

## ON TRACK TO MEET FULL YEAR EXPECTATIONS

### Overview

- First quarter performance in line with guidance and on track to meet full year outlook
- US business performing well and to plan
- Tobacco net revenue up 16.6%

### Strategic Highlights

#### Strengthening our Portfolio

- Growth Brands outperforming with volumes up 7.3%, net revenue up 10.6% (ex Iraq & Syria), and market share up 100 bps
- Continued success of brand migrations: 23 complete to date and 29 underway
- Growth and Specialist Brands up to 57.0% of reported tobacco net revenue

#### Developing our Footprint

- Strong performance from ITG Brands; £226m contribution to net revenue
- Growth Markets net revenue up 7.2% (ex Iraq & Syria); Returns Markets up 0.3%

#### Cost Optimisation

- £55m cost savings confirmed for FY16

#### Capital Discipline

- Continuing to target cash conversion of over 90% to fund deleveraging and dividend
- On track to deliver full-year dividend growth of at least 10%

### Alison Cooper, Chief Executive, commented

“We continued to make good progress against our strategic objectives in the first quarter and are well placed to meet full year expectations. We are further sharpening our focus on quality revenue growth and have advanced the simplification of our portfolio and prioritisation of profitable volume. In the USA, the ITG Brands team has made excellent progress in the quarter successfully executing our retailer and wholesale programmes and establishing the foundations for a year of strong delivery.”

| Overview             |       | 3 months to 31 December |       |        | Change                         |                      |
|----------------------|-------|-------------------------|-------|--------|--------------------------------|----------------------|
|                      |       | 2015                    | 2014  | Actual | Constant Currency <sup>1</sup> | Organic <sup>2</sup> |
| Growth Brands volume | bn SE | <b>35.7</b>             | 35.5  | +0.4%  |                                |                      |
| Tobacco volume       | bn SE | <b>69.6</b>             | 71.8  | -3.0%  |                                | -9.1%                |
| Tobacco net revenue  | £m    | <b>1,634</b>            | 1,486 | +10.0% | +16.6%                         | +2.0%                |

<sup>1</sup>Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations.

<sup>2</sup>Organic movement excludes volume and net revenue relating to the USA acquisition which completed on 12 June 2015. The acquisition contributed 4.4bn SE to volume and £226m to net revenue during the period.

## Business Review

### Overview

Overall performance in the first quarter was in line with expectations as we continue to deliver against our strategic objectives.

Tobacco net revenue grew 16.6% supported by ITG Brands in the USA, which is performing to plan. Strong pricing has resulted in organic net revenue growth of 2.0%, or 4.3% excluding Iraq & Syria.

Total tobacco volume declined 3.0%. As expected first quarter volume excluding the acquired US brands declined 9.1%, with Iraq and Syria accounting for 4.4% of the fall. Volumes were further impacted as we deprioritised low quality volume in certain markets. The market size in our footprint was down 1.3% over the past 12 months. We maintained good momentum behind our Growth Brands, which gained 100 basis points of market share while we ceded some share in our Portfolio Brands in line with our strategy, resulting in overall Group share down 40 basis points. This reflects our strategic focus on improving the quality of revenue growth through portfolio simplification and prioritisation of our Growth Brands.

### Strengthening our Portfolio

Growth Brand volumes were up 0.4%, but excluding Iraq & Syria up 7.3% supported by investment in consumer initiatives and the continued success of our migration programme.

Specialist Brand net revenue grew 37% driven by the acquired brands. On an organic basis, net revenue was up 3.6% (excluding Iraq and Syria), due to growth in Skruf in Scandinavia and our Premium Cigar brands.

Fontem Ventures is successfully gaining traction with the blu brand, strengthening its position in the USA and establishing itself as the number two brand in the UK. Fontem also continues to progress a range of patented technologies, including the licensing of its technology to a number of major e-vapour businesses.

### Developing our Footprint

Our footprint has been significantly enhanced by the US acquisition and ITG Brands has performed strongly. We have been successful with the sell-in of our new retail programme, which is supporting new promotional arrangements for Winston and Kool and improved in-store visibility. We are also encouraged by the improving performance in our mass market cigar business, with the transition to become more consumer and retail focused underway.

Tobacco net revenue in Growth Markets declined 2.5% but grew 7.2% excluding Iraq and Syria. Returns Markets net revenue increased 0.3%.

Growth Markets have continued to be significantly impacted by the conflict in Iraq and cessation of trading in Syria, accounting for a 10.5% reduction in volumes and 9.7% reduction in net revenue in the division. We remain focused on maintaining momentum in key profit markets.

Revenue performance in our Returns Markets benefited from a number of our price increases, which continued to offset volume declines and mix pressures.

### **Cost Optimisation and Capital Discipline**

We expect to deliver incremental savings of £55m in FY16. This is part of our programme to reduce complexity through a range of initiatives that will generate £300m of savings by September 2018.

We recently announced the intended closure of our factory in Logroño, Spain, reflecting significant declines in production requirements at the site due to tough economic conditions, increasing levels of regulation and illicit trade.

Capital discipline remains a key focus and we are continuing to target operating cash conversion of over 90%. The strong cash flows will be used to reduce debt and fund our dividend commitment of at least 10% growth in the medium term.

### **Foreign Exchange**

At our full year results in November, we expected a translational currency headwind to earnings for FY16 of c.2%, based on exchange rates at that time. Recent exchange rate volatility, particularly with the strengthening of the Euro and the US Dollar against sterling, is now anticipated to result in a translational benefit to FY16 earnings of around 1%, at current rates.

As a result of the recent devaluation of the Russian Rouble (and a number of Eastern European currencies) a more significant transactional currency headwind is now anticipated with a 3% impact on our FY16 earnings at current rates.

### **Outlook**

Overall, we remain well placed to meet expectations for the full year as we continue to focus on strengthening the business and improving our quality of growth.

We are performing well in the USA and our results will benefit from a full year's contribution from ITG Brands. In Growth Markets, our focus continues to be on profitable share opportunities, while the headwind from Iraq and Syria will lessen as we approach the half year. In Returns Markets we continue to balance share and profit; we are benefiting from our price increases offset by negative mix, investment in EUTPD and the conclusion of distribution for PMI in the UK and Morocco.

## Other information

| Investor Contacts |                     | Media Contacts |                     |
|-------------------|---------------------|----------------|---------------------|
| Peter Durman      | +44 (0)117 933 7395 | Alex Parsons   | +44 (0)7967 467 241 |
| Matt Sharff       | +44 (0)117 933 7396 | Simon Evans    | +44 (0)7967 467 684 |
| Jo Brewin         | +44 (0)117 933 7549 |                |                     |

### Conference Call

Imperial Brands PLC will be holding a conference call for investors and investment analysts with senior management following the publication of our Trading Statement on 11 February 2016. The call will be hosted by Alison Cooper, Chief Executive, Oliver Tant, Chief Financial Officer, Matthew Phillips, Chief Development Officer and Peter Durman, Director of Investor Relations and will commence at 09:00am GMT. A replay of this call will be available for one week.

UK number\*: +44(0)20 3427 1907

Conference Call ID: 4981364

Start time: 09:00 GMT (please dial in 10 minutes before start time)

Conference Title: Imperial Tobacco Q1 Trading Statement

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

### 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 5962   |
| Austria                  | +43(0)1 25302 1763  |
| Belgium                  | +32(0)2 402 3092    |
| Canada                   | +1514 841 2154      |
| Denmark                  | +4532 71 16 60      |
| Finland                  | +358(0)9 6937 9590  |
| France                   | +33(0)1 76 77 22 26 |
| Germany                  | +49(0)30 3001 90539 |
| Hong Kong                | +8523068 9885       |
| Ireland                  | +353(0)1 2465603    |
| Italy                    | +3906 8750 0874     |
| Japan                    | +81(0)3 4455 6450   |
| Luxembourg               | +3522088 1441       |
| Netherlands              | +31(0)20 716 8295   |
| Singapore                | +656622 1089        |
| South Africa             | +2711 019 7076      |
| Spain                    | +3491 114 6583      |
| Sweden                   | +46(0)8 5065 3938   |
| Switzerland              | +41(0)44 580 7215   |
| United Kingdom           | +44(0)20 3427 1907  |
| United States of America | +1646 254 3365      |

## Replay Numbers (available for one week from noon today. Replay passcode: 4981364)

| Location                 | Local number     |
|--------------------------|------------------|
| Austria                  | (0)1 25300 85404 |
| Belgium                  | (0)2 789 7487    |
| Denmark                  | 32 71 09 13      |
| Finland                  | (0)9 2310 1650   |
| France                   | (0)1 74 20 28 00 |
| Germany                  | (0)89 2030 3201  |
| Hong Kong                | (0) 3011 4669    |
| Ireland                  | (0)1 4860902     |
| Italy                    | 02 3041 3127     |
| Japan                    | (0)3 5767 9615   |
| Netherlands              | (0)20 708 5013   |
| Norway                   | 2100 0498        |
| Poland                   | (0)22 212 6214   |
| Singapore                | 3158 1174        |
| South Africa             | 11 019 7025      |
| Spain                    | 91 788 9967      |
| Sweden                   | (0)8 5051 3897   |
| Switzerland              | (0)44 567 1860   |
| United Kingdom           | (0)20 3427 0598  |
| United States of America | 347 366 9565     |