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Imperial Tobacco Group PLC FY07 Preliminary Earnings Call

Question-and-Answer Session

Unidentified Analyst

In the run up to Altadis during that process, I think you were quite clear that you felt that the scope of revenue synergies in Europe was not being fully appreciated. Now I presume that a significant part of that scope of revenue in synergies referred to pricing rather than the establishment of more pan European brands. Now, do you think there is significant potential going forward, once you take over Altadis to establish more pan European brands? And do you think we are likely to see a significant or any swapping of brands between manufacturers, now that you are effectively down to four large companies? Because we still have quite an element of by country ownership still outstanding.

Gareth Davis - Chief Executive Officer

Yes. I think to the first question. I think, I think we see along two dimensions. We do see, as I said earlier on, we have seen in 2007 and I think we can look forward in 2008, to a better pricing environment in the mature markets of Western Europe. So, I think that's one of the upsides we see. The other one in terms of the brands, I think we've demonstrated that without the key brands we are doing pretty well, Davidoff, West and JPS in Western Europe. I think it's also fair to say we see significant potential, further potential for Gauloises and Fortuna in those markets. Emerging markets quite separately we see other opportunities there, but I am concentrating on these mature ones at the moment. So, I do think there is revenue benefits, not just from pricing, but also from a better exploitation. I think our track record shows that we can grow the share now of key brands. So, I think we are confident that we can do that.

In terms of swapping brands, going forward, I wouldn't see so much of swapping brands, but I do see downstream probably in the sort of five, six year horizon, a situation of more, what I would contract manufacturing using each other's geographic relative advantage, in terms of manufacturing. So I do see more of that perhaps taking place than has been hitherto. There has always been an element of that and it ebbs and it flows, but I think once you get down to the core group of four major international tobacco companies, the propensity to leverage it off each other's relative advantage is probably greater.

Iain Napier - Chairman

I think the only other point to make is in terms of the Altadis acquisition when we were taking about synergies, we were talking there about cost synergies. We said that there could be revenue synergies but those weren't taken into the number that we quoted.

Gareth Davis - Chief Executive Officer

Okay, another one down there.

David Hayes – Lehman Brothers

Hi, it's David Hayes from Lehman Brothers. Just two questions if I can. Just firstly on Commonwealth, obviously you are waiting for the MSA agreement to come through. But if I went to that business in

March and I went to that business today, can you kind of outline things that maybe have changed over that five month period.

Gareth Davis - Chief Executive Officer

Yes, because it's only been a few weeks since I was there. And I had a very nice time, but I think I can remember at least some of it. I think a number of changes. I think, firstly the integration of Robert Burn Associates which was our existing U.S. business that we were, that was going to be the vehicle for our organic growth there, that has been fully integrated now into Commonwealth. So the sales and marketing operation is headquartered in Kentucky and executives have moved, reps have been absorbed into the sales force, so we got now an overall stronger sales force. So all that has been done.

The factory I think is very well bedded down anyway but I think fair to say, Imperial expertise is going to the bolts of that factory, prepared to invest in it. We are already starting to see some element, early days yet, but the run rates starting of cost reductions in that factory, so that’s been a positive. The overall markets in the US declined about 3.5% last year. Commonwealth declined slower than that obviously which was good for the brands. Another brand was launched called Tuscany, which in fairness was on the stocks before our acquisition. And of course they have been hugely helpful in our MSA preparation for the Imperial, not the Commonwealth registration. So we are now in a position of advanced readiness ready to roll out our brands, as soon as the MSA application is successfully concluded. And we expect that in the very near future. So overall it's been a very busy six months for the Commonwealth people. I think we are extremely impressed by the bench strength of talent that they have gotten. And I think we can only see upside going forward.

David Hayes – Lehman Brothers

Okay. And just second question, just on the stock build in Central Eastern Europe. It seems quite early to start building up ahead of January and September, obviously into August September potentially. Can you just talk about, if that’s the norm or whether there's anything special driving that particularly into how that plays out. Thanks.

Gareth Davis - Chief Executive Officer

I am afraid, it has become? I mean, the bad news is, I am afraid, it has become the norm, in those Central European accession countries. The good news is, as soon as they end their derogation, then that’s likely to stop. We were hopeful that it would stop this year but there was a last change of mind or ranks were broken, whatever it is, but something changed. And the fact that stock loading, stock building has started again, in readiness for those January tax changes.

So it does have this effect on our cash flow for a couple of months that unwinds in due course. But it is unfortunate, unnecessary and hopefully the sooner it comes to an end, the better for us and indeed for all manufacturers and I believe the trade. So I look to forward to it ending, but I am afraid it’s here for this year still.

Iain Napier - Chairman

To pick up a point of why September, that seems to be way, way ahead. You have seen that actually now for almost two years we have been growing volumes. I mean part of the thing in terms of investments just to, for an example, investment in Central and the Eastern Europe, is trying to get it from working seven days a week to 24/7 to working five days a week. Well, having put that investment in, we are now looking at another phase, because we are still working 24/7 and it comes down to the ability, just the amount of headroom you have in terms of your manufacturing footprint. There would be no way that we could produce the amount of stock required for example in the four weeks leading up to January. So we are just having to phase it in, when we have got room in our production schedules, frankly.

Gareth Davis - Chief Executive Officer

Okay, a little jump, and there are a couple in the middle, sorry. Ladies first.

Elise Badoy - Goldman Sachs

Elise Badoy from Goldman Sachs. Two questions. The first one, I don't if there is any even minor costs associated with the changing timetable for Altadis, in particular, on your bridge loan. I don't know if there is anything associated with that, any option on that?

And secondly, on the day [ph] you came out, you have had a fabulous margin progression this year, again actually because it is a couple of? it is actually a few years really. So what should we expect from there because of course a lot of the margin progression should come from the other but 64% I mean, can you do much, much better than that?

Gareth Davis - Chief Executive Officer

I feel compelled to let Bob answer that. Over the years he's said it's about as good as it gets. So I will give him that hospital pass now. And I think also you can cover the cost, if any cost of delay in the Altadis.

Robert Dyrbus - Finance Director

Surely. I will tell you what, shall I take the UK margin first? The reality is, our business model which effectively U.K., we said, we see a gradual volume decline as we do see pricing opportunities. So if you like, we will get topline revenue and we are gaining shares. So we get topline revenue growth, the business model holds off, reduces unit costs. So let's say we hold costs. So that says, maths means, the margin will improve slightly. So I'll conceded that now, but it can get a little bit better because the business model after ten years of trying still holds good. So I will relax my, 'it's as good as it gets' to 'they will ease up slightly.' That's the first one, that's a good one, isn't it.

In terms of the cost, there are minor costs involved in terms of the Altadis acquisition. One of the things is, of course, in terms of the equity content while we launched the bid back in July, on the day we went back into the CNMV, we had to put up walls [ph] in place, so we are paying effectively margins on those costs but those will be, a large chuck of those will be rolled up into the acquisition costs. So they are minor in terms of the total deal. And obviously in terms of the bank facility, those we've actually, the loans we have drawn and the ones we have syndicated, again, we had upfront cost but those will be amortized when the loans will be actually drawn down.

I suppose in total we have probably? there's been, I don't know maybe £20 million or £30 million of embedded cost so far. But that's not all going to be revenue costs. Some of it will be taken over the life of the loan, when loans are drawn down. Effectively, it's the accounting treatment that's required under the IFRS. You have to take some of the costs out and just amortize them over the lengths of the loan, be that three or five years, I'd say, go forward.

Gareth Davis - Chief Executive Officer

I think the only point, I would add to Bob's point on margin is that I think it's not only the U.K. but I think the overall company margin, we're very pleased with this year. I mean, we have seen positive movements just about everywhere. And the rest of Western Europe some strong margin growth coming up now, not at U.K. levels but very positive momentum. The U.S., a debut margin of you know 44.5% was very pleasing. And I think what was particularly pleasing was a very significant jump in our Rest of the World margin. So, and we've still got more to go for. So I think on the margin front, we are very pleased, because that sort of tells us that our model works, as it were. Jonathan, please.

Jonathan Leinster - UBS

Jon Leinster, UBS. Couple of things. First of all, with America excluding Commonwealth, when you when you acquired it, you said that you would get to an organic EBITDA of around £50 million by sort of 2009. Given the slight delay in the signing of the MSA and given where the dollar's gone, does that sort of still hold true?

Gareth Davis - Chief Executive Officer

Pretty much. I mean it’s not the? in fairness what we said at the time, the MSA could take up to 12 months. I think as we sit here today, we're 13 months since the application. So we're look at a month slippage from the outer regions of our plan. But bear in mind as well the Christmas, New Year period is not a good time to be launching, we want to be well before Christmas or not bother. So if we go into sort of January-February time, we are not going to have lost that much time; a little bit, but not material I'd have to say.

Jonathan Leinster - UBS

Particularly, just following up though, therefore you sound very confident now the MSA will come in weeks. Well what has, what has changed to give you that sort of confidence that it will definitely be in the next few weeks?

Gareth Davis - Chief Executive Officer

I think it's fair to say that obviously we’ve been dealing with the NAGS, as it were, National Association of Attorneys Generals, and obviously they? that’s a good one, I'll remember that one for the future? but also some of the individual settling states and the progress has gone pretty well. But, I think it’s probably for the MSA, we are probably the most complex CICA, as it were, of registration given that we are foreign company, obviously quite a complex structure. This all has to be gone through with the NAGS and the individual settling states. We've got a very good working relationship with them, we have made very significant progress and I think we are very close now to, to put in that one to bed. So, I think based on the evidence we have today with the settling states, and as I say the Attorney General in general, based on that relationship gives us that optimism.

Unidentified Analyst

And also, sorry, could I comment as well. Just to clarify one other point. You were talking about the £50 million and Gareth spoke about things you were doing. You were talking there about the brand side but in an earlier comment, you actually commented on some of the manufacturing savings that were coming through. So, we've got those too, if you'd like to come up to the £50 million, help it with the £50 million, so a mix up of those is, I think unpaid [ph].

Gareth Davis - Chief Executive Officer

I think?

Unidentified Company Representative

We need that £50 million includes the cost savings.

Unidentified Analyst

I am saying that, what we are saying is? Gareth said one wasn’t material, we didn’t take any significant cost savings into, and then, but we are seeing the start of things and so we are, we are confident of the £50 million as where we are at the moment.

Unidentified Analyst

And also, I am sorry Philip Morris International claimed that their market share was somewhat depressed in Germany in the Q3 period, because one of their major competitors was sort of major trade load in that quarter. Has your market share depressed in Germany for the similar reasons?

Gareth Davis - Chief Executive Officer

I think our market share in, in Germany was pretty much the norm, really. I mean we saw some growth in JPS and some further decline in West. So it’s relatively a stable situation for us other than new launches like Route 66, where there was obviously deliveries starting to be made, but I don’t think there was a anything abnormal at all about the situation, so.

There was couple more on that row, I don't know, I am sorry, I'll come to you in a minute. John, were you among them, okay, all right. Sorry, sorry Erik.

Erik Bloomquist – JP Morgan

Hi, Erik Bloomquist, JP Morgan. A question on Rest of the World, terrific growth this year. But I am wondering with the increase in taxes we are expecting, what that means in terms of both the growth, profits and the margins levels in key markets like Poland?

Gareth Davis - Chief Executive Officer

I think Erik if you, if you look historically at situations in the tobacco industry where there has been, and where there continues to be a regular sensible increase in excise, it tends to be quickly followed by a regular sensible increase in manufacturers' price increases. One tends to find that margins grow in those jurisdictions. So I think, going forward, from what I see and if you were to take developing markets, as prices increase, I think margins will increase and the other effect is the down-trading dynamic starts to kick in. So the positives we see there is obviously from our points of view we have a good clutch of economy and value brands which do very well on the back of down-trading and of course the roll-your-own and make-your-own situation. I think Central Europe is a classic model this last year, where it took a certain level, a certain tax and price level, for roll-your-own and make-your-own segments to actually kick into life. And it's done that with a vengeance over the last 12 months and we have taken very significant advantage of that into with some huge shares now in the roll-your-own segments and make-your-own segments of those markets. And that will continue. I think that model is self perpetuating.

Erik Bloomquist – JP Morgan

And then the second question on the United States. Did Imperial take a price increase in September along with the other major manufacturers, Commonwealth?

Gareth Davis - Chief Executive Officer

Sorry. I think it was actually ineffective, it was reduced discounts, the price increase

Erik Bloomquist – JP Morgan

The price increase.

Gareth Davis - Chief Executive Officer

Yes. And there was one more on the second row and then I will move to the other, sorry.

Unidentified Analyst

Thanks. Bruce Davidson, Luall [ph]. Question on Davidoff, you indicated that profits had increased by 13%. I wonder if you would like to tell us what that number actually amounts to millions of pounds. But equally or perhaps more importantly, what has driven increase in profitability of that brand and where are the most important markets for it?

Gareth Davis - Chief Executive Officer

Okay, we don't break the profits out by individual brands. So I am afraid the answer to the first question is no.

What have we done? I think two things really. One is, we have increased the number of variants. You may well have seen around Davidoff Black and White which is at a premium price, to Davidoff Premium Line, tends to be the most expensive cigarette wherever it is. We have also introduced Davidoff Rich Blue, and significant investment in Davidoff Slimline. So that's from the portfolio side of it.

And then of course is the geographic expansion. Going into more new markets, I picked out Canada, Mexico, but there are several more in Africa and in Eastern and Central Europe, where we have pushed Davidoff harder and, not least of which is Turkey, where we saw a 32% increase in Davidoff volumes. So overall, it's been very successful. And I suppose it's that positive upward mix towards

Davidoff Black and White, and going into these countries has produced that increase in profitability. I think the positive thing, I would say, I think as we see so much more to go for in Davidoff, we really do think it’s got huge potential.

Unidentified Analyst

Thank you. And just one sort of picky thing on the tax payment. This year it's just about equivalent to the tax provided. Is that likely to be the pattern?

Robert Dyrbus - Finance Director

Well, over the long term, the short answer is yes. I think that you have gotten? but I mean you do constantly? with tax, it’s a question of when payments fall due, and also at various times you are always talking to tax authorities and you're going back years and payments come in and go out. But it should broadly equate it to the tax charge, maybe lagging it very slightly depending on which jurisdiction you happen to be growing in.

Gareth Davis - Chief Executive Officer

Adam. You don’t need a microphone.

Adam Spielman - Citigroup

Hi. Thank you very much. Couple of questions just following up on some of the other ones we have had before. First of all, in the US, can you talk about what your pro forma organic performance would have been like. So if you think about in dollars, and you said you are gaining market share but actually volumes are declining. There’s been a nice price increase.

Gareth Davis - Chief Executive Officer

I mean, marginal, not much. I mean, the market declined about 3.5% and the Commonwealth volume declined about 3%. So, slightly better than the markets performance.

Adam Spielman - Citigroup

And my guess is you have got a little bit of mix, but you have got the price. Does that end up with organic sales growth or an organic--?

Robert Dyrbus - Finance Director

I'm sorry, Adam, when you are talking about organic, you are talking about Commonwealth?

Adam Spielman - Citigroup

Commonwealth.

Robert Dyrbus - Finance Director

Rather than? we are saying, we have the papers and tubes business...

Adam Spielman - Citigroup

Yes. Yes. I got that point.

Robert Dyrbus - Finance Director

But I think, I would have? gosh, short answer is I don’t know but it was about 11% up into half year on an organic basis. So I think that would have been profit growth?

Gareth Davis - Chief Executive Officer

It was about 10% profit growth. Mostly.

Adam Spielman - Citigroup

And the other question coming back to the change in competition, you've said the pricing is better in Western Europe. My understanding is that it’s a lot better in Central and Eastern Europe, if you could just comment on that, and confirm that. And equally, how the situation in the U.K. looks with a new competitor? My understanding is that sequentially you are perhaps losing market share fractionally at the moment but maybe my base is wrong.

Gareth Davis - Chief Executive Officer

I think we start with the U.K. in terms of? when you say sequentially losing market sharer, you mean one month is up, one month is down.

Adam Spielman - Citigroup

Yes I mean if you look at the year, my understanding is nice market share gains are going to be slightly fractionally rolling over towards the end?

Gareth Davis - Chief Executive Officer

I would say May, June, July we lost a wee bit, and then we gained it back in August and September. So the latest plus, I mean, growing again to round about 46.5% mark in terms of share. So we don't see a lot of change there. Obviously we got the fastest grower with Windsor Blue as well. I don't think we are seeing any what I would call, significant change in the competitive climate in the U.K. market. We do? obviously BAT introducing Pall Mall in the market, Callahan [ph] and other new, but we haven't seen you know anything I would say to cause any great concerns about say any great shifts in the competitive position in the U.K.

I think if one looks at Central Europe, I think Ritchie Gutler [ph], the Director of centrals Europe's here, I think fair to say, it's bits and pieces in the sense that Poland, I think is a lot more positive than it was, should be a hugely profitable market, is at least getting profitable now. Czechoslovakia I think we have seen improvements and indeed in Hungary.

So obviously, it's been some years in coming. We have been bemoaning the situation in Central Europe for a couple of years, it's very pleasing to see that things are looking on the upside there now starting to resemble normal rational markets. And you can see that carrying on over the next couple of years.

Adam Spielman - Citigroup

Ukraine and Russia?

Gareth Davis - Chief Executive Officer

Well in Ukraine we are certainly seeing, we are seeing a lot of what I would call very deep discounts, brands of the bottom withdrawn. That has happened in the last six or seven months. So the profitability of the Ukrainian market is improving.

I think in Russia, I think it depends on what your portfolio is like. We've held our share in Russia. We have invested quite a lot of money in brands in Russia this year. So we have actually put back more into it than we have taken out, as it were. I think there is general up-trading but we still have a situation where I would say, Russian margins still in the main, don't even approach African margins. So still a long, long way to go in Russia on margins to get to what we would look for by international standards. But it's going in the right direction.

Adam Spielman - Citigroup

Thank you.

Gareth Davis - Chief Executive Officer

Any more?

Jonathan Fell - Deutsche Bank

Hi, it's Jon Fell from Deutsche Bank. In the market we haven't talked much about yet for pricing given it's improving in most other Western European countries as is Germany. Can you talk a little bit about how you see things developing there. I think I am right in saying, was there a big pack price increase in sort of October?

Gareth Davis - Chief Executive Officer

Yes. I suppose it's what the experts call technical price increase. In the big box 24s, the price was increased by 10 cents per pack, and that was in, Ritchie, correct me, was that June? Sorry it's

effective, it's starting now, yes. But it was announced in June. So that's taken place. And also one of our competitors I think has just announced price increase on a 100 millimeter.
So what we are seeing at the moment in Germany is what I would call segemental increase, rather than general market increase, I think it's fair to say.

Iain Napier - Chairman

Having said that, big box 24s is about 30% of the market in terms of volume.

Gareth Davis - Chief Executive Officer

So it's a sizeable, and welcome effect.

Jonathan Fell - Deutsche Bank

And just a quick question on the cost of funding, Bob, I think in the statement or the well the presentation you said, your all-in average costs of debt's gone up about 5.5% and 5.4%. Are we still all right to be sticking 5.4%, 5.5% in the next year after Atladis is done as well?

Robert Dyrbus - Finance Director

Yes. I think in terms of our cost of funding, I would say that's a reasonable assumption, assuming that we don't see base rate go up through the roof. So 5.5% is still, I would say a reasonable cost of funding, for the group, going forward.

Jonathan Fell - Deutsche Bank

Thanks.

Gareth Davis - Chief Executive Officer

Okay any more?

Unidentified Analyst

Robin Smith [ph] with JP Morgan. Just two questions again on Germany. First, the decline in the share of private label, has that gone the way you thought it would? Has it taken? is it slower than you thought it was? And then just a general question about profitability, where are profits going to go now for this business? Obviously you have seen a big slump in profits. Do we see rapid recovery or is it going to be a long haul, two or three or four years to get back up to the level you saw last year, just a general overview.

Gareth Davis - Chief Executive Officer

The situation, first of all, I mean, private label is, I mean what we saw during the year was a share of around 13.5%, and I think ended the year right about 12.5%. So coming down, one would say. I think for part of the year, that's somewhat of an advantage because they were actually late, slower, not by accident, no doubt planned, but their take up of the last price increase was quite slow. I think it's fair to say that about a five months advantage on the shelf prices, and so they gained a bit of share back in that period. And then since the price increase was taken, the shares had come back to 12.5% and trending downwards. In fact I think the spot share in September was round about 11.5%, if my memory serves me right. Obviously some of them are only, some of them only sell private label like Albie Sud and Label [ph] et cetera. So did you want to want to add something?

Robert Dyrbus - Finance Director

There was a benefit, and obviously we saw, if you likely, the decline rate, it was effectively flat and then over some of the months almost grew a little because of the transitioning from Singles, because Singles smoker is very into cigarette, we are obviously going into the value end of Singles and private label. So if you like and I think what we are now seeing is, if you like, the previous trend lines starting to reassert itself

Gareth Davis - Chief Executive Officer

And in terms of profitability, in Germany I think from now I think with the migration of Singles just about flush through. I think we have seen the worst of the issues in Germany. I think things start to get better. I don’t see it as? unless there is a general price increase, manufacturers' price increase, I don’t see the sort of six months from one year return to the previous profitable heights that we had. We are probably looking at a more of a two year gain to get back to that. But I do see it within, one defines the short term as a couple of years, getting back to at least previous levels. And with the cost based optimized, then really I think, more upside for Germany now than downside going forward. Hopefully the governments can help get control of this cross-border flow. There are some encouraging signs that the rate of increase is slowing quite markedly now. So if we can start to attack that 22% base, then obviously there's still a hell of a lot of people in Germany smoking. So there's a lot of potential there for the manufacturers to gain share and volume.

Elise Badoy - Goldman Sachs

Elise Badoy from Goldman. Just a follow-up question. On Lohista [ph], from the January expected date that you have given us for completion, what’s the timetable for Lohista, when do you have to make a decision?

Robert Dyrbus - Finance Director

Basically from completion there is a three month window, so by the end of that three month period, we either need to have made a tender offer or sold down to under 30%.

Elise Badoy - Goldman Sachs

Okay, thanks.

Unidentified Analyst

I just have a very quick follow-up, in Belgium the pictures you mentioned is being rolled out. Can you just talk about any trend changes, I mean it seems to me that it doesn’t seem to impact, but is that what you see, or is there something untoward happening to the introduction of the pictures?

Gareth Davis - Chief Executive Officer

As far has we have seen so far, the same conclusion as we have had, the pictorial seems to have more effect on non-smokers than smokers. And what’s new is that some of these regulations, I think the situation as we have seen in Canada, Singapore, Brazil where pictorial health warnings have come in and they have had little or no effect that we can see.

Unidentified Analyst

And cost increment about what you expected there as well?

Gareth Davis - Chief Executive Officer

Yes. In fact, it's probably a little bit better than we thought as we have had the time and obviously if one looked at then scale, it’s probably a little bit better than the now original worst fears. So the cost of manufacturing I think I'd say, they've come in a little bit lower.

Unidentified Analyst

Yes, hi. Two questions. One on the rest of Europe, I mean profits there have been relatively sort of stable for the last few years. You are gaining shares in cigarettes, but travel retail and fine cuts are going down. When does that sort of play out, when does the trade opportunity of what’s going up, what’s going down play out, so that you can start to get company average profit growth out of rest of Europe?

Gareth Davis - Chief Executive Officer

Well that’s a good question. And I think I am going to take a? there’s a little speculation in my answer, I suppose. But if one looks at the situation, the great variable in this is travel retail, which can be quite volatile, and certainly we have seen the last couple of years travel retail sort of coming down. I think we are probably at a situation now where we have reached, where we are going to reach on that situation. Probably fine cut, got a little bit more to go, and less in travel retail or reduction in travel retail. But in the next couple of years I'd see it sort of, coming to some sort of equilibrium in that

situation. Obviously going forward, with Altadis absorbed it et cetera, the visibility becomes a little more difficult on that. But I think over the next couple of years, we will see that travel retail effect sort of reaching that equilibrium. And then I think we will start to get a clearer position.
If we look at the overall cigarette volume growth in the rest of Western Europe, it was very good and the underlying profit growth in the rest of Western Europe on cigarette was about 8%. So it’s looking quite good, apart from these fluctuations caused by travel retail. I think the underlying performance within the market is very sound.

Robert Dyrbus - Finance Director

And there was a bit of a drag this year as well because of the euro affecting the terms of the, some of the product brickbats [ph] for example, the sterling input and Euro sales. So of the £5 million I talked about effectively there was a £7 million
revenue impact £5 million profit impact, in terms of the rest of Western Europe.

Unidentified Analyst

And the other question’s on cash conversion. Even adjusting for the stock bill it’s a bit down from previous levels

Robert Dyrbus - Finance Director

Well, yes, it is. Basically it’s I think it was 81%. If you have seen, and I would have seen working capital would be flat so that £194 million would take the conversion rate to about 94%. It's still a few million short, but again, we were talking about significant investment, not total investment. But we are talking about investment of some £20 million in terms of equipment in Central and Eastern, well Eastern Europe, sorry, to expand capacity there. We put a primary into Volgograd and some new machinery into both Volgograd and Kiev in terms of expansion behind that. We put some new style, machines for some new styles, things like Slims and Superslims. Again if we can’t, if we don’t have the kit to make them, we have to invest. And we had £14 million on the Taiwanese factory. So in those three you have got what, £40 million, £50 million. So if you just add those two together, that’s a 100%, in fact a little better than 100% cash conversion.
So it’s there or thereabouts. It’s a nice problem to have in terms of, if we are increasing volume, we do need certain new kits. The good thing about it is, one machine fully loaded will pay you back for something less in the year, in terms of the amount of profit it generates. So I suppose you could call it a consumable if it were stationary company.

Unidentified Analyst

So do you expect cash conversion of a 100%?

Robert Dyrbus - Finance Director

Next year I would expect more than a 100% because of course £194 million pounds will come back. So the £194 million is there at this year end and absent?

Gareth Davis - Chief Executive Officer

Assuming this is the last year of loading. And, I think we have potentially got to you because of the derogation of [inaudible].

Robert Dyrbus - Finance Director

Some of them would be there, just depends on the?

Gareth Davis - Chief Executive Officer

We would hope that loading stops over. We'd love to see the end of it.
Okay. Ladies and gentlemen, if there are no more questions, thank you very much for joining us.