

7 February 2018

Ahead of its Annual General Meeting today, Imperial Brands PLC issued the following update.

We remain on track to meet constant currency net revenue and earnings expectations for the full year. As highlighted in November, delivery will be weighted to the second half. We continue to realise further share gains in our Growth Brands and in the majority of our priority markets, building on the success of last year's marketing investment programme. This is delivering a robust volume performance, reflecting overall share growth. The first half though will reflect some negative price/mix impacts, particularly post EUTPD in UK and post excise increases in France. As also highlighted, we are significantly stepping up our level of activity in Next Generation Products (NGP), with multiple launches in the next few months.

NGP Update

We are prioritising e-vapour growth by further developing blu, which is currently available in the USA, UK, Italy and France. We are adding to blu's growth potential in these markets and extending the brand into new markets, with the launch of a pod system, 'myblu'. This is part of a significant portfolio development, improving the consumer experience and therefore conversion potential. The innovation strengths of our recently acquired business, Nerudia, are already adding to our exciting pipeline of developments that will continue to improve our consumer offering.

myblu was recently launched in the USA, generating an excellent response from consumers, with online pre-orders rapidly selling out. *myblu* uses a one-click liquid pod system, which is the fastest growing e-vapour segment in the USA. Launches are also being finalised for France, UK, Russia and Italy and, by the end of the financial year, *myblu* will be available in at least 10 markets, with this figure set to double in FY19.

Trials of heated tobacco products in Europe and Japan have received very positive consumer feedback. We are currently evaluating the results and are refining our heated tobacco offerings in advance of more comprehensive testing in the coming months.

Group Net Revenue

Constant currency net revenue growth for the full year is expected to be in line with our medium-term guidance, reflecting growth in tobacco sales and the expansion of our NGP business. First half constant currency net revenue is expected to benefit from continued share gains in our priority markets and improved pricing. This will be more than offset by adverse mix and lower Fontem intellectual property licensing income (£35m). We expect second half net revenues to be stronger due to improved price/mix in tobacco and an increasing contribution from e-vapour products.

Group Adjusted Operating Profit

First half constant currency adjusted operating profit will also reflect these net revenue dynamics. As previously announced, reported operating profit will be impacted by a write-off of up to around £160m as a result of the UK wholesaler, Palmer & Harvey (P&H), entering administration last November. Due to the size and non-recurring nature of this write-off, it will be excluded from adjusted measures. We anticipate first half non-operating income to be matched at a similar level to last year (Logista bank shares and US post-retirement benefits totalling £33m). Full year adjusted operating profit (excluding the P&H write-off) is anticipated to be weighted more to the second half than last year at constant currency (2017: 46:54).

The strengthening of sterling at current rates is expected to result in a currency translation headwind on net revenue and adjusted profit of about 3.5% at the half year and 2.5-3.0% at the full year. Cash generation remains strong underpinning our 10% dividend growth.

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