Gareth Davis, Chief Executive

Good morning ladies and gentlemen.

It is with great pleasure that I welcome you to our Ain Harrouda factory here in Morocco. As you know Ain Harrouda, and our business in Morocco, became part of Imperial with the acquisition of Altadis in January of last year.

We have a great business here with great people, and the outlook is very positive. I am sure everybody here will make you feel very welcome.

Over the course of the next two days you will hear presentations on our strategy from Alison, our Africa and Middle East Region from Colin Matthews, our Regional Director for the area, our Moroccan business from Larbi Bellaha the Chairman of our business here and Martin Carroll our Country Manager, our US cigarette business from our US Country Manager Jonathan Cox, and finally, manufacturing from Gary Aldridge.

In addition, there will be a tour of our factory facility hosted by Laurent Chabanne.

Tomorrow will be set aside for a series of round-table discussions on the main areas of our business not covered today; Western, Central and Eastern Europe, Australasia, Cigar, and Logistics, and will be hosted by the respective regional or business head.

There are a number of senior Imperial managers here. I know you spent time with them last night but please take the opportunity to meet and talk to as many of them as you can over the next two days.

Turning to group matters, you will be aware of our bond issuance a couple of weeks ago when we successfully placed a three year Euro bond for 1.25 billion Euros and a ten year Sterling bond for 500 million pounds.

Following these issues we estimate we need to refinance around a further 800 million pounds before July 2010, which is almost exclusively headroom. After that our next financing round is due to be completed by July 2012.

As regards current trading, we continue to trade in line with management's expectations.

I hope you enjoy your time here. I always do, and learn more about our businesses around the world.

With that I'd like to hand you over to Alison.

Alison Cooper, Chief Operating Officer

Good morning ladies and gentlemen. Over the next thirty minutes or so I'd like to talk about our approach to sustainable growth and how we will continue to apply our growth model to ensure that we maximise our growth potential.

Our 10 Year Track Record – significant value creation

Our track record of value creation has been impressive over many years and has been driven by the successful application of our strategy – to grow our operations organically and through acquisitions.

Our strategy is underpinned by three core objectives – sales orientation, cost optimisation and effective cash utilisation.

These are hallmarks of Imperial, they will continue to be key growth drivers in the future, and I'll talk more about each of them later.

Over the last 10 years, consistent organic progress, supported by value creating acquisitions, has delivered compound annual growth of 18 per cent in profits from operations, 16 per cent in earnings per share and 14 per cent in dividends per share.

We have generated over 11 billion pounds of profit, and our focus on maximising cash conversion has enabled us to convert 90 per cent of this 11 billion pounds into cash, and to return 4 billion pounds to shareholders through a combination of dividends and share buybacks.

We focus on growing our top line through a combination of volume gains and pricing, which coupled with effective cost optimisation and cash utilisation, should enable us to extend our track record of annual organic earnings growth of mid to high single digits consistently over the long-term.

Acquisitions – supported value creation

Our acquisition record is well known, in the last 13 years we have invested more than 17 billion pounds in acquisitions, from transformational deals such as Reemtsma and Altadis to smaller bolt-ons.

And we have consistently demonstrated our ability to swiftly integrate acquisitions, extract the synergies and maximise the value.

Altadis is no exception - synergy targets will be delivered as promised and on time, and we will continue to focus on top line growth opportunities offered by Altadis, leveraging our enhanced portfolio and geographic reach.

Annualising the first half of 2009, we estimate Altadis is already generating a post-tax return in excess of 6 per cent, with further top line and cost synergies still to come.

Total Shareholder Return – delivering shareholder value

The successful application of our growth strategy has created significant value for our shareholders over the years, and will continue to do so in the future.

These returns have been supported by disciplined cash utilisation with excess capital being returned either in the form of dividends and, when the timing has been advantageous to shareholders, share buy-backs.

With dividends re-invested, 100 pounds invested in Imperial 10 years ago would now be worth 450 pounds compared to just 107 pounds invested in the FTSE all-share index.

Total Tobacco – balanced comprehensive portfolio

Our strategy has also transformed Imperial into the most total tobacco company in the world.

By that, I mean that through targeted investments we have developed the most comprehensive and balanced brand and product portfolio in the industry, which considerably enhances our growth opportunities.

Our international strength in cigarette is supported by world leadership in cigar and fine cut tobacco, papers and tubes, and a small but growing snus business.

Our portfolio includes strong local, regional and international brands with comprehensive representation across all key price segments within individual markets.

Diverse International Footprint – balanced operating platform

We also have an international footprint that enables us to maximise the potential of our brands. This map highlights the countries and regions which contribute most to our current success and the ones which we consider key to our future growth potential.

We now have considerably stronger positions in both mature and emerging markets, and this balanced operating platform provides stability and creates future growth opportunities.

We are now the second largest cigarette company in the European Union, including being the market leader in the UK and Spain, and a strong number two in France and Germany.

In the USA, we now have an established position in cigarette and fine cut tobacco, complementing our leading cigar position.

We have also enhanced our presence in emerging markets, significantly improving our growth opportunities in a number of territories, particularly in Eastern Europe, Africa and the Middle East.

Core Profit Centres – cash flows enable sustainability

Our core profit centres of the UK, Germany, Spain and France account for around half of our Group profit.

This slide shows the strong market shares we have in each of these markets, which provide stable and consistent high quality cash flows, and these cash flows have greater potential to grow than some may think. In 1996, our last year pre demerger, our UK business made an operating profit of 303 million pounds. In 2008, our UK operating profit was 570 million pounds, representing growth of 88 per cent, even more impressive when you consider that cigarette market volumes declined by 44 per cent over the same period.

These cash flows are the foundations of our operations and are key to ensuring the longer term sustainability of our business. They provide a significant source of dividends for our shareholders, and ample and growing cash flows with which we can further develop the business, either through acquisition or through funding organic growth.

The stability offered by the UK enabled us to develop and diversify through acquisitions such as Rizla, Van Nelle and Tobaccor - adding new products, brands and markets to our business. Germany became another key profit centre following the Reemtsma deal which also gave us an expanded footprint in Central and Eastern Europe as well as Davidoff and West, and Altadis has since added Spain and France to our platform of core markets and Gauloises, Gitanes, Fortuna and the Habanos brands to our portfolio.

Mature markets are valuable, they provide stability and growth in a changing macro environment, and they help create a virtuous circle of shareholder returns, but more of that later.

Current Environment – well suited footprint and portfolio

Our enhanced footprint and brand and product portfolio are well suited to the current environment.

Looking at the industry landscape as it stands today, after a 10-year period of intense consolidation we are left with the four strongest international tobacco companies, who now compete against each other on a global scale.

The last decade has also been characterised by increasing regulation, particularly in mature western markets where legislation on tobacco advertising, health warnings and smoking in public places is commonplace.

Litigation has persisted, primarily in the USA but also in other territories, and excise duties have risen, especially in developed markets.

And of course, this is all now set against the backdrop of one of the worst recessions we've ever seen, and one that may last for some time.

Whilst this presents us with challenges, our business model and the strength and capability of our management team has enabled us to successfully manage these issues over the years whilst delivering substantial increases in shareholder value, and we are confident we can continue to achieve this in the future.

Current Environment – global tobacco volumes stable

Despite these pressures, the world tobacco market is broadly stable.

Although tobacco consumption is expected to continue to decline in mature markets, with the percentage of smokers within total populations reducing, the number of adults in the world is expected to grow - particularly in emerging markets such as Africa and Asia.

As you can see from the chart, we expect to see an overall global consumption of around six trillion cigarettes a year which remains in line with historic trends and is broadly unchanged in the medium term.

Consumer shifts – revenue growth opportunities

However, what will continue to evolve are the demands of consumers.

Consumers will shift - there will be downtrading in mature markets, within cigarette, from cigarette into fine cut tobacco and now also increasingly within fine cut tobacco itself, as well as uptrading in emerging markets.

Uptrading may be slowing in some markets but downtrading is ongoing and we will continue to anticipate and respond to these consumer trends in order to capitalise on growth opportunities.

Whilst total market volumes will remain broadly stable, pricing will drive increased industry revenues and profits.

Key Growth Drivers – building blocks of our business

I mentioned our three key growth drivers earlier – sales orientation, cost optimisation and cash utilisation.

We are a sales led business, we seek to optimise our costs, and the hard work of our operational teams generates substantial cash flows, which we utilise to create additional value for shareholders.

These are the building blocks of our business and continuing to deliver a strong performance in each of these areas is critical to our future success.

Let me take you through them.

Sales Orientation – portfolio key growth driver

I'll start with sales orientation.

Our brand and product portfolio is the key asset we leverage to drive sales, and we ensure that individual markets have the flexibility to align their local portfolio to specific local market and consumer dynamics, within a Group strategic framework.

Much is made of our strength in value for money brands and products – and there's no doubt that this provides competitive advantage in the current climate.

But there's more to Imperial than value offerings. Our total tobacco focus has created a versatile portfolio, which also includes a broad range of top end and mainstream brands and products allowing us to be present in all the key price points in any one market.

However, our portfolio approach is only part of the story – in order to be truly consumer responsive and be able to react swiftly to evolving market dynamics we must also optimise our supply and deliver excellence in trade marketing.

Sales Orientation – excellence in execution

Successful trade marketing is becoming increasingly important as markets get darker, and is geared around making our brands available, impactful and appealing to consumers.

Philosophically, our trade marketing approach is simple – "putting the right product in the right place at the right time" – which is not as easy as it sounds, and is certainly much more than a salesperson driving around with a computer terminal visiting retail outlets.

For us, trade marketing begins with extensive trade research and planning, considering a whole range of variables including shopper behaviour, account profitability, margin chain analysis and working capital implications, to name but a few.

With this analysis we then plan for effective and efficient market coverage.

A strong, well trained and motivated field force supported by effective account management creates the sales excellence we demand in order to maximise our potential with the trade.

And, we have to be influential in the shopper's decision making process, merchandising, in-store furniture, space planning and category development are all key to making the shopper choose our products.

The success of our sales strategy in our high profile core markets is well known. In Germany, for instance, we have led the way in developing innovative OTP products, and were instrumental in creating the fourth price tier in cigarette with JPS, which has since gone on to establish itself as the number two cigarette brand in the country, with a market share that continues to grow.

However, much of our work is not as visible, so I'd like to highlight our strategy at work outside of our core markets by looking at our success in the Netherlands.

The Netherlands – agility drives margin progression

We are the white stick market leader in the Netherlands with around a 30 per cent share. It's a highly profitable market for us and a good example of our total tobacco approach in action combined with our trade marketing excellence.

Over the years we have developed a powerful portfolio of brands across all product categories and price points, and our agility in responding to changing dynamics has enabled us to double our operating profit over the last eight years.

Like other mature markets, The Netherlands has been impacted by regulation and irregular but significant excise increases.

Having the right skills and expertise in-market enables us to effectively manage these issues, and also assess how they influence market dynamics and local consumer preferences.

The Netherlands is home to the largest fine cut tobacco market in Europe and we have a long held market leading position with a 50 per cent share.

Our portfolio strength at the top end of the market with Van Nelle and Drum is now complemented by a growing presence in the value sector as we have continued to take steps to capitalise on consumer downtrading.

Our key value brands Zilver and Evergreen have captured around 6 per cent of the market, and we expect our share to grow further following the recent launch of Drum Economy.

Positioning our portfolio to take advantage of cigarette downtrading has also been important in maintaining profitability. West and JPS were launched as value offerings around five years ago and between them the two brands now account for around 10 per cent of the market.

More recently we added Fortuna to our value portfolio. This was after consumer research had shown a high market awareness of the brand, reflecting Fortuna's strength in Spain – a major destination for Dutch holidaymakers.

The market has not been without its challenges – regulation, excise, fine cut tobacco share pressure – but we have successfully grown profits with our sales orientated approach.

Sales Orientation – optimising brand portfolio

Looking at our brands, we are particularly focused on driving the international growth of our two most important global brands, Davidoff and Gauloises Blondes. Both have been growing strongly and grew by 9 per cent and 11 per cent in the first half.

We have recently launched Davidoff in Morocco and Davidoff Superslims variants in Central Europe, while Gauloises Blondes is now available in a number of new markets, including Slovakia, Serbia and Romania.

We have a number of other brand development initiatives in hand for Gauloises Blondes including a premium variant which we are currently testing in Austria, and a 1mg variant for the Middle East, where demand for cigarettes with low tar yields continues to grow.

Clearly, we have other key cigarette assets in Fortuna and Gitanes Blondes where we see further opportunities, building on the Spanish heritage of Fortuna, and looking to widen the appeal of the iconic French brand Gitanes.

We are active across our geographies, ensuring that our brand and product portfolio remains dynamic and relevant.

Looking at a few examples in fine cut tobacco, in the USA we are currently applying our expertise in expanded tobacco technology, which will improve our competitive position in fine cut following the Federal Excise Tax increases.

And, our initiatives in fine cut have increasingly focused on strengthening our position in the value segment to respond to changing consumer preferences, such as the recent launch of Golden Virginia Yellow in the UK.

In other markets traditional fine cut tobacco products are no longer meeting evolving consumer preferences. In Spain, for example, we have re-aligned our portfolio to reflect these consumer shifts with the launch of Fortuna and Ducados Rolling.

Across the business, it's a blend of local insight within the global strategic framework that drives smart portfolio choices to optimise the portfolio in each market.

Cost Optimisation – integral to the business

Our second core objective is to optimise our cost structure.

Costs are not necessarily bad. Cost optimisation means we seek maximum returns from our spend, focussed on efficiency improvements and supporting sales, increasing investment where we believe it adds value.

It's often been said that cost optimisation is part of our DNA and from Day One of the enlarged Group we have been instilling this across Altadis.

We've always been ahead of the game in terms of our cost and efficiency programme but that doesn't mean that there's nothing more to go for.

Our current priority is to achieve our integration synergy targets whilst driving business simplification initiatives and productivity improvements across the enlarged Group.

The review of our global manufacturing portfolio is also ongoing, as you will have seen last week with the closure of our Tampa cigar factory. We will maintain a particular focus on addressing surplus capacity whilst ensuring that we remain agile and responsive to changing consumer demands.

Cash, Debt & Working Capital – strong cash generation

To be truly effective, cost optimisation has to go hand in hand with working capital management.

We focus on all aspects of working capital and current examples include closer alignment of finished goods stocks to trade demand and optimising tax stamp levels on a market by market basis.

Working capital is a key component and variable of any company's cash flow, but is also one that can be overlooked as it does not impact operating performance, and that's why we now link our management incentive schemes to both profit delivery and working capital reduction, thus helping ensure that cash remains a key focus of the business.

Overall our business is highly cash generative, a combination not only of effective working capital controls but also of disciplined capital expenditure, as well as management of tax and interest costs to ensure cash flows are optimised.

Our annual cash conversion is normally around 90 to 100 per cent, however this financial year we expect it to be above this as a result of targeted working capital savings.

By maintaining a geared capital structure we are able to add to the operational returns our business offers shareholders.

We have traditionally positioned ourselves at the “efficient” end of investment grade, and we see no reason for that to change.

Clearly the market’s view of what is efficient will change with the macro environment and we will adapt accordingly, but the basic principle of running an efficient balance sheet remains.

Clearly, the reward of gearing is higher returns, with the risk being the ongoing ability to service the debt. Tobacco is more cash generative than most industries and therefore the risk is more manageable, we can, should and will be geared.

Operational excellence feeding through to high margins, effective working capital and tax management, to create strong cash flows is only part of our remit. The value of that cash flow to shareholders is only maximised if its allocation across the business and to shareholders is highly disciplined, generating the cash is step one, step two is doing something of value with it.

Our short term focus is on debt pay down, however we also continue to make disciplined investments across the business to enable us to continue to deliver sustainable growth.

Highly Cash Generative – effective cash allocation

This slide shows the key areas of focus within our international footprint.

While the US market is clearly very mature, we have a relatively small but expanding position and see plenty of opportunities for future growth.

Moving across into Europe, our core markets of the UK, Germany, Spain and France, all provide growing sustainable cash flows which we continue to re-invest.

There are challenges for the entire industry in Central Europe but we still see growth potential and will continue to ensure that we support our strong market share positions and drive future profitability.

We are making good progress in Eastern Europe. We see further significant potential for increasing our profitability and continue to invest in this region.

Imperial and Altadis had very complementary businesses in Africa and the Middle East and we now have a very powerful operating platform in the region, with particular strength in Morocco, sub-Saharan Africa, the Levant and the Gulf States.

Our performance in this region has been excellent and we will continue to support growth with targeted investment.

We have another strong position in Asia in markets like Taiwan, Vietnam and Laos, although not our prime focus, we continue to evaluate expansion opportunities in order to extend our presence further.

Our organic investment focus in existing markets is enhanced by opportunities for further deals and strategic alliances.

Effective Cash Utilisation – supported by deals and alliances

While debt reduction is an immediate priority following the acquisition of Altadis, given our very strong cash flows we will have the headroom for further value creating deals within a reasonable timeframe. Acquisitions are something we are very good at and we are keen to do more.

Given the structure of the industry today, these are likely to be bolt-on product or market specific deals rather than multi-national deals of any great scale.

Additionally, strategic alliances offer further growth opportunities in the short to long term.

We are a trusted partner and have a strong track record of developing many successful strategic alliances and joint ventures over the years – not just with our industry peers but also with other parties around the world.

We have a good working relationship with PMI and recently signed an agreement for the manufacture, distribution and merchandising of their brands in Morocco, complementing our long-standing distribution agreement in the UK.

We have equally good relationships with other companies, BAT has manufactured product for us in Australia since we acquired our business there, and we have been working with JTI in Australia and Senegal.

Elsewhere, we have an alliance with Yuxi Hongta in China, we signed the first ever combined production and sales joint venture agreement in Vietnam with Vinataba, and are the first international tobacco company to be granted permission to build a cigarette factory in Taiwan.

It is this track record and our ability to build strong relationships whilst still competing effectively that gives us a strong position as a partner of choice within the tobacco industry. We see scope for further partnering opportunities and will be focussing on leveraging these to mutual advantage.

Virtuous Circle – investment and sustainable growth

In building on our successful track record we will continue to focus on our sales orientation, cost optimisation and cash utilisation.

Sales excellence combined with optimising our costs has created the highest margins in the industry.

High margins provide the opportunity for strong cash generation and our focus on cash has ensured we have delivered on that potential.

In turn, we have used our cash for targeted investment to generate returns above our cost of capital.

Taken together our business model provides a virtuous circle of investment and sustainable growth, and one that has consistently delivered strong returns to our shareholders.

Like Imperial, the world around us never stands still, it continues to evolve offering new challenges, but always opportunities.

We pride ourselves on the total tobacco nature of our business – as well as our agility, our local market insight and flexibility and efficient execution, a great platform from which to take maximum advantage of the opportunities as they arise, ensuring that we continue to drive returns and strengthen the long-term sustainability of the business.

During the course of the next two days I am sure the regional and market presentations alongside the roundtable discussions will provide further valuable insights to our strategy at work.

Maximising our Growth Potential

Thank you ladies and gentlemen. I am happy to take any questions.