

Imperial Tobacco Group plc

Good morning ladies and gentlemen. I'm pleased to have this opportunity to present Imperial's business to you today.

Bob Dyrbus

For those of you who don't know me, I'm Bob Dyrbus Finance Director of Imperial Tobacco and I am joined here today by Gerry Gallagher, our Director of Investor Communications. Copies of my script as well as the slides for this presentation will be available on our website, should you wish to retrieve them following the conference.

During the course of the presentation I'd like to highlight our track record, our recent operational performance and the growth drivers which enable us to deliver value consistently through all economic conditions.

Our Growth Record

Our history and track record are well known, as a result of consistent organic progress augmented by value creating acquisitions, we have delivered compound annual growth of 17 per cent in profits from operations, 15 per cent in earnings per share and 14 per cent in dividends per share since listing in 1996.

We grow our top line through a combination of volume gains and pricing. We are well known for our cost focus, which remains a key pillar of our business model, and we seek to maximise and manage our cash flows through stringent control of capital employed by effectively structuring the business for tax purposes and by adopting an efficient capital structure.

We believe these building blocks are sustainable such that we can achieve annual organic earnings growth of mid to high single digits consistently over the long-term.

Coupled with this organic model there is the potential offered by acquisitions, since 1996 we have completed over 20 acquisitions and invested a total of 17.5 billion pounds. We have delivered significant additional value from our acquisitions to date.

Altadis Integration – considerable achievements

And our achievements on the integration of our latest and largest acquisition, Altadis, have been considerable. We have successfully completed all consultations enabling us to further progress implementation of our European integration projects.

We merged the vast majority of our sales and marketing teams early in the first half and recently completed the integration of our teams in Spain and France providing a more comprehensive service to our customers.

In the first half of our current financial year, we delivered 39 million euros of incremental synergies, bringing the total so far to 82 million euros, and we remain on track to meet the previously announced target of 180 million euros in the current financial year. Additionally, of the 2,400 job reductions we announced in June 2008, more than half have already left the Group and we expect a further 500 leavers by the end of the summer.

We recently also reconfirmed our synergy target of 300 million euros for our 2010 financial year rising to 400 million euros by 2012.

Our focus on leveraging our enhanced brand and product portfolio throughout the wider geographic footprint has continued. We've increased the availability of our brands in a number of markets and achieved particularly good results with Davidoff, Gauloises Blondes, Gitanes Blondes and Fine.

I am very pleased with our achievements so far and am confident that we will continue to make good progress in the coming months.

Our Growth Drivers – resilient business model

We believe that the core strengths of our business and our strategic focus will enable us to continue to drive growth.

While tobacco is not immune from the current difficulties affecting the global economy the defensive qualities of our business provide resilience in a recessionary environment, and we should not lose sight of our ability to grow value in the good times as well.

Mature markets continue to downtrade within cigarette and also from cigarettes into fine cut tobacco, our bias towards value cigarette brands as well as our global leadership in fine cut tobacco enables us to capitalise on these trends.

Premium cigarettes provide us with significant opportunities, and in cigar we have a great portfolio and an opportunity to review the cost base.

Our diverse geographic footprint provides stability and our track record on costs is strong with working capital receiving a new focus, and finally, cash management remains a key focus for the business.

Let me elaborate further.

HY09 Overview – a good start to the year

Our resilience is ably demonstrated by our most recent results,

We increased our global cigarette volumes by 25 per cent to 152 billion sticks, driven by a combination of a full six months contribution from Altadis and many good brand and market performances. This, when combined with the performance of our cigar and other tobacco products portfolios and favourable foreign exchange translation, resulted in an increase of 53 per cent in tobacco net revenue.

Our adjusted profit from operations increased by 49 per cent to a little under 1.4 billion pounds, reflecting continued operational progress and foreign exchange benefits. Excluding foreign exchange, on a comparable basis, profit from operations grew by just over 6 per cent.

Our adjusted earnings per share were 71.8 pence, a 14 per cent increase on 2008 after adjusting last year's EPS for the bonus element of the rights issue.

HY09 Operational Highlights (1)

Our first half highlights included the successful launch of JPS Silver in the UK, complementing our existing portfolio and enhancing our market leading position. Whilst in Germany we had further gains from JPS. We will also be increasing prices across our German portfolio later this month and the minimum pack size will increase from 17 to 19 cigarettes in July.

In Spain, our domestic performance was good and we increased prices in January. In the blonde segment, Fortuna was broadly stable with Nobel and Ducados Rubio continuing to show strong share growth.

And in France, against the backdrop of a stable cigarette market, we increased shares of our main blonde brands – JPS, Fortuna, Gauloises and News.

HY09 Operational Highlights (2)

Our USA business maintained its momentum gaining share in cigarette and fine cut tobacco, and our African and Middle Eastern operations continued to deliver significant growth, with strong brand and share development in many markets.

In Eastern Europe we achieved volume and profit gains, and we delivered an improved financial performance in Asia.

I'd now like to move on to our growth drivers.

Capitalising on downtrading – our strength in value products

Our brand and product portfolio provides many opportunities for growth and our strength in value cigarettes and fine cut tobacco means that we are well placed in the current climate.

Looking firstly at our cigarette portfolio, in terms of price segmentation, just under half of our cigarette portfolio are value brands, JPS, Maxim, Classic, Richmond, Ducados Rubio and USA Gold are some of the main ones and we saw growth in many of these in the first half of our financial year. As I mentioned, highlights were the successful launch of JPS Silver in the UK and further gains from JPS in Germany capitalising on continued downtrading in both markets. Overall, JPS volumes increased by 5 per cent in our first half. Also in Eastern Europe, where downtrading is increasing, we delivered strong growth in our main value brands Maxim, Prima and Classic.

Premium Cigarette – further growth potential

Balancing this are our premium brands which make up around 14 per cent of our cigarette portfolio, and although uptrading may be slowing in Eastern Europe, we made very good progress in our first half.

We grew volumes of our main international premium brand Davidoff by 9 per cent, accelerating its 2008 growth trend. Davidoff has multi-regional appeal but has particular strength in the Middle East, where its 5 year compound annual growth rate is 44 per cent. It also has a strong domestic position in Greece and has stabilised in Taiwan following a period of decline. Additionally, we are also gaining volume and share in Central and Eastern Europe.

Gitanes Blondes and Fine are now also making a significant contribution to the premium end of the portfolio, volumes of both were up 21 per cent with strong performances in the Middle East and Africa.

Overall, we remain optimistic about the future growth potential of our premium cigarette brands and will be working hard to ensure their continued growth.

Focus on Davidoff

Taking Davidoff as an example, this slide shows a couple of innovations for the second half of our financial year. Firstly, recently launched in Russia, is a special edition of Super Slims to take further advantage of that fast growing segment. Secondly, Davidoff Fashion Slims, styled by Italian designer Luisa Beccaria, and now available in the Middle East, another key growth region for the brand.

Fine Cut Tobacco Focus – strengthening our position

Moving on to fine cut tobacco.

Worldwide fine cut tobacco volumes are growing as consumers continue to seek value as a result of duty driven price increases and changing economic conditions. Downtrading from cigarettes into fine cut tobaccos, such as roll your own and make your own products, is a common theme in developed markets, and we particularly saw this in Spain in our first half. Downtrading within fine cut tobacco is also increasing in prevalence.

We are well known as the world leaders in fine cut tobacco, rolling papers and tubes and have strong positions across Western Europe and a growing presence in Central Europe and the USA.

In fine cut tobacco, our premium brands, Golden Virginia and Drum, underpin our world leadership. However, increasingly our initiatives are focused on strengthening our position in the value segment to ensure that our portfolio is well suited to changing consumer preferences.

In the Netherlands we have done well with our value offerings Zilver and Evergreen which together have over 5 per cent of the market. And, we recently launched Golden Virginia Yellow in the UK, a more value focussed extension to the brand family to complement Gold Leaf, which now commands 3.7 per cent of the market. Additionally in Spain, Fortuna and Ducados Rolling have also strengthened our value position.

We have already taken steps to address the portfolio balance, however we have more to do to strengthen our position and take advantage of these growth opportunities.

Cigar Operations – leadership position

Based on our own estimates, worldwide cigar consumption is around 12.6 billion units, excluding Little Cigars and Eco-Cigarillos, China and India.

North America and Western Europe are the largest markets accounting for 95 per cent of global cigar sales.

With the acquisition of Altadis, we became the world leader in cigars with 24 per cent of the world market, almost twice as much as the number two player, and with sales in more than 120 countries.

We are one of only two companies with a significant presence in the two largest regions, North America and Western Europe. A substantial percentage of our cigar sales come from three markets: the US, which is the largest and most profitable, together with Spain and France. We are the market leader in US large cigars by value, and overall leader in Spain.

Imperial is worldwide leader in the Premium category - mainly because of our Cuban portfolio but also through our US business.

Cigar Brand Portfolio – portfolio management

We have a unique portfolio of cigar brands and products which has helped to consolidate our leadership position.

Through Habanos, our Cuban joint venture, we have wonderful global brand names such as the prestigious Cohiba, as well as the world's best selling premium cigar brand, Montecristo and Romeo y Julieta to name but a few.

These are ably supported by our multi-local brands which have strong domestic positions and increasing international presence such as Backwoods in the USA, Fleur de Savane in France and Vegafina in Spain.

Additionally, we have our local brands which have leading or strong positions in their domestic markets like Dutch Masters and Phillies in the USA and Farias in Spain.

Cigar Operations – challenges but opportunities

Worldwide cigar volumes have been impacted by increased public smoking restrictions and have suffered as a result of the current economic environment. However, pricing has been good and we have been able to implement price increases across our portfolio in many markets.

Our strategic focus remains on profitability and on using our innovation capabilities to adapt to the changing environment.

In line with our group-wide policy of simplification and standardisation we will be focussing on rationalising our portfolio to improve both productivity and optimise our sales opportunities. We will also be implementing cost reduction initiatives to ensure that our cigar business is well positioned for the future.

Balanced Geographic Footprint – mature and emerging opportunities

In terms of geography, this chart amply illustrates the diversity of our business. In the first half of 2009, tobacco accounted for 95 per cent of the Group's profit from operations, with the remainder coming from our logistics division.

In tobacco, the UK, Germany, Spain and the USA, combined with our Rest of EU region, delivered 72 percent of our profit. These are markets where volumes are declining slowly, pricing tends to be good and margins are high so they provide a strong platform for future growth.

This is balanced by our Rest of the World region, which contains a broad spread of markets, each offering volume, share and profit growth potential particularly in Africa and the Middle East, Eastern Europe and Asia. Each region offers unique opportunities. The margins in the Middle East are good as a result of the premium bias of sales in the region and our key brands continue to show significant growth potential.

We see further opportunities in Africa as a result of favourable demographics and consistent brand performances. In Eastern Europe, pricing is good and our balanced portfolio offers growth in the premium and value sectors in particular.

Within our Logistics operations, there has been active management of the cost base. Our tobacco operations offer high margins, strong cash flows and a high degree of resilience.

Whilst in other logistics, our operations have been impacted by economic conditions, particularly in Spain. However, our performance against the industry as a whole has been good and our strong business model has enabled us to maintain our customer base and in some areas gain market share, including in the transport and wholesale operations.

Costs and Working Capital – a key priority

Our sales development has consistently been underpinned by cost focus and this remains a key priority.

We continue to spend with the objective of achieving further growth in our top line, increasing investment where we believe it adds additional value but ensuring stringent control on discretionary costs.

We must also be diligent in managing the impact of the inflationary pressures on leaf costs. By utilising surplus stocks and strategic buying, we have been able to mitigate the impact in 2009 but we expect next year to be tougher for us and the rest of the industry.

Another key project for us is delivering sustainable improvements in capital employed and our review encompasses all aspects of working capital. Examples of where we are targeting savings include ensuring that finished goods stocks are closely aligned to consumer demand; optimising tax stamp levels on a market by market basis and reducing leaf stocks.

Effective Cash Management – strong cash generation

Our business is highly cash generative and a combination of managing capital expenditure and working capital as well as tax and interest costs ensures 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.

Effective cash management is also about disciplined cash allocation. Our short term focus is on debt pay down and we remain committed to maintaining investment grade. Additionally, we continue to make disciplined investments in machinery and equipment across the business. Our dividend policy is unchanged; it is progressive, in line with underlying earnings growth, with a payout ratio of around 50 per cent.

Our consistent ability to increase profits coupled with effectively managing our cash has enabled us to return nearly 3 billion pounds to our shareholders in the last five years.

Conclusion – delivering shareholder value

So, in conclusion, we all know it's a difficult environment out there, but our defensive qualities stand us in good stead.

Our portfolio is balanced and well suited to the environment and we continue to capitalise on the downtrading dynamic with our value cigarette brands whilst maintaining the growth momentum behind our premium brands.

And, our geographic diversity gives us a substantial profit base in mature markets which we continue to build on, whilst driving growth in emerging markets.

We are well known for our cost, working capital and cash focus, all of which remain extremely important in today's climate.

Overall, there is no doubt in my mind that tobacco is a great place to be in a recessionary environment and I look to the future with confidence that we can continue to deliver significant value for our shareholders.

Thank you ladies and gentlemen, we will now take any questions you may have.