

Annual General Meeting 2016

03 February 2016

Mark Williamson - Chairman

Good afternoon, ladies and gentlemen and welcome to our 2016 Annual General Meeting.

I'm Mark Williamson, the Chairman of Imperial Tobacco, and I'd like to start by introducing your Board.

On my very far right is Non-Executive Director Ken Burnett, who will be stepping down from the Board after today's meeting.

Next to Ken is Non-Executive Director Karen Witts, followed by Michael Herlihy, Senior Independent Non-Executive Director. Then we have our Chief Development Officer Matthew Phillips and Alison Cooper, our Chief Executive.

On my immediate left are John Downing, Company Secretary, and Oliver Tant, Chief Financial Officer. Next to Oliver are Malcolm Wyman, Non-Executive Director and Chairman of the Audit Committee, and then Non-Executive Director and Chairman of the Remuneration Committee, David Haines.

Today's proceedings are being recorded and will run as follows: I'll give you a brief overview of our 2015 performance, before handing over to Alison for a wider review of the year. We will then deal with the resolutions that are set out in your notice of this meeting.

Our Priorities for FY15

Our strategy is designed to strengthen the business, improve our quality of growth and maximise returns to shareholders.

Our priorities for 2015 are highlighted on the slide. Our aim was to further strengthen our portfolio, develop our market footprint and continue to effectively manage cost and cash.

And from a dividend perspective, we were targeting another 10 per cent increase.

I'm pleased to say that we made good progress in each of these areas over the course of the year, as we continued to build the quality and sustainability of the business.

Delivering on our Priorities

Results from our Growth Brands, supported by our brand migration programme, were excellent and our Growth and Specialist Brands now account for 57 per cent of Group revenues.

Fontem Ventures ended the year with an enhanced portfolio of assets and a stronger position in the e-vapour category.

We delivered a good performance in Returns Markets and continued to realise opportunities in many of our Growth Markets.

Most significantly, we expanded our US footprint through the acquisition of a number of assets as a result of the acquisition of Lorillard by Reynolds American.

These assets included a portfolio of US cigarette brands, the blu e-cigarette brand and Lorillard's infrastructure, including its cigarette factory and national sales force.

The acquisition transformed our operations in the US, the world's most profitable tobacco market outside of China, and our new US business, ITG Brands, has made

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a very encouraging start.

We also continued to effectively manage cost and cash. Our cost optimisation programme delivered savings of £85 million and we improved cash conversion to 97 per cent.

We also reduced our level of net debt before the cost of the US acquisition by a billion pounds and refinanced \$4.5 billion of bank debt.

That's a flavour of our achievements in 2015. It was another successful year for Imperial, one in which we again rewarded shareholders with a 10 per cent increase in the dividend.

I'll now handover to Alison to take you through the detail.

Alison Cooper – Chief Executive

Thanks, Mark. I'll start with an overview of our Group results.

Group Results

Like last year, some of my comments will focus on underlying performance. This excludes the impact of our 2014 stock optimisation programme and gives a much clearer picture of how we performed.

On a constant currency basis we grew tobacco net revenue by 4 per cent and tobacco operating profit by 7 per cent.

Adjusted operating profit and earnings per share increased by 7 per cent and 8 per cent respectively, again on a constant currency basis.

And as Mark highlighted, we delivered another strong increase in the dividend.

FY15 Volume

Volumes for the year were 285 billion stick equivalents, down 3 per cent on a reported basis or 6 per cent on an underlying basis.

Conditions in Iraq and Syria deteriorated significantly in the year and this accounted for more than half of the underlying decline.

There was a positive 2 per cent impact from the US acquisition and last year's stock optimisation programme benefitted volumes by 3 per cent.

Overall like-for-like volumes declined by 4%, in line with our market footprint, and our market share was stable across the Group.

Strengthening our Portfolio

Our brand migration programme continues to play a key role in simplifying and strengthening our portfolio; it supports more targeted investment and is improving the quality of our growth.

The programme focuses on migrating Portfolio Brands into Growth Brands. You can see an example on the slide - the migration of Fortuna into News in France.

Migrations accounted for most of our Growth Brand volume gains in the year and we continue to retain close to 100 per cent of consumers.

We've completed 21 migrations; a further 20 are underway and more are planned.

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The success of this programme has resulted in the share of Growth Brands increasing in almost all of our markets.

Strengthening our Portfolio

Our brand migration strategy is enhancing the quality of our revenue growth. Growth and Specialist Brands now account for 57 per cent of Group revenues, compared to 50 per cent two years ago.

Our aim is to keep building the contribution these brands make to our business and migrations will continue to support their development.

A brief look at Fontem Ventures now.

Strengthening our Portfolio

Following the completion of the US deal, we integrated blu into Fontem and the enhanced team is working together on further developing the blu brand and e-vapour technology.

We have a great set of assets: a strong equity in blu and enhanced technical know-how to complement our current intellectual property.

Sales are currently focused on the USA, the UK, Italy and France – four markets that between them account for around 80 per cent of the global e-vapour market.

Developing our Footprint

From a footprint perspective we performed well in a broad spread of Growth Markets.

In Russia, we benefitted from strong pricing and led the market with portfolio initiatives, enabling us to capture an increasing number of downtrading consumers.

We've been successful with big box and queen size propositions, particularly with Maxim, which stabilised our share and improved revenue and profit.

In Taiwan we grew profit, driven by the success of Davidoff. West held back our overall share but we are addressing this with new initiatives.

Norway - and Scandinavia overall – keeps improving, with Skruf slims adding to our share gains and strong profit growth.

In Japan, our investment is focused on growing our sales capabilities and distribution and our positive progress was underpinned by share gains from West.

Developing our Footprint

We also delivered good results in a number of Returns Markets.

We are market leader in the UK and have invested to improve our position in the growing sub-economy segment. We also continued to concentrate on strengthening our portfolio, with a particular focus on the JPS and Lambert & Butler brand families.

We had another strong year in Australia, delivering further revenue, profit and share growth.

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The team has done a great job in growing the business in a highly regulated market, establishing JPS as the number one brand in cigarette and Champion as the number one brand in fine cut tobacco.

In Germany we delivered excellent financial results in what continues to be a relatively stable volume environment, with good pricing opportunities.

Our overall market share was down slightly and we are addressing this through a number of portfolio initiatives.

Finally in Spain, we improved our profit delivery against a background of slower industry volume declines and strengthened our portfolio with brand migrations.

Developing our Footprint

Completing the US deal and getting ITG Brands up and running was a highlight of the year.

The team has made a great start, with the acquired brands - Winston, Salem, Kool and Maverick - performing well. In addition USA Gold held its overall share and made gains in focus states.

Our portfolio strategy is primarily based on four brands: Winston, Kool, Maverick and USA Gold.

Winston and Kool are our premium brands in the non-menthol and menthol categories, and Maverick and USA Gold are our discount offerings.

In mass market cigar we're taking action to improve our position in an environment of competitor discounting by strengthening the retail focus of the business and developing our key brands, Dutch Masters and Backwoods.

Developing our Footprint

To wrap up the US, a brief word on integration.

We have a highly experienced team managing the business; they've done a great job in combining Lorillard and Commonwealth-Altadis in a smooth and efficient manner, and all integration activities are moving ahead in line with our original plans.

In addition, the transfer of manufacturing machinery between Lorillard's factory in Greensboro and Reynolds site at Tobaccoville, as part of a reciprocal manufacturing agreement, is progressing well.

Cost and Cash Management

Effective cost and cash management is integral to our long-term success.

We remain on track to achieve our target of £300 million of annualised cost savings by 2018.

We've delivered £180 million so far, including £85 million in 2015. In this financial year we expect to deliver a further £55 million.

Cash conversion increased to 97 per cent, up from 91 per cent last year. This strong performance supported a £1.1bn like-for-like reduction in net debt, before taking into account the cost of the US acquisition.

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Evolving our Operating Model

The changes we're making to our operating model support our cost and cash objectives.

We're reviewing how the business operates on a day-to-day basis and identifying areas where we can change systems, processes and structures to improve our performance.

A good example is how clusters of markets are beginning to share support services such as HR and Finance, which is removing duplication and enabling more efficient resource allocation.

By implementing these new and simpler ways of working, we're creating a more flexible, agile business that has a greater focus on growth priorities.

Corporate Responsibility

Operating responsibly is integral to the way we do business, it supports our strategy and is critical to our long-term success.

During the year we made further progress in the four areas that define our responsibility framework: being responsible with products, creating a rewarding workplace, respecting natural resources and reinvesting in society.

I'm particularly pleased with the contribution our people make to our responsibility agenda. Last year, employees supported over 140 projects in 56 countries worldwide, exceeding our target of 50,000 volunteered hours.

It's also pleasing to see our work bring recognised externally: we scored 98 per cent in the Business in the Community Corporate Responsibility Index and 76 per cent in an assessment for the Dow Jones Sustainability Index.

Before turning to our priorities for 2016, I'd like to say a few words about resolution 18 of today's meeting, which seeks to change the name of our holding company from Imperial Tobacco Group PLC to Imperial Brands PLC.

The rationale for the change is that Imperial Brands better reflects the dynamic, brand-focused business that we now are.

Strong Consumer Brands

From a consumer perspective we have our Growth and Specialist Brands – these are the key assets in our portfolio and we'll continue to focus on building the contribution they make to our volume and revenue development.

Strong Corporate Brands

We also have strong corporate brands.

Imperial Tobacco, Tabacalera, our cigar business, ITG Brands, Fontem Ventures and Logista.

We intend to capture the breadth of these brands in our new PLC name.

(slide build – ITG PLC is replaced with Imperial Brands PLC)

As you can see, the corporate brands that sit under the holding company will remain as they are, including Imperial Tobacco.

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Tobacco is our core business and Imperial Tobacco will remain home to most of our tobacco subsidiaries around the world.

Another point to emphasise is that the cost of any rebranding exercise would be minimal, with changes largely confined to our Bristol head office and corporate website.

Our Priorities for FY16

We delivered a good performance in 2015, which we will build on by continuing to focus on our four strategic priorities.

This involves further strengthening our portfolio by enhancing the contribution from our Growth and Specialist Brands, whilst also developing opportunities for Fontem Ventures.

From a footprint perspective, we're concentrating on building momentum across our Growth Markets, driving profitability in Returns Markets and making the most of our expanded presence in the US with ITG Brands.

Cost optimisation and capital discipline underpin our growth ambitions. There will be more cost savings and operating efficiencies in 2016 and we will continue evolving our operating model to simplify the business and improve our ways of working.

Maintaining strong cash conversion supports our drive for ongoing debt reduction and further dividend growth of at least 10 per cent.

Remaining focused on this strategic agenda will ensure that we continue to strengthen the business, improve our quality of growth and maximise returns for our shareholders.

Thank you.

(Hand back to Mark)

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Thank you Alison

Before turning to the formal business of the Meeting I'd like to thank my colleagues on the Board, our senior management team and employees around the world for their contribution to another successful year in 2015.

I'd specifically like to thank Ken Burnett for the contribution he has made over the past nine years and would like to wish him all the very best for the future. Thank you Ken.

(PAUSE)

Let's now turn to the formal business of the Meeting.

There are 19 resolutions to be put to the Meeting, all of which are set out and explained in the Notice of Meeting which, with your agreement, I'll take as read.

I intend to take questions in respect of all resolutions now and then ask you to vote on all 19 resolutions rather than propose each resolution in turn. If you do ask a question, it would be helpful if you would wait for the microphone and let everyone know who you are.

Are there any questions please?

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(PAUSE)

Thank you for your questions. We will now proceed to vote on all the resolutions.

All resolutions at our shareholder meetings are decided by polls. Our registrar, Equiniti, is present as the polls' scrutineer to count the votes at the end of the Meeting and we will announce the results and place them on our website as soon as practicably possible.

The Directors are unanimously in favour of each resolution and recommend that you vote in favour.

Please complete your poll card ensuring that you sign it and then place it in the ballot box by the exit as you leave the room.

I now formally propose that each of the resolutions set out in the Notice of Meeting, and on the poll card, is put to the meeting as a separate resolution.

Resolutions 16 to 19 are special resolutions and will be passed if more than 75 per cent of the votes are cast in favour.

All other resolutions are ordinary resolutions and will be passed if more than 50 per cent of the votes cast are in favour. For the purposes of such counts, abstentions are not included.

(PAUSE TO ALLOW TIME TO COMPLETE VOTING CARDS)

The proxy votes received prior to the Meeting are now being shown on the screen.

(PAUSE)

Ladies and gentlemen, that completes today's agenda.

Please place your completed voting card in the ballot boxes located at the exits within the next five minutes at which time the poll will close.

I would remind you that the results of the AGM will not be announced here today. We will announce the results and place them on our corporate website as soon as practicably possible.

My colleagues and I would like to thank you for attending. I hope you all have a very safe journey home.

Thank you.