IMPERIAL BRANDS PLC
TRADING STATEMENT FOR THE THREE MONTHS ENDED 31 DECEMBER 2015

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[1]	Organic[2]
Growth Brands volume	bn SE	**35.7**	35.5	+0.4%		
Tobacco volume	bn SE	**69.6**	71.8	-3.0%		-9.1%
Tobacco net revenue	£m	**1,634**	1,486	+10.0%	+16.6%	+2.0%

[1] Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations.
[2] 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

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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.

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