Ben Stevens, FD

Financials

Q: What are the financial highlights to these half-year results?

A: I think these are a really good set of financial results in a pretty difficult economic environment. On a constant currency basis we've increased our net turnover by 4%, our operating profit's up by 6%, and our earnings per share is up by 10%. So we're very, very pleased with this set of results.

Q: One of the swing factors is foreign exchange. You had a tailwind in the first quarter, a headwind in the second quarter. Will this remain a volatile number, in your view?

A: Yes, it's difficult to predict foreign exchange, of course. But we had a 2% hit of foreign exchange in the first half. And if we look at exchange rates as they are today persisting for the rest of the year, it looks as though it'll be about the same for the full year.

Q: Now looking at the financial outlook, some see you possibly hitting double digit growth. Are you still targeting high single-digit EPS growth?

A: Well, we always try and deliver the highest EPS growth that we can. Now we think we've got the brands, the management, the geographic spread, the innovations to deliver high single-digit earnings growth over the medium term. But what we do in any one particular year depends a lot on what's happening to the economic environment, what's happening to foreign exchange. And it's pretty tough out there. But I'm confident that we can continue to meet our shareholder expectations over the medium term.

Margin improvement

Q: How's your cost savings programme going?

A: Cost savings programme's going well. Operating margin was up in the first half. The implementation of SAP is starting to bite, we're getting some of the savings through from markets where we've already implemented SAP, like

Malaysia. And then we move into Australasia in the fourth quarter of this year and shortly after that into South Asia. So the programme's starting to roll out, and we're starting to see some of the benefits coming through.

Q: Now you've had another good result on operating margin, and you're managing to hit the top end of your 50 to 100 basis points target. Can this continue?

A: Well, we say that we can grow operating margin by 50 to 100 basis points a year. We've done well in the first half of this year. But operating margin does over time tend to be higher in the first half of the year, as marketing spend comes through in the second half. So I'm confident we can continue to deliver the 50 to 100 basis points a year.

Capex & cash

Q: On Capex, what's the run rate for the year? And might it come down in later years?

A: Yes, Capex will be similar this year to last year at around the £750m net Capex level. There are upward pressures on Capex. We've just launched Vype, so we've got some next generation products Capex to do. We've got our investment in the SAP programme, that takes Capex. And also we've got our innovations programme which takes Capex. So you'll see Capex staying fairly high for the next couple of years, before falling away once the SAP programme is done.

Q: And your cash flow is not as strong as it was at the end of the year. What are the drivers behind that?

A: Well, cash flow's always less in the first half of the year, because that's when we make our leaf purchases. So we see a growth in leaf stocks at the half year. And then it tends to produce more cash in the second half of the year. So I think we'll be in a good position to deliver our cash flow targets for the full year.

Q: So overall, how would you sum up the half?

A: I'm very pleased with this first half. I think it's a very strong set of results in a quite difficult economic environment.