

## Gareth Davis, Chief Executive

Good morning ladies and gentlemen, and welcome to today's presentation which is being recorded and will be available later as an audio webcast on our website, along with the script and slides.

I'm joined by Bob Dyrbus, our Finance Director, and Alison Cooper, who will be giving the main presentation on tobacco regulation and litigation.

You will have seen that earlier today we announced the appointment of Alison to the new role of Chief Operating Officer and I'd like to take this opportunity to add my congratulations.

Alison has been with Imperial for 10 years and has played a key role in our international development.

She will continue to work alongside me and the wider senior management team in driving the operational performance and strategic direction of the enlarged Group.

Her appointment is great news for the business and puts us in even better shape to make the most of the many growth opportunities that lie ahead.

Before the main presentation, I can confirm that the Group's anticipated overall performance for the financial year to 30 September 2009 remains in line with management's expectations.

We will be reporting our half-year results on Tuesday 12 May and look forward to giving you our detailed performance review then.

There will be the opportunity to ask questions at the end of the presentation and afterwards I hope you will join us for lunch.

Thank you. I'll now hand over to Alison.

## Alison Cooper, Chief Operating Officer

Thanks Gareth – and good morning ladies and gentlemen.

I'm very pleased to be taking on these new operational responsibilities and I'll also be retaining my Corporate Development remit – that includes Corporate Affairs, which is focused on protecting our commercial freedoms and remains a key element of our strategic agenda.

## Regulatory framework

Tobacco is highly regulated throughout the industry supply chain, from the cultivation of the crop itself to the way in which products are manufactured, packaged, sold and consumed.

Some of this regulation is entirely appropriate – but much of it isn't and attacks the legitimacy of our business, including the freedom of consumers to enjoy tobacco products.

We continue to support tobacco regulation that is reasonable, proportionate and evidence-based, and will continue to resist legislation that does not meet this criteria.

My presentation today will highlight some of the key regulatory areas that we are currently working on, and I'll also discuss the litigation profile of the enlarged Group, which continues to be favourable.

## USA SCHIP Legislation

I'll start with taxation and specifically the increase in US federal excise tax which is due to take effect from April 1st.

As you are aware, this follows the passing of a Bill to substantially increase the provisions for the State Children's Health Insurance Program, or S-CHIP as it is known.

US excise taxes on tobacco are levied at both Federal and State level. The S-CHIP Bill will significantly increase the Federal tax on cigarettes from 39 cents per pack of twenty to just over a dollar per pack.

In addition, a number of States are also intending to increase their State taxes in order to meet budget deficits as the US economy worsens.

Other tobacco products, including fine cut tobacco and cigars, will also be subject to substantial federal tax increases.

The objective in the US is the same as it is in Europe – to narrow the tax differential between cigarettes and other tobacco products.

However, the approach is much less considered.

These are disproportionate increases which will not be gradually implemented, and will therefore clearly impact market volumes.

There is likely to be a negative impact on our relatively small US fine cut tobacco, papers and tubes businesses, although at a Group level, this will be negligible.

Our US cigar business is primarily in the large cigar sector and the S-CHIP increases, combined with the difficult economic environment, will inevitably lead to a decline in cigar market volumes this year.

Unlike cigarettes and fine cut tobacco, large cigars are not subject to what is known as “floor tax”.

This aims to prevent stockpiling, as retailers have to pay the government the difference between the old and new federal tax rates on stocks held at midnight on March 31st.

We therefore anticipate considerable trade stocking in large cigars prior to April 1st.

In contrast, due to the “floor tax”, we expect significant industry-wide cigarette destocking in advance of the tax increase, which will result in a shift in our US volumes from March into April.

Following the federal excise tax increases, we would expect to see migration from fine cut tobacco and little cigars to the discount sector of factory made cigarettes, the core of our US business.

We have particular strength in this sector with our key brands USA Gold and Sonoma, and are well positioned to capitalize on consumer downtrading.

To further strengthen our competitive position we have selectively increased prices across our product categories.

We believe that the overall effect on our results for the 2009 financial year will be broadly neutral and remain confident about our long-term growth prospects in the US.

## EU Tobacco Excise Tax Directive

In Europe, the EU Tobacco Excise Tax Directive has been under review for some time.

Last July, the European Commission issued its formal report on the review, confirming proposals to amend the way excise tax on tobacco products is levied within EU Member States.

The focus is on overall tax simplification and on increasing fine cut tobacco tax from around half that of cigarettes to a new level of two-thirds.

We don't oppose the suggested two-thirds ratio - an increase which would be implemented in two stages, separated by a four year period.

Our concern, as always, is in relation to excessive tax increases, which can adversely impact the level of illegal cross-border trade and the counterfeiting of tobacco products.

The proposals must be unanimously agreed by all 27 Member States prior to implementation, and some States believe agreement will be difficult to reach in 2009 in order to meet the original implementation date of 2010.

Just a few weeks ago the European Parliament's Economic Affairs Committee announced its support for gradual increases in minimum tax rates – but advocated smaller increases than those proposed by the Commission.

The Committee also proposed increasing the minimum rates in two steps, one by 2012 and the other by 2014.

This conflicts with the Commission's view of 2010 and 2014.

So, still a long way to go until this review process – which actually started in 2002 – will be completed and we will continue to keep you updated.

## WHO FCTC

Turning to product regulation now, and starting with the World Health Organisation's Framework Convention on Tobacco Control.

This has now been ratified by 164 countries, the so-called Parties to the Convention.

Each Party is required to implement a range of tobacco control measures, with the support of guidelines or protocols - guidelines being non-binding agreements aimed at assisting Parties, and protocols being legally binding and requiring implementation in full.

So far, no protocols have been agreed although one on illicit trade is currently being discussed.

Four guidelines have been adopted – one on environmental tobacco smoke and smoking in public places in 2007, and three others, which were agreed at the third Conference of the Parties in Durban last November.

These covered packaging and labelling, advertising, promotion and sponsorship, and restricting the role of the tobacco industry in all regulatory debates.

Working groups have been established to look at potential guidelines in a number of other areas including smoking cessation and alternatives to tobacco farming.

None of these areas under review are new, and the progress that is being made is very much in line with our expectations.

It's regrettable that the FCTC continues to ignore the tobacco industry as a legitimate stakeholder in the various debates that are ongoing.

This exclusion is symptomatic of attempts to denormalise smokers and smoking, and is something we continue to resist.

## Product Display – UK Consultation

Government Ministers in the UK have openly admitted that denormalisation was a driver of the recent consultation on the future of tobacco control.

You'll recall that the consultation was launched in May of last year and included proposals to ban the display of tobacco products, vending sales and 10 packs.

It was also suggested that tobacco products should only be available in plain packaging.

There were 96,000 responses to the consultation, of which 70,000 were pre-written postcards or emails orchestrated by Department of Health funded groups.

We submitted a thorough and very detailed response. It's available in full on our website and we hope that it was given somewhat more consideration than a pre-written postcard.

Sensibly, the Government has said that it will not proceed with plain packs or a ban on vending and 10s.

Regrettably, a product display ban is being developed, albeit through a phased approach with implementation in 2011 for large retailers and 2013 for smaller shops.

There has been no further detail about how the ban would be implemented. The proposals are currently being discussed in the House of Lords, with the House of Commons debate expected to begin in May.

There is still some way to go in the legislative process and there is considerable cross-party support for retailers who share our concerns about such legislation.

Similar legislation is being debated in Scotland and we will be submitting a detailed response by the end of the consultation period on April 8th.

## Product Display – Republic of Ireland

In the Republic of Ireland, stricter rules governing the display of tobacco products will be introduced from July 1st 2009.

Retailers will be able to store tobacco products in existing units, as long as these units are closed. Tobacco products will not have to be placed under the counter.

Retailers are not allowed to openly display a pictorial list or menu of tobacco products but consumers can ask to see one. They can also ask to be shown one pack of each product available for sale.

## Product Display – Our view

Advocates of tobacco display bans claim they will stop people smoking, particularly children.

This is simply not the case. Data from Canada and Iceland, where display bans have been in place for a number of years, shows that they have had no impact on overall rates of tobacco consumption or specifically on youth smoking rates.

Display bans are anti-competitive and would further fuel the illicit trade in tobacco products. The cost and work burden on retailers would also be considerable.

## Product Display – New Zealand

This was recognised by the New Zealand Government last month when Prime Minister John Key confirmed that his government would not be proceeding with a display ban.

He said: “there is no international evidence that it actually works and it’s hugely expensive to do it”.

This is encouraging given that New Zealand is one of the most highly regulated markets in the world, and we will continue to strongly oppose any similar proposals put forward in other markets.

## Smoking in Public Places – European Union

Turning now to developments regarding smoking in public places.

Our views are well known and actively communicated to regulators – we believe legislation is disproportionate and unnecessary.

We disagree with the EU Commission’s position favouring an outright ban, which is at odds with the approach of many Member States which have regulations that accommodate smokers and non-smokers.

While we don’t believe restrictions are necessary, we clearly prefer solutions which retain freedom and choice.

## Smoking in Public Places – Germany

The situation in Germany is more complex, with regulations disrupted by further legal issues in the past twelve months.

You may recall that in December 2006 the government rescinded a draft bill to ban smoking in public places over concerns that it would infringe the right of the 16 Federal States to legislate on this issue.

As a result, a mix of regulations is now in place across the States and with the current exception of Bavaria, all of them permit smoking in separate rooms.

Last July, the German Constitutional Court ruled that legislation regarding smoking bans in small pubs and nightclubs in two of the States was unconstitutional and therefore void.

All States, including Bavaria, will bring their local legislation into line with this ruling before the end of the year, which will provide much more consistency across Germany.

## Smoking in Public Places – International

Beyond the EU, the actions of governments globally would not suggest a consensus towards outright bans.

For example, a partial ban on smoking in public places was introduced in Taiwan in January, with exemptions allowed for segregated smoking areas.

In Morocco, a new law was approved by Parliament in January and comes into effect later this year. Larger cafes and restaurants can make provisions for smokers, while smaller establishments must become totally smoke-free.

In India from October 2008 owners of hotels with 30 rooms or more, or restaurants catering for 30 persons or more, may provide smoking areas.

And as we have said many times, the impact on cigarette consumption of public smoking bans and restrictions has been consistent – an initial decline, which diminishes over time.

## Pictorial Health Warnings

I want to briefly cover a couple of other regulatory developments, starting with pictorial health warnings.

Countries such as Canada, Brazil and Australia have had such warnings on tobacco packaging for several years.

They became a requirement on all tobacco products manufactured for sale in the UK from October 1st 2008, with a sell-through period for products without pictorials of 12 months for cigarettes and 24 months for fine cut tobacco.

Also in October, pictorials became a requirement in Latvia, with an eighteen month sell-through period.

Other countries considering introducing them include Bulgaria, France and the Republic of Ireland.

Several countries, including Spain, Greece, Hungary and Slovenia, have indicated that they have no plans to introduce pictorial health warnings.

In our view, pictorials make no contribution to public awareness of the risks associated with smoking and we are not aware of any evidence of them having an impact on consumption, although it's early days, we believe this will be borne out in the UK.

## Lower Ignition Propensity Products

Before moving onto litigation, a brief update on lower ignition propensity products, or LIPPs.

We actively discourage use of the term 'fire-safe'. There is no such thing as a fire-safe cigarette and it is misleading and unhelpful to use the term.

Canada and 23 US states require LIPP cigarettes – and they will be required in at least nine more this year.

In Australia, final regulations were published last year and we are currently in the process of preparing for the introduction of LIPP cigarettes in March 2010.

The EU is developing similar legislation with the International Standards Organisation, although the process is likely to take a couple of years to complete.

Whilst we don't believe LIPPs deliver a real benefit in terms of cutting the risk of accidental fires from cigarettes, we obviously comply with them when we are required to do so.

Commonwealth Brands has particular experience in this area. Their cigarettes have been LIPP compliant for some time and we continue to benefit from their knowledge of managing and implementing this type of regulation.

## Product Liability Litigation

I'll conclude my presentation by giving you a quick update on the product liability litigation profile of the enlarged Group.

No action has been successful or settled in favour of any claimant in any tobacco-related litigation brought against the enlarged Group and we will continue to defend ourselves against any future speculative claims.

Claims against us have failed in a number of markets in recent years, including the US, the UK, Poland, Germany and Australia.

We are currently defending claims in Ireland, Spain, the US, and Australia, while Logista is defending two claims in Italy. In all cases we have robust defences.

There has been no change to the situation in the Republic of Ireland, where we continue to face 11 claims.

Ten of these claims are subject to motions to dismiss – one of which has been granted but appealed - and the other claim was served out of time and is unlikely to proceed.

In Spain, an individual claim against Altadis was dismissed earlier this month by the Spanish Supreme Court. This decision is final and cannot be appealed.

The only claim Altadis is currently defending in Spain was brought on behalf of the Regional Government of Andalusia for recoupment of alleged healthcare costs. This case has been decided in Altadis' favour but has been appealed.

In the US, we are currently facing three individual claims. Two are subject to pending motions to dismiss, while the other has been dismissed but could still be appealed.

A new claim was filed by a litigant in person against us and others in Australia in January of this year, claiming damages for alleged exposure to environmental tobacco smoke. The case is at a very early stage and we intend to defend it robustly.

And in Italy, Logista is defending two individual claims - one was dismissed in 2007 and subsequently appealed, and the other is at a very early stage.

## Summary

I hope that's been a useful overview of some of the key issues that we continue to manage.

The litigation landscape continues to improve and while the regulatory climate remains challenging, we remain confident of being able to continue to successfully develop our business in this environment.

Participating in the many debates that are ongoing about our industry can be difficult, but it's critical that we continue to do so.

We are a legitimate stakeholder and we are entitled to express our views.

We support reasonable regulation but will continue to vigorously oppose unnecessary and disproportionate legislation that impacts our consumers and our business.

Thank you ladies and gentlemen. I'll now hand back to Gareth to chair any questions you may have.