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IMPERIAL TOBACCO GROUP PLC INTERIM MANAGEMENT STATEMENT

Imperial Tobacco Group PLC (**Imperial Tobacco**) confirms that the overall financial performance and position of the Group for the financial year to 30 September 2010 remains in line with the Board's expectations.

Summarising today's announcement Alison Cooper, Chief Executive, said:

"Our focus on driving sales has delivered another strong operational performance across our business in both cigarette and fine cut tobacco. We increased prices in a number of markets and maintained our sales growth momentum in our Rest of World region despite lower than expected volumes in some low margin Eastern European markets.

"Overall we are performing well in what remains a challenging operating environment, highlighting the resilience of our business and the success of our growth strategy. By continuing to leverage our comprehensive brand and product portfolio across our balanced international footprint we are well placed to further build sales and create sustainable value for our shareholders."

Trading update

The following highlights of our trading performance relate to the nine months to 30 June 2010 unless otherwise stated. All market volumes and market shares are based on Imperial Tobacco estimates.

Our cigarette volumes for the nine months to June were down 4.3 per cent as a result of market declines in Spain, USA, Russia and Ukraine being partly offset by gains in Central Europe. Our Global Strategic cigarette brands continue to grow and we saw some strong performances from a number of our regional and local brands. We increased our fine cut tobacco volumes by 4.1 per cent with very strong growth in our Rest of EU region. As a result white stick equivalent volumes were down 3.1 per cent.

UK

In the UK the duty paid cigarette market for the 12 months to June was stable at 44.9 billion. Fine cut tobacco market volumes have grown 18 per cent to 4,900 tonnes. No changes were made to tobacco duty rates in the June Emergency Budget.

Our cigarette market share remained strong at 45.4 per cent (June 2009: 45.3 per cent) and was stable against the half year. We continued to benefit from growth in the economy segment with JPS Silver and Windsor Blue gaining share.



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In fine cut tobacco Gold Leaf and Golden Virginia Yellow continued gaining share though our overall fine cut tobacco share declined to 54.9 per cent (June 2009: 58.5 per cent).

On 15 June we filed an appeal with the Competition Appeal Tribunal against the Office of Fair Trading decision to impose a fine on Imperial Tobacco for allegedly restricting competition relating to certain promotional arrangements that Imperial Tobacco had entered into with multiple retailers prior to August 2003. Imperial Tobacco categorically denies that these promotional arrangements had the purpose or effect of restricting competition. As yet no date has been fixed for the appeal to be heard.

We oppose all unnecessary and disproportionate regulation of tobacco. Our application for a judicial review of the proposed ban in England of the sale of tobacco products in vending machines in the Health Act has been granted with the case now proceeding to a full hearing later this year.

Our application for a judicial review of the proposed display ban of tobacco products in England under the Health Act is currently under review. There is no credible evidence to support the idea that children start smoking or that adult smokers continue to smoke as a result of the display of tobacco products and if this legislation is implemented it will further fuel the growth in illicit trade.

Germany

In Germany duty paid cigarette market volumes declined 2 per cent to 84.5 billion in the 12 months to June. Fine cut tobacco market volumes to June were up 7 per cent at 25,400 tonnes. In May we increased the price of our value brands by five euro cents per pack of 19.

Our cigarette market share grew 0.2 percentage points against the half year to 26.8 per cent (June 2009: 27.4 per cent). Leveraging JPS is an ongoing priority and has enabled us to further increase its cigarette share over the third quarter.

From 1 April Gauloises Blondes was incorporated into our distribution network. We have subsequently extended the brand's market coverage by more than 25 per cent improving its future growth potential.

We also increased our fine cut tobacco tonnage share for the nine months to June to 18.0 per cent (June 2009: 17.5 per cent) with JPS and Route 66 continuing to grow share.

Spain

In Spain market conditions continue to be challenging, impacted by the economic downturn. Cigarette market volumes in the 12 months to June declined by 11 per cent to 76.9 billion as a result of reduced levels of tourism and rising unemployment.

Total fine cut tobacco market volumes over the last year were down 7 per cent at 4,700 tonnes. Domestic volumes rose by 53 per cent driven by downtrading whilst travel retail volumes declined by 41 per cent.



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In early June we increased the price of the majority of our cigarette brands by 25 euro cents per pack ahead of the VAT increase on 1 July.

Our domestic blonde cigarette share was 29.2 per cent (June 2009: 30.6 per cent). Ducados Rubio continues to perform well with its share increasing to 7.0 per cent from 6.6 per cent in June 2009 partly driven by the recent launch of a soft pack, which is still to be fully exploited. Our total cigarette share was 35.0 per cent (June 2009: 36.5 per cent) partly reflecting our high market shares in the travel retail and the dark segments which continue to decline faster than the overall market.

In fine cut tobacco while we retained the leading position in travel retail reduced numbers of tourists have led to a decline in our total share to 31.9 per cent (June 2009: 44.1 per cent) but our share has stabilised since the half year. We are progressing a number of initiatives to grow our domestic share, including introducing Ducados Rubio make-your-own with positive early responses from retailers.

Rest of EU

Regional cigarette volumes were down 2 per cent in the 12 months to June while regional fine cut tobacco volumes were down 1 per cent with a decline in Poland being partly offset by strong growth in other Central European markets.

In France, cigarette market volumes increased by 1 per cent over the last 12 months to 54.7 billion. Our domestic blonde cigarette share was broadly stable compared to the half year and June 2009 at 23.7 per cent with JPS, News and Fortuna continuing to perform well. Our total cigarette share was 28.4 per cent (June 2009: 28.7 per cent) with the decline due to our high exposure to the dark segment which continued to decline ahead of the market.

Leveraging our brand and product portfolio provides considerable growth opportunities in this region. We have achieved further cigarette share gains in a number of markets including Finland, Greece, Poland and Slovakia. We also improved our fine cut tobacco volumes by 23 per cent, increasing our share in a number of markets including Poland, Czech Republic, Hungary and Ireland.

Americas

In the USA cigarette market volumes were down an estimated 8 per cent in the 12 months to June.

Our cigarette share in the nine months to June was stable compared to the half year at 3.9 per cent (June 2009: 4.2 per cent) with ongoing competitor activity focussing on the discount segment. However, continued focus on our core cigarette portfolio has seen our position improve in recent weeks.

Whilst nine month premium and large mass market cigar volumes have been impacted by the FET increase and the economic downturn, our business remains strong. We have experienced an upturn during the third quarter in volume and value terms driven by price increases, marketing initiatives and new product launches.



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Rest of World

In our Rest of the World region our cigarette volumes have been further impacted by market declines in Russia and Ukraine of 11 per cent and 8 per cent respectively over the last nine months. Russian and Ukraine volumes were weaker than expected in the third quarter but this has been partly offset by a price increase in Russia in July.

In the first nine months of this financial year we have made cigarette share gains in a number of markets throughout the region with strong contributions from global, regional and local brands. West has driven growth in Taiwan and Kyrgyzstan, Davidoff in Saudi Arabia, JPS in Australia, and Excellence in Senegal.

Following the signing of a licence agreement with KT&G earlier this year, KT&G commenced the manufacture, distribution and marketing of Davidoff in South Korea in May. Also in May, we signed an import and distribution agreement for Davidoff in India.

In cigar, Habanos' performance continues to improve with sales growth in Western Europe, Asia and the Middle East.

In April the Australian government announced plans for the plain packaging of tobacco products with effect from July 2012. We believe measures of this kind are unreasonable and unjustified and we will robustly contest them.

Logistics

Our tobacco logistics operations have performed solidly in spite of declining cigarette volumes in Spain which were offset by price increases, including the June increase ahead of the VAT change in July.

Other logistics operations continue to be affected by the weak economic climate particularly in Spain but our ongoing cost reduction programme is mitigating the impact and we are seeing benefits from the re-organisation of various parts of the business.

Financing

As predicted, the working capital outflows in the first half are currently reversing and we estimate that the year end working capital position will be similar to that in September 2009 with a resulting cash conversion rate of 90-100 per cent.

We continue to expect the average all-in cost of debt for the current financial year to be around 5.5 per cent.



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