

## Alison Cooper, Chief Executive

Good morning ladies and gentlemen. I'm pleased to have this opportunity to present to you today. A copy of this presentation will be available on our website later this morning.

I'm Alison Cooper, Chief Executive of Imperial Tobacco. I am joined here today by Bob Dyrbus, Finance Director, and Gerry Gallagher, Director of Investor Communications.

My presentation today will cover our approach to sustainable growth, with particular focus on sales, and how we will continue to apply our growth model to ensure that we maximise long-term shareholder value.

## Significant value creation – organic and acquisition led growth

I'll start with a familiar slide, our track record, which serves to illustrate the successful application of our strategy – to generate sustainable growth in our operations organically and through acquisitions.

Our strategy has three core objectives – sales growth, cost optimisation and effective cash utilisation.

Over the last 13 years, consistent organic progress, supported by value creating acquisitions, has delivered compound annual growth of 16 per cent in earnings per share and 14 per cent in dividends per share.

We estimate that around half of this earnings growth, roughly eight per cent, has been generated organically with the balance coming from effective use of our cash flow, mainly acquisitions but also share buy-backs.

And we maintained this record in the first half of 2010 with headline earnings per share rising 16 per cent, and 11 per cent growth on an organic basis after excluding the benefit of incremental Altadis synergies.

Over the last 13 years we have generated over 15 billion pounds of profit, and our focus on maximising cash conversion has enabled us to convert approximately £13.5 billion – over 90 per cent – into cash.

We focus on growing our top line through a combination of volume gains and pricing, which coupled with effective cost optimisation and cash utilisation means we target high single digit organic earnings growth.

Added to this there will be further opportunities to use our surplus cash to enhance shareholder returns over the medium term, but for now the focus is on debt pay down following the Altadis acquisition.

## Total Tobacco – balanced comprehensive portfolio

Let me now look at our brand and product portfolio, the key assets we leverage to drive sales growth.

In all our markets, local insight is key to maintaining our growth momentum, and we continually review our local portfolios to ensure alignment with evolving consumer preferences and to maximise our sales potential.

We have three global strategic cigarette brands, Davidoff in the super-premium segment, Gauloises Blondes as a mid to high price offering and West in the value segment, which together represent a quarter of our cigarette portfolio.

Over the last six months we have updated the pack designs and launched new formats which have supported further growth, particularly in Davidoff with volumes up four per cent, and West with volumes up eight per cent in the first half.

Regional brands, including JPS and Fine have also been growing strongly with first half volumes up 13 and 10 per cent respectively, and local brands such as Maxim in Russia and Marquise in Morocco grew volumes as well.

Complementing our global strategic cigarette brands is our world number one position in fine cut tobacco, cigars, papers and tubes.

In fine cut tobacco we grew first half volumes by nine per cent. In global terms, the European Union is the key region for fine cut and in the EU's top ten markets, representing over 90 per cent of EU volumes. We grew our share by nearly two percentage points with strong growth from make-your-own products in a number of markets.

## Market Footprint – volume split

Following the Altadis acquisition, we have considerably stronger positions in both mature and emerging markets. This balanced operating platform provides opportunities to maximise the potential of our brands and grow volumes.

In our mature markets we have strength across our product categories and a focus on profitability to drive growing sustainable cash flows which we re-invest to support sales and share in these markets but also in emerging markets with Eastern Europe, Africa and the Middle East particular priorities.

We see further significant potential to increase our profitability in Eastern Europe with Davidoff volumes up 12 per cent in the first half 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 substantial operating platform in the region, with particular strength in Morocco, sub-Saharan Africa, the Levant and the Gulf States, and we will continue to support growth in the region with targeted investment.

In Asia we have strong positions in markets like Taiwan, Vietnam and Laos. We continue to evaluate expansion opportunities in the region and as you may know, we recently announced two strategic agreements in Asia, the manufacture and distribution of Davidoff in South Korea by KT&G and the cigar collaboration framework in China.

## Key Growth Drivers

We are a sales led business, but we also seek to optimise our costs, and utilise our substantial cash flows to create additional value for our shareholders.

Continuing to deliver a strong performance in each of these areas is critical to our future success.

So how do these drivers translate into our growth model?

## Mid to Long Term Growth Model – targeting high single digit EPS growth

We expect our top line to grow between two and four per cent. By maintaining or reducing our cost base in real terms, we aim to add a further one to two per cent to our operating profit and by using our strong cash flow effectively to pay down debt or reinvest in the business, we expect an additional two to three per cent to earnings.

So, excluding the impact of currency, we target earnings to grow over the medium to long term by a high single digit percentage, with the additional potential benefit from acquisitions and share buybacks on top.

Before I illustrate what we are doing to deliver top line growth, let us take a look at our past volume performance where we have a strong record.

## Organic Cigarette Volume Growth – 5 year CAGR 2.1%

Our organic cigarette volumes have grown 2.1 per cent compound over the last five years, an excellent performance and one which, as you can see, compares favourably with our peer group.

Organic volume growth has been driven by strong growth in Central & Eastern Europe, Asia, Africa and the Middle East, and growth in a number of brands across our strategic, regional and local portfolio

including Davidoff, JPS, Fine and numerous local brands.

The underlying performance of a number of Altadis brands, such as Gauloises Blondes, has also been strong since acquisition and adds to our brand growth opportunities.

## Delivering Sustainable Sales Growth – leveraging our assets

Going forward, we will maximise our sales growth by optimising the potential of our assets, driving a consumer centric approach, excelling in execution while reinforcing our sustainability. Together, something we refer to internally as “the smart leverage” of our assets.

Across brands, price points, geographies and products we have the assets, and as you would expect of a business with our track record, we employ highly capable people across all our functions and markets.

And it is the smart leverage of our assets through our people that creates sustainable sales growth.

To be successful we have to really understand our consumers, their needs and preferences, the impact the regulatory and economic environment may have on them, and the choices they make.

We have to ensure that individual markets have the flexibility to align their local portfolio to specific local market and consumer dynamics, within a Group strategic framework.

To be truly consumer responsive and be able to react swiftly to evolving market dynamics we must drive execution excellence throughout our business in order to align our organisation such that it can rapidly satisfy changing consumer and customer needs.

A number of areas are critical in this process, not least of which are trade marketing and supply chain where we seek to build, maintain and consistently improve our processes. We continue to strengthen our partnerships with the trade, and our suppliers, to ensure we anticipate and respond to the changing needs of our consumers.

And there are plenty of examples to illustrate our credentials, the continued success of Davidoff, Gauloises Blondes and JPS, the renewed growth seen in West, and exploiting the trend to make-your-own products in Central Europe.

The final element supporting ongoing sales growth is what we call “future foundations”, strengthening our long-term sustainability by taking a proactive approach to managing key issues.

This includes protecting the legitimacy of our business and our consumers, opposing the denormalisation of smoking and smokers, and increasing our efforts to tackle illicit trade. A key aspect of future foundations is foresight - looking ahead to identify future business and consumer trends that will give us a competitive edge in developing sales.

By way of illustrating how we are delivering our sales growth strategy where it matters, in the market. I will take you through some of our recent initiatives in two markets, one in Western Europe and one in Asia.

Firstly, Germany where, in the first half, organic revenues rose eight per cent and organic profits rose ten per cent, and secondly Taiwan where first half organic revenues rose by more than a third and organic profits more than doubled.

## Germany: JPS cigarette – market share since launch

Our German market share has been climbing steadily over the last four years to reach a spot share of 27.2 per cent in March, and a large part of our growth has been driven by JPS.

After the acquisition of Reemtsma we identified a consumer need, an international brand priced between the existing international brands and private label, which had been growing rapidly to take a 17 per cent share.

And so in March 2004 we launched JPS, effectively creating a new “fourth price sector”.

The impact was immediate and six years later JPS is the second best selling brand in Germany with a market share of nine per cent, and private label’s share has declined to 13 per cent.

So, having identified the consumer need, exploited it and executed efficiently against that need. What are we doing today to maintain JPS' momentum?

Let me highlight just two examples of some of the work our German team has been doing with JPS to ensure we use our consumer insight and execution skills to ensure our brands remain relevant and our marketing impactful.

## Germany: Vending Channel

At five euros for 23 cigarettes, the JPS Big Box represents a four per cent saving on a per stick basis to a retail pack of 19. We identified the five euro price point and price saving as key positives for the consumer and after extensive work we targeted the vending channel as a potential source of additional sales growth.

There are currently over 400,000 vending machines in Germany providing a significant 12 per cent of cigarette volumes and, as you can see from the slide, a means by which we can communicate with consumers.

## Germany: JPS Red Family – Big Box drives vending performance

Having identified the opportunity our swift execution has resulted in significantly improved distribution. Over the year to February 2010 we have added 250 thousand JPS Big Box vending columns resulting in JPS' overall share of the vending channel growing to 10.4 per cent, above its overall market share, and an increase of 3.9 percentage points compared to a year earlier. An excellent performance from our German team.

## Germany: JPS Red Family – Big Pack performance in discount

The discounters, by which I mean retail chains such as Aldi, are another important distribution channel in Germany representing a further 12 per cent of cigarette market volumes.

However, while the typical discount outlet will carry 15 factory made cigarette SKUs only four or five of these will be branded cigarettes, and herein lay the opportunity identified by our German team. With its five euro price point and four per cent per stick discount to 19s the JPS Big Box is attractive to the discount shopper.

Over the 13 months to the end of April we have increased the distribution of the JPS Big Box in discounters significantly and in the year to March increased volumes by over 30 per cent.

## Germany: Gauloises Blondes – integration into Imperial portfolio

But it is not only through JPS where we have been driving our sales agenda in Germany, Gauloises Blondes has performed exceptionally well, maintaining its cigarette share at around five and a half per cent despite being positioned in the high priced sector.

As you may know we took back distribution of Gauloises Blondes from BAT on 1 April, and our German team has been active in leveraging our relationships with the trade to immediately increase distribution.

As you can see from the chart, in a matter of weeks we have significantly increased the distribution of Gauloises Blondes. We have made a great start and I expect further Gauloises distribution gains in the coming weeks.

## Germany: New MYO Developments

Moving to fine cut tobacco, we were quick to launch a new expanded make-your-own product for value seeking consumers following the Singles taxation change and we have been very successful with Route 66 and JPS.

New make-your-own now represents over 45 per cent of the German fine cut market, up from 38 per cent last year and our share of new make-your-own has grown from 31.3 per cent to 33.4 per cent.

In order to further increase our presence in this segment we have installed over 14,500 floor mounted dispensers at retail outlets around the country which, being separate from the normal gantry displays, gives the product a greater share of voice and we expect a material increase in our volumes this year.

## Taiwan Market Share Development – HY 2010 share 11.1%

Let me move on to Taiwan where we have reacted to changing market dynamics resulting in first half sales rising by over a third.

There have been a series of Health Tax increases in Taiwan which have led to increased downtrading, and prior to our factory being built, all our brands were imported from Europe, which not only made them subject to the 27 per cent import duty, but also necessitated higher stock levels to ensure security of supply.

In response to these changing dynamics we quickly commissioned a new factory with annual capacity of 15 billion sticks that cost just over 50 million pounds, and in January 2009 we began production.

By removing import duties and the burden of higher working capital demands the new factory has provided our Taiwanese business with greater flexibility and agility, driving market share higher, and providing a good financial return on investment. In the first half of 2010 our market share had climbed to 11.1 per cent.

## Taiwan Brand Initiatives – Davidoff and Boss

But it is not just our factory that has helped transform the Taiwanese business, our sales and marketing teams have taken the opportunity offered by on-shore production to drive the business forward.

Through extensive trade communication our Davidoff team has ensured a smooth transition from Made in Europe to Made in Taiwan. The new Premium Line was launched in March supported by new brand furniture, and with extensive HORECA events planned through to June.

Davidoff's share has been under pressure but is now climbing steadily and stood at 6.1 per cent in March, an improvement of 0.4 percentage points on the same period last year.

We have launched a new Boss pack, again supported by extensive sales and marketing events with our share climbing to 2.9 per cent in March, an increase of 0.3 percentage points against the same period last year.

## Taiwan: Growth in VFM brands – West & Kane leverage on-shore production

The new factory has provided our Taiwanese business with greater flexibility and allowed us to align the business much faster to changing consumer needs. With import duties it was very difficult to compete effectively in the value-for-money sector. That has now changed.

The value for money sector has seen rapid growth in the last twelve months with both West and Kane benefiting from the lack of import duties they previously suffered.

West's share of the value-for-money sector has climbed 2.4 percentage points in the last year to 5.5 per cent, and Kane's share has climbed one percentage points to 1.6 per cent.

West has benefited from the global pack rejuvenation programme and we have been active in introducing new variants of Kane to strengthen the brand's portfolio and are encouraged by the results of recent trials.

These are just a few examples of the work being carried out by our German and Taiwanese teams, work

that is being shared and replicated throughout the business, work that illustrates how we leverage our assets to maximise our sales growth.

## Cost Optimisation

Having looked at sales growth in detail, our second core objective is to optimise our cost structure.

### Cost Optimisation – integral to the business

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. In addition we continue to ensure we make the right investment choices by putting our money to work behind those opportunities that provide the best return.

The review of our global manufacturing portfolio is also ongoing. We will maintain a focus on addressing surplus capacity whilst ensuring that we remain agile and responsive to changing consumer demands.

Leaf inflation remains an issue and EU leaf subsidies are scheduled to be removed next year, but we are working to mitigate the impact.

## Cash Utilisation

The final building block of our business is effective cash utilisation.

### Cash, Debt & Working Capital – strong cash generation

We focus on all aspects of working capital in order to maximise cash generation and that includes ongoing alignment of finished goods stocks and tax stamps to trade demand.

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 over 90 per cent, however last financial year we achieved 128 per cent as a result of targeted working capital savings.

By maintaining a geared capital structure at the efficient end of investment grade, we are able to add to the operational returns our business offers shareholders.

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.

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.

Given the structure of the industry today, these are likely to be product or market specific acquisitions rather than multi-national deals, but we are still keen to participate as we see opportunities to expand our geographic, product and brand footprint.

## Investment and sustainable growth

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

Sales excellence combined with optimising our costs has created some of the highest margins in the industry providing us with strong cash flows and the opportunity for targeted investment to generate returns above our cost of capital.

Our business model of investment for sustainable growth has consistently delivered strong returns to our shareholders and will be our continued focus.

We are the only international total tobacco business covering the whole category – meeting consumer needs and enhancing our trade partnerships with world leading positions and great brand equity. Our local market insights, flexibility and execution focus means we are well placed to maximise market opportunities - continuing to drive returns and strengthen the long-term sustainability of the business.

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