



Maintaining excellence

Interim Report 2000  
Gallagher Group Plc



Dividend			
<p>The Board has declared an interim dividend of 7.65p per share (net), an increase of 5.5% over the 1999 interim dividend of 7.25p (net). This dividend will be paid on 16 November 2000, to all ordinary shareholders on the register at close of business on 22 September 2000. For ADS holders, The Bank of New York will convert the 30.6p (net) ADS dividend into US dollars, and distribute it to ADS holders on 27 November 2000.</p>			
Shareholder information			
<p>Dividend Reinvestment Plan ("DRIP") Gallaher has DRIPs for shareholders, to enable them to reinvest their cash dividend in existing shares in the Company. For ordinary shareholders, the Plan, which enables shares to be bought on the London Stock Exchange at favourable transaction costs, is administered by the Company's Registrar, Capita IRG. The Bank of New York administers the DRIP, Global BuyDIRECT, for ADR holders.</p> <p>Individual Savings Accounts ("ISA"s) Gallaher has introduced a Corporate sponsored ISA through The Share Centre, an independent stockbroker, regulated by the Securities and Futures Authority ("SFA") and a member of the London Stock Exchange. Further information may be obtained from The Share Centre.</p> <p>Share dealing Gallaher has arranged a low cost share dealing facility through The Share Centre, regulated by the SFA and a member of the London Stock Exchange, under which existing and new shareholders may buy or sell Gallaher shares at 1% commission. There is a minimum charge of £2.50 for purchases and a minimum charge of £7.50 for sales. Further information may be obtained from The Share Centre.</p> <p>The publication of the information regarding the Gallaher Corporate ISA and share dealing facility has been approved for the purposes of Section 57 of the Financial Services Act 1986, by The Share Centre Limited, regulated by the SFA. This service may not be suitable for every investor and if in doubt you should contact a financial advisor. Share prices, values and income can go down as well as up and investors may get back less than their initial investment.</p>			
<p>The Share Centre Limited P.O. Box 1000 Tring Hertfordshire, HP23 5AN Tel: 01442 890844</p>			
Enquiries			
<p>Registered office Gallaher Group Plc Members Hill Brooklands Road Weybridge Surrey KT13 0QU United Kingdom Tel: 01932 859777 Fax: 01932 832792 www.gallaher-group.com</p>	<p>Registrar Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom Tel: 020 8650 4866</p>	<p>ADR Depositary Bank The Bank of New York Shareholder Relations P.O. Box 11258 Church Street Station New York NY 10286-1258 United States of America Tel: (1-888) BNY ADRS</p>	<p>US Investor Relations Taylor Rafferty Associates, Inc. 205 Lexington Avenue 7th Floor New York, NY 10016 United States of America Tel: (212) 889 4350 Fax: (212) 683 2614</p>
<p>Enquiries concerning holdings of ordinary shares and ADSs, including changes in address and other details, should be addressed to the Registrar for ordinary shares and to the ADR Depositary Bank for ADSs.</p> <p>A copy of this report has been sent to each shareholder. For further copies, or information on Gallaher, please contact the registered office or, in the US, Taylor Rafferty Associates.</p>			
<p>Stockbrokers Dresdner Kleinwort Benson 20 Fenchurch Street London EC3P 3DB</p>	<p>Merchant Bankers Dresdner Kleinwort Benson 20 Fenchurch Street London EC3P 3DB</p>	<p>Auditors PricewaterhouseCoopers 1 Embankment Place London WC2N 6NN</p>	<p>Solicitors Simmons &amp; Simmons 21 Wilson Street London EC2M 2TX</p>

< Front cover  
Gallaher's strategy continues to deliver good performance. The Group is maintaining its leading market positions in the UK, whilst successfully developing a balanced portfolio of interests in selected overseas markets. *(Hamlet Special Reserve)*

## Introduction

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Interim Report 2000  
Gallaher Group Plc

Gallaher had a successful first half, outperforming the UK market and lifting international volumes by 27%. The 8.4% compound annual growth in operating profit over 1998 provides a more meaningful measure of our performance than a comparison with 1999, because last year's results benefited from the timings of duty and price increases. We continue to drive down costs. With our strong UK base, and our continued international growth accelerated following the acquisition of Liggett-Ducat, we are well placed for the future.

Nigel Northridge *Chief Executive*  
6 September 2000

Financial highlights	2000	1999	1998
Turnover	£2,185m	£2,196m	£1,946m
Turnover (excl. duty)	£464m	£519m	£442m
Operating profit	£196m	£234m	£167m
Operating margin	42.3%	45.0%	37.8%
Profit before tax	£155m	£185m	£128m
Earnings per share	16.2p	18.7p	12.6p
Interim dividend	7.65p	7.25p	6.8p

Gallaher's results for the six months to 30 June 2000, demonstrate a strong underlying performance in both UK and international operations. Comparisons to the corresponding period in 1999, however, are distorted by changes in the timing of duty and price increases in the UK market.

In the UK, Gallaher maintained its leadership of the cigarette, cigar and pipe tobacco markets. Four of Gallaher's brands, *Benson and Hedges*, *Silk Cut*, *Mayfair* and *Berkeley*, command four of the top six selling brand positions in the UK cigarette market. Internationally, Gallaher lifted its cigarette volume sales by 27.0% to 8.6bn units (excluding contract manufacture, the increase was 40.0%) reflecting growth in most of its established markets and substantial new emerging market business.



Operations: International Gallaher lifted its international cigarette volumes by 27.0% to 8.6bn units (1999: 6.8bn). Excluding contract manufacture, international volumes rose 40.0% as the Group grew volumes in most of its established markets, and also developed new emerging market business.

Gallaher maintained its commanding leadership of the cigarette market in the Republic of Ireland, with a market share of 47.8%. In 1999, the first six months volume sales included intra-EU duty free business ahead of its abolition on 1 July 1999. Although total volumes (including duty free) were down 1.4% over the corresponding period, domestic volume sales were up over 2%.

In France, *Benson & Hedges American Blend* led the Group's growth of in-market sales of some 9%, resulting in an increase in market share to 2.7%. Gallaher successfully introduced its innovative overprinted film packaging for *Benson & Hedges Virginia* in May, further building brand equity in this heavily regulated market.

The distribution agreement with Reemtsma for *Benson & Hedges* in Germany, which commenced at the start of 2000, is progressing well. Gallaher increased in-market sales of the continuing *Benson & Hedges* house by 2.4%, with incremental sales of *Benson & Hedges Lights*.

In Greece, Gallaher continues to outperform the market, increasing its market share to 4.9%. The cigarette market grew by 4.3%, while Gallaher's in-market sales rose by 13.9%. *Silk Cut* led the Group's strong performance, assisted by a sharp increase in *Benson & Hedges* volume sales primarily in tourist regions.

Gallaher is the fastest growing cigarette company in Spain, lifting its total in-market volume sales by 57.3%, versus a market growth of 9.0%. The Group increased its total market share to 1.0%. *Benson & Hedges* spearheaded this performance, with in-market sales growth of over 66%.

*Benson & Hedges* also led the Group's strong growth in the Canary Islands, where Gallaher increased its total in-market sales by 34.1% against a total market growth of 15.7%. Gallaher achieved a rise in total market share to 8.3%.

Following the cessation of intra-EU duty free on 1 July 1999, much of the historic duty free cigarette volume transferred to continental western Europe. The Group's cigarette volume sales to duty free outlets and Registered Mobile Operators (primarily ferries which are allowed to operate under simplified customs' procedures) reduced to 404m units (1999: 539m units).

Cigarette volume sales to retailers in Belgium and Luxembourg grew to 666m units (1999: 221m units).

Trading conditions in the CIS have begun to recover compared to 1999. In Russia, however, importing product continues to be challenging owing to difficulties obtaining tax stamps and to changes in Customs regulations. As a result, Gallaher's volume sales to Russia only totalled 145m cigarette units in the period (there were no invoiced sales in the comparable period in 1999). Gallaher has just commenced manufacturing of *Sovereign* at its Liggett-Ducat factory in Moscow, so as to capitalise on the in-market demand which currently is not being met through importation (see page 10: Acquisitions).

> Fast volume growth  
Internationally, the Group lifted volumes by 40% (excluding contract manufacture), reflecting growth across its established markets and also the development of new emerging market business. (*Silk Cut Ultra*)

