

26 September 2019**Pre-Close Trading update**

Imperial Brands PLC today announces that, in light of a challenging NGP market in the USA and changes to our results expectations in the Africa, Asia and Australasia (AAA) division, Group net revenue for the year to 30 September 2019 is now expected to grow at around 2%, with EPS expected to be broadly flat at constant currencies.

Whilst this is disappointing for the current year, we believe that NGP provides a significant opportunity to deliver additive growth to complement our Tobacco business. We continue to refine our investment behind building a strong and profitable NGP business in a rapidly evolving market.

Next Generation Products

We expect our overall NGP business will grow net revenue by around 50% this year, albeit below our expectations.

The USA NGP environment has deteriorated considerably over the last quarter with increased regulatory uncertainty, including individual US state actions. This has prompted a marked slowdown in the growth of the vapour category in recent weeks, with an increasing number of wholesalers and retailers not ordering or not allowing promotion of vaping products.

As highlighted in May, we stepped up our retail engagement programmes in the USA in the second half, alongside a significant increase in brand investment and stronger consumer promotions. This has delivered improving consumer off-take for blu, albeit less than expected, reflecting the slowdown in the US vapour category combined with increased competitor discounting. This has impacted overall Group revenues and profitability.

In Europe and Japan, we are delivering good year-on-year growth, although following a successful build-out across our markets at the beginning of the year, second half sales in Europe are expected to be at a similar level to the first half. We have also made good progress with the roll-out of other next generation products including a successful city pilot of our heated tobacco product Pulze in Japan and the launch of oral nicotine products in several European markets.

We continue to focus on managing the operational and regulatory challenges associated with a rapidly evolving category with a particular focus on recent USA developments and their potential impact on other NGP markets.

Tobacco

Our Tobacco business continues to perform well, delivering low single digit revenue growth and higher tobacco operating profit.

We are delivering good performances in Europe and the Americas, which will more than offset tougher trading conditions in the AAA division. In particular, we increased investment behind share in Australia in a highly competitive environment, utilising a benefit from duty paid inventory around the September excise increase. However, the realisation of this benefit has been rephased into the next financial year, resulting in a stronger AAA divisional performance expected in 2020.

Financial performance

We expect the results will benefit from c.£30m of other gains this year, compared with £80m last year.

Translation FX at current rate of exchange is expected to benefit earnings by c. 2%.

We are making good progress with our current cost optimisation programme, which will realise annual savings of £300 million by September 2020.

Given the evolving environment, we are also evaluating the effectiveness of our NGP supply chain, which may result in contract termination costs that are not included in our revised expectations.

Underlying cash conversion remains in line with previous guidance.

On Wednesday 25 September, we completed the transaction with Auxly Cannabis Group Inc. As previously announced, we have invested C\$123 million by way of a debenture, convertible into 19.9% ownership of Auxly.

Divestment Programme

The divestment of our premium cigar business is progressing well and has generated strong interest from a number of potential buyers. We remain on track to realise proceeds of up to £2 billion from our disposal programme before May 2020.

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