momentum in many of our Growth Markets. Our expanded share in the US strengthens our footprint, further diversifying our earnings. We've continued to focus on cost and cash management with the removal of business complexity enhancing operational effectiveness.

Underlying tobacco net revenue was flat but grew 1 per cent excluding the impact in Iraq. Price mix was higher during the quarter as expected, particularly in a number of our Returns Markets where we grew net revenue by 1 per cent. Growth Market net revenue was down 1 per cent, held back by Iraq which masked growth of 3 per cent in the rest of the Division, with performance highlights in Russia, Taiwan, Norway and in premium cigars. In Returns Markets North we grew net revenue by 2 per cent with growth in markets including Germany, Australia and Ukraine. In Returns Markets South net revenue declined by 2 per cent with market pressures in Morocco continuing.

We have continued to increase the net revenue, volume and share of our Growth Brands, with brand migrations continuing to demonstrate consistently high consumer retention. Growth and Specialist Brands generated 59 per cent of total tobacco net revenue compared to 53 per cent in the same period last year.

Underlying volumes were down 6 per cent, impacted by the political and security situation in Iraq which continues to deteriorate. Excluding this impact, underlying volumes were down 4 per cent, slightly better than industry volumes in our footprint which were down 4.5 per cent.

Strengthening our Portfolio

Excellent Results from Growth Brands

We delivered another strong performance from Growth Brands, increasing net revenue by 14 per cent, volumes by 10 per cent and market share by 100 basis points.

JPS continues to perform well in many key markets, reinforced by a number of initiatives including a new marketing campaign and migration activities which supported share gains in Germany, Australia, Spain, the UK and Italy.

The overall performance of Gauloises was impacted by Iraq, though the new Vive le Moment campaign has produced positive results for the brand in Germany and we continue to build share in Algeria. We made further gains with Davidoff in Taiwan following a new marketing campaign and launch of a new premium variant, Absolute.

Share and volumes in West increased, supported by the success of current migrations. We grew West share in Saudi Arabia and a recently launched supermenthol variant is supporting share growth in Japan.

Growth Brands accounted for 51 per cent (up 780 basis points) of reported Group total tobacco volumes and 47 per cent (up 550 basis points) of reported tobacco net revenue.

Specialist Brands Continue to Grow Revenue

Specialist Brands net revenue was up 3 per cent, supported by growth in modern variants of Golden Virginia in the UK, Skruf in Scandinavia and premium cigars in both the US and Europe. Specialist Brands accounted for 12 per cent of reported tobacco net revenue, up 30 basis points.

Developing our Footprint

Momentum in Growth Markets

We continued to grow net revenue in Russia where we are benefitting from strong pricing and consumer demand in the value segment which has been captured by Maxim. A strong increase in online sales has contributed to consistent revenue growth in premium cigars in the US. We have achieved further success in the snus sector in both Norway and Sweden where growth in the market share of Skruf and Knox contributed to further revenue gains. In Taiwan we are strengthening customer engagement which together with increased share of Davidoff is supporting further growth. In Saudi Arabia we have made share gains in West and Gauloises and are increasing investment in distribution and availability. Investment in JPS and the migration of Fortuna are supporting our expansion in Italy. The security situation in Iraq held back Growth Market volumes which were also impacted by the growth of the illicit market in Vietnam post the introduction of pictorial health warnings last year.

Positive Performance in Returns Markets

Pricing in the quarter has contributed to improved price/mix within Returns Markets. In Australia we have continued to grow revenue, profit and share with JPS now the leading brand in the market. In the UK the strong performance of Carlton and Players has improved our share of the growing sub economy segment. Performance in Germany remains positive with price supporting growth in revenue, and JPS gaining share. In Returns South market declines have further eased in France and Spain, though conditions in Morocco remain challenging with recent excise increases and higher prices fuelling an increase in illicit trade. We are growing fine cut tobacco share through News and JPS in France and West in Spain, where we also held share in blonde cigarettes and continued to strengthen our portfolio with the migrations of Brooklyn and Ducados.

US

The integration of the newly acquired US assets is progressing well and performance is in line with our plans. The sales team is in the process of introducing new retail programmes, whilst the migration of manufacturing plant and equipment between Greensboro and Reynolds' plant at Tobaccoville is also underway. The newly acquired brands are performing as expected and generated £41 million net revenue in the period after completing the deal on 12 June. Challenges in the mass market cigars segment persist and this has impacted net revenue which was down by 1 per cent. The US performance includes revenue from our new cigarette brands, whilst the prior year includes a similar amount from a one-off MSA credit.

Fontem Ventures

Our standalone subsidiary Fontem Ventures continues to develop well, with blu growing encouragingly in the UK and an enhanced strategic approach starting to be rolled out in the US. The development and licensing of a range of patented technologies is ongoing.

Logista

Logista continues to demonstrate resilience and whilst distribution fees remain lower than last year, operating profit was up by 5 per cent. This was driven by cost savings and efficiency measures in tobacco logistics and growth in non-tobacco logistics, with gains in the pharma and transport divisions.

Cost Optimisation

We have built on progress made in the first half to reduce operational complexity and improve business processes. We continue to generate cost efficiencies, and are on track to deliver savings of £85 million in FY15.

Capital Discipline

In mid-July we successfully issued $4.5 billion of new bonds with an average duration of 7 years, which have replaced a proportion of the bank term loans put in place during FY14 to finance the acquisition of assets in the US. The total blended average cost across the four bonds is 3.75 per cent. We expect our average Group cost of finance to be in the region of 4.4 per cent for FY15. We continue to prioritise ongoing debt reduction and maintain a consistent focus on the management of working capital. We remain on track to deliver cash conversion of c.90 per cent for the full year.

Financial Position

Since the publication of our Interim Results in May, we completed the acquisition of certain US cigarette and e-cigarette brands and assets previously owned by Reynolds and Lorillard Inc. The deal completed on 12 June 2015 for a consideration of $7.1bn (£4.6bn). There has been no other material change in the Company's financial position since our Interim Results in May.

Exchange

At current rates we expect the movement in exchange rates to impact our earnings per share for FY15 by around 4 per cent.

Outlook

We remain on track to deliver our FY15 targets and committed to the progression of our strategic agenda, focusing on creating further value for shareholders in 2015 and beyond.

OTHER INFORMATION

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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 19 August 2015. The call will be hosted by Alison Cooper, Chief Executive, Oliver Tant, Chief Financial Officer and Matthew Phillips, Chief Development Officer and will commence at 09:00am BST. A replay of this call will be available for one week.

Call-in Details

UK number*:	+44(0)20 3427 1907
Conference Call ID:	1239268
Start time:	09:00 BST (please dial in 10 minutes before start time)
Conference Title:	Imperial Tobacco Q3 Interim Management Statement

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

Background Information

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, around 35,000 employees and our brands are available in over 160 countries worldwide

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: Growth Markets include selected markets in the EU, Eastern Europe, Asia, and the Middle East. We typically have shares below 15 per cent in these markets and prioritise long-term share and profit growth.

The USA: We manage the USA as a standalone Growth Market following a major investment that has significantly enhanced our portfolio, market share and distribution coverage.

Returns Markets: Returns Markets are split into North and South and include Australia and markets in the EU, Eastern Europe and Africa. We tend to have shares above 15 per cent in these markets and prioritise profit growth, whilst actively managing our strong share positions.

Growth Brands: Our Growth Brands are Davidoff, Gauloises Blondes, JPS, West, Fine, News, USA Gold, Bastos, Lambert & Butler and Parker & Simpson.

Specialist Brands: Our Specialist Brands are Style, Gitanes (cigarettes), Golden Virginia, Drum, Route 66 (fine cut tobacco), Cohiba, Montecristo, Romeo Y Julieta (premium cigars), Backwoods (cigars), Skruf (snus) and Rizla (papers).

Portfolio Brands: The remainder are Portfolio Brands, a mix of local and regional brands that fulfil a variety of roles. Some will continue adding to our volume and revenue development, while others are being delisted or migrated into Growth Brands.

Fontem Ventures: Fontem Ventures is our subsidiary focused on developing new opportunities primarily through the e-vapour category.

Logista: Logista is a 70 per cent owned subsidiary and publicly listed on the Spanish stock exchanges. It is one of the largest logistics businesses in Europe, with operations extending across Spain, France, Italy, Portugal and Poland. The company makes more than 35 million deliveries a year to 300,000 outlets and has a strong track record of delivery in challenging conditions.

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.

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Ireland	+353(0)1 2465602
Italy	+3906 8750 0875
Japan	+81(0)3 4455 6450
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Singapore	+656622 1941
South Africa	+2711 019 7075
Spain	+3491 114 6581
Sweden	+46(0)8 5065 3938
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Replay Numbers (available for one week from noon today)

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