

## **IMPERIAL TOBACCO GROUP PLC INTERIM MANAGEMENT STATEMENT**

Ahead of the Annual General Meeting to be held later today, Imperial Tobacco Group PLC (**Imperial Tobacco**) confirms that the overall performance and financial position of the Group for the financial year to 30 September 2009 remains in line with management's expectations.

Summarising today's announcement Gareth Davis, Chief Executive, will say:

"In the first quarter of 2009 we maintained our growth momentum with further cigarette share gains in a number of our mature European markets as well as in many of our emerging markets in Eastern Europe, Africa and the Middle East.

"We continue to benefit from our balanced cigarette portfolio, which includes strength in premium and value brands. Our international premium cigarette brands, Davidoff and Gauloises Blondes, are driving growth in emerging markets, complemented by encouraging performances from our value brands, particularly JPS, which made further gains in Germany, the UK and The Netherlands.

"Whilst continuing to leverage the improved growth opportunities that the enlarged Group offers, we have remained focussed on progressing our integration projects. Our global sales operations are now fully integrated providing both cost savings and more effective communication with the trade and our consumers. We recently reached agreement on the social plan in Germany regarding the closure of our Berlin cigarette factory and expect to conclude the formal consultation process later this month. Our consultations in Spain continue to be constructive.

"Overall, this has been a pleasing start to the year. While we will not be immune from the current economic situation, we will be resilient, irrespective of there being some impact on our cigar and non-tobacco logistics businesses. Our enhanced geographic and brand profiles provide many growth opportunities, which when combined with our ongoing cost focus and effective cash management, leaves us well placed to create further sustainable value for our shareholders."

### **Trading update**

The following highlights of our trading performance relate to the three months to 31 December 2008 unless otherwise stated. All market volumes and market shares are based on Imperial Tobacco estimates.

### **UK**

In the UK for the year to December, the annual duty paid cigarette market declined by 4 per cent to 45 billion. Following the introduction of public smoking bans in 2007 we estimate the first quarter of 2009 saw the market revert to an annual decline rate of 2-3 per cent. Duty paid fine cut tobacco market volumes grew by 10 per cent for the year to December to 3,850 tonnes.

Our average cigarette market share for the year to December was 45.7 per cent (year to September 2008: 45.9 per cent). Richmond and Lambert & Butler continue to lead the market and Windsor Blue grew share to over 3 per cent for the year to December. In early November, we launched JPS Silver in the economy segment and we are very pleased with its initial performance. In the year to December our fine cut tobacco share was 60.7 per cent (year to September 2008: 61.6 per cent) with Gold Leaf continuing to grow in the value segment to over 3 per cent of the market in less than 2 years since its launch. Last month we increased the recommended retail price of a pack of 20 cigarettes by an average of 11 pence.

The UK government has confirmed it is planning further controls on the sale of tobacco from vending machines and the removal of tobacco displays in businesses via a phased approach, although these proposals are subject to further consultation. We continue to strongly oppose proposals to restrict or prohibit the display of tobacco products, which we believe would be anti-competitive and further fuel illicit trade.

## **Germany**

In Germany, for the year to December cigarette market volumes declined by 2 per cent to 87 billion and other tobacco products declined by 8 per cent to 34 billion cigarette equivalents. Cigarette volumes were partly impacted by the introduction of restrictions on smoking in public places whilst a legal change to the product specifications of eco-cigarillos in 2007 affected other tobacco products.

Our cigarette share in the year to December was 27.5 per cent (year to September 2008: 27.4 per cent). We continue to benefit from our broad portfolio with our value brand, JPS, strengthening its total market and segment position, complemented by Gauloises Blondes, which maintained its share in the premium segment. Our market share of other tobacco products was 20.0 per cent (year to September 2008: 20.0 per cent) with our make your own products performing well.

## **Spain**

In Spain, cigarette market volumes grew by an estimated 1 per cent to 90 billion in the year to December and fine cut tobacco volumes grew 34 per cent to 3,950 tonnes. Our cigarette share for the year to December was 37.0 per cent (year to September 2008: 37.1 per cent) with Ducados Rubio and Nobel performing strongly. In January, we increased the retail price of all our domestic cigarette brands by 15 euro cents per pack. We retained our leading position in fine cut tobacco. In cigars, market volumes declined as a result of the economic downturn.

## **Rest of European Union**

In our Rest of European Union region, French cigarette market volumes for the year to December declined by 2 per cent to 54 billion. Our market share for the year to December was 29.2 per cent (year to September 2008: 29.3 per cent). The dark tobacco segment continued to decline as expected but our leading blonde brands, Gauloises Blondes, News and JPS continued to perform strongly.

In The Netherlands, cigarette market volumes for the year to December were stable at 13 billion with fine cut tobacco volumes declining 4 per cent to 10,100 tonnes. In

November, we passed on a significant duty increase and raised our prices at the same time. Our cigarette share for the year to December was 13.6 per cent (year to September 2008 13.5 per cent) with JPS showing further growth. Fortuna was launched in November with achieved distribution gains ahead of forecast and the brand showing encouraging early progress. In fine cut tobacco, for the year to December our share rose to 51.0 per cent (year to September 2008: 50.7 per cent) driven by Zilver and Evergreen.

In Greece, both Davidoff and Maxim performed strongly with further share growth. In Ireland, an early budget in October resulted in a duty increase of 50 euro cents per pack, which caused some disruption in the quarter with John Player Blue performing well. Elsewhere, the business continued to develop well in the quarter with cigarette market share gains in numerous countries including Austria, Czech Republic, Finland, Hungary, Portugal and Sweden.

## **Americas**

In the USA, against a background of an estimated 4 per cent decline in cigarette market volumes in the year to December, our share was 4.3 per cent (year to September 2008: 4.3 per cent). Following the launches of Davidoff and Fortuna, initial indications suggest the brands are being well received by the trade and consumers alike. We further expanded our sales force to support our brand development.

The Children's Health Insurance Program Reauthorization Act ('SCHIP') proposes to substantially raise the federal excise tax rate on all tobacco products, though it has still to be finalised. The current proposals will likely have a negative impact on our relatively small fine cut tobacco, papers and tubes businesses. At a Group level the impact will be negligible. We would expect to see some migration from fine cut tobacco and little cigars to factory made cigarettes. Our cigarette business in the USA is primarily in the discount sector. We believe our significant presence in the sector will leave us in a favourable competitive position to capture this migration and also those cigarette consumers who chose to trade down following the proposed excise increase.

Our USA cigar business is primarily in the large cigar sector. SCHIP proposes to raise the excise on large cigars. A combination of the current economic environment and the SCHIP proposals will likely lead to a fall in cigar market volumes this year. However, we believe our high quality brand portfolio leaves us well placed to compete effectively in the market.

## **Rest of the World**

In our Rest of the World region, we continue to leverage our broad brand portfolio to maximise opportunities in the numerous diverse markets.

In Africa and the Middle East we grew share in the majority of markets. Davidoff, Gauloises Blondes, Fine and Superkings all improved volumes in the region. Gauloises Blondes has been particularly successful in Morocco.

In Eastern Europe, we saw a solid performance in the majority of markets. Ukraine performed well with Davidoff volumes growing strongly. The Australian market remains competitive and our market share saw some minor decline as a result. In

Asia, our new factory in Taiwan became fully operational last month and will improve our performance in the region going forward.

### **Logistics**

In logistics, whilst our non-tobacco business has seen some deterioration in the first quarter as a result of its exposure to the current macro environment, our tobacco operations have been resilient and there has been active management of the cost base. Overall, the logistics performance is below last year but nevertheless broadly in line with our expectations.

### **Foreign exchange and interest**

The underlying performance of the enlarged Group remains in line with expectations. However, should current foreign exchange rates persist, they will have an overall positive impact on our 2009 results. Adjusted profit from operations will benefit from sterling's weakness but our adjusted net interest charge and net debt will be increased as we have Euro and US Dollar debt outstanding, although recent declines in LIBOR and EURIBOR will be an offsetting factor to the interest charge.

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