

### Disclaimer

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### Driving Quality Growth – Alison Cooper, Chief Executive

Good morning, my name is Alison Cooper, Chief Executive of Imperial Tobacco and I am joined here today by Matt Phillips, Corporate Affairs Director and John Nelson-Smith, Investor Relations Manager.

The theme of my presentation today is “driving quality growth”. Our strategic focus is about EPS growth, driving quality top line growth across our portfolio and making it sustainable.

### Our Business Model

Our Business Model starts with one of our key differentiators – Total Tobacco. Alongside our other key assets, our portfolio of consumer experiences provides a significant competitive advantage and is at the core of our business model.

Our four Sales Growth Drivers are about maximising our assets via portfolio management, innovation, pricing and customer engagement. When combined with our tobacco portfolio and the key enablers, these are the drivers that generate sales growth at high margins and deliver strong cash flows that we use to reinvest back in the business and maximise value to our shareholders.

### HY12 Financial Highlights

Our half year results to March demonstrated the strong momentum across our market footprint and particularly within our four key strategic brands, Davidoff, Gauloises Blondes, West and JPS, which continue to build their equity across our global footprint and now make up around a third of our stick equivalent volumes.

Tobacco net revenues grew 3.3 per cent whilst net revenue from our key strategic brands was up 12 per cent on volumes up five per cent.

We also saw growth in our fine cut tobacco volumes of three per cent excluding Poland, down one per cent on an actual basis.

In cigars, our volumes were up three per cent and revenues up eight per cent whilst our snus business continued its fantastic growth trend with volumes up 74 per cent.

Ongoing cost discipline delivered an increase in our operating margin despite increased investment behind our top line and our focus on effectively managing our cash allowed us to increase the interim dividend by 13 per cent and continue with our £500m share buy back.

In our trading statement this morning, we said that we expect revenues to grow by four per cent this financial year driven by strong growth from our key strategic brands.

### Consumer Motivations – a differentiated consumer understanding

Over the last few years we’ve transitioned the business from being a cost/M & A machine to driving top line growth through maximising the assets we have acquired.

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There are three key differentiators for Imperial: understanding consumer motivations, leveraging our total tobacco portfolio and having the right mindset to deliver on our targets.

Consumer understanding is central to our approach across the whole business.

And it's a differentiated approach, based on consumer motivations not just observed behaviours. And it's not just in sales and marketing, it also central to our approach in manufacturing and in our regulatory strategies.

### **Total Tobacco Experiences – a differentiated portfolio**

A differentiated understanding of consumers combined with our differentiated portfolio is a powerful combination.

Our portfolio gives us more consumer opportunities on more occasions - the way we access these is via our understanding of consumer motivations.

This focuses our efforts and underpins our investment decisions.

### **The Right Mindset – a differentiated “how”**

I've spoken about our differentiated consumer understanding and differentiated portfolio, these are the “what” needs to be done and our third differentiator is about “how” they can be done. It's about having the right mindset, seeing things differently and looking for opportunities.

There are more and more books on this topic, and it's critical for our success.

Our values reflect what has made us successful historically but also what we need in order to win going forward - they reflect our challenger mindset.

They mean we don't behave like a corporate supertanker but that we encourage new thinking, new ways of doing things, agility.

Our consumer focus, our Total Tobacco portfolio and having the right mindset are a unique and powerful combination of differentiators for success.

### **Motivations the Key to Quality Growth**

So we understand our key differentiators for success, but how do we drive quality growth? Back to our sales growth drivers.

I've already talked about consumer motivations and this chart gives you a feel for how we go about analysing these. What we've shown here is a generic model, not our bespoke one, and it is at the centre of our portfolio management and innovation decisions - the first two sales growth drivers I want to cover.

Understanding motivations means that we can see different opportunities around our portfolio management.

Our portfolio management is key to getting a bigger share of consumers and consumption occasions whilst innovation is all about creating new consumer experiences.

And portfolio management and innovation are not just concepts, they are supported by detailed toolkits and virtual centres of excellence to drive superior performance in these areas across the business.

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### **Key Strategic Brands Sales Growth – 11% NSV; 5% volume CAGR since 2010**

And our enhanced portfolio focus over the last couple of years is yielding results in the growth of our Key Strategic Brands – with compound growth over the last two years of 11 per cent in sales and five per cent in volumes. In volume terms, they represent around a third of our portfolio (100bn SE).

Just to focus on Davidoff briefly, we have significantly enhanced the growth opportunities for the brand in recent months with the launch of Davidoff iD.

This a King Size variant at a premium price keys into the “enjoyment” motivation with a rolling programme of new ideas.

By end of this month, it will have been launched in 20 markets with further launches planned throughout FY13.

Here is a video to give you an idea of what Davidoff iD is all about.

### **Davidoff Growth Momentum – video**

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### **Glide-Tec Innovation – reinforcing brand differentiation**

And our key innovation this year has been Glide-Tec.

Pack innovations provide smokers with choice and reinforce brand differentiation.

Through Glide-Tec we’ve developed an industry leading pack innovation built around consumer insights into the sociability of smoking.

### **Glide-Tec – over 1 billion cigarettes sold**

This is a technical innovation so it has taken some time to develop but we are now scaling rapidly, with a billion sticks sold to date in thirteen markets plus global duty free.

This model is scalable and replicable on multiple-brand concepts, across multiple-markets and we see a lot more growth to come from this innovation.

Moving from an initial focus on some key brands in high margin markets, we have now broadened the launch agenda across various geographies.

### **Innovation Pipeline – delivering scaleable initiatives**

We already have a selection of innovations that have been delivered into markets, and as you can see, we have made good progress over the last 18 months in building our pipeline. The key now is to develop and manage a very strong pipeline so that we generate more concepts, bring more into the feasibility phase, and have more developments that make it to market. By executing this approach, we will build more consumer-lead ideas, bring more products to market with a focus on a few scale opportunities that are volume and margin accretive.

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### On Market Innovation

Here you can see a number of the key initiatives which we have introduced during the current financial year which includes new blending concepts as well as formats. We accept that not all of them will be successful but that's part of our "we can" approach. Based on the consumer response, we will learn, adapt and scale the initiative.

### Pricing and Customer Engagement

So we've covered portfolio management and innovation, which are complemented by our other two sales growth drivers of pricing, including excise, and customer engagement.

Pricing is focused on maximising revenue growth – it's not just about annual manufacturer's price increases – it's about brand pack price per channel, or BPPC, opportunities - bigger packs, smaller packs, different formats.

And it's about excise strategies, again supported by detailed toolkits and centres of excellence.

Customer engagement is about availability and advocacy, building on some great areas of best practice in the business.

Availability is improving and we are increasingly focusing on how we enhance driving advocacy going forward.

### Regulation: Newsflow does not mean Rapid Progress

Hardly a day goes by when there isn't some tobacco related news; investors only see the tip of the iceberg in terms of newsflow.

But the newsflow does not match the ambition of its proponents or the actual progress of extreme regulation – "progress" is, on the whole, slow.

A common misconception is that regulation falls into two camps: mature markets, such as the EU, on the one hand & emerging markets on the other. However, this is far too simplistic a view.

If you look at the list of countries in the left hand column, you will notice that they are almost all outside the EU, yet these are the ones which generally look to lead in their approach to regulation.

The right hand list of countries, on the other hand, also generate news flow but generally tend to adopt a more balanced approach.

As you will quickly realise therefore, after excluding these countries, the vast majority of markets are generally rational in their approach to tobacco regulation.

Another misconception is that progress on regulation is rapid – the reality is that it is a lot slower than you might imagine. For example, on average two countries per year over the last 10 years have introduced display bans and six countries per year over the last eight years have introduced bans on smoking in public places.

That said, plain packaging is clearly topical currently. We believe that plain packaging will not have the impact that proponents hope it will as it will not impact consumer behaviour or consumption occasions.

Furthermore, the legal hurdles for governments considering introducing plain

packaging are significant. This is not only at an international level, but also at a domestic level where relevant legal regimes differ greatly from market to market. If necessary, therefore, we will legally challenge such legislation if and when any other markets seriously consider its introduction.

### **Regulation: Consumer Perspective**

Whilst we are obviously concerned about plain packs as a point of principle given our firm belief that it will not impact consumer behaviour or consumption occasions, we are more concerned about the potential consequential growth in illicit trade.

Whilst we know from experience that bans on smoking in public places do appear to have a small initial impact on consumption as they do initially target consumption occasions, other extreme forms of regulation do not really impact levels of incidence or consumption for precisely the same reason. They do and will, however, influence whether consumers decide to purchase from the illicit trade.

### **Regulation: Our Perspective – opportunities in all markets**

We have a great track record of operating in highly regulated markets and, given the consequences of extreme regulation, continue to work closely with authorities in combating illicit trade.

Given our unique total tobacco portfolio, our differentiated focus on consumers and the positioning of our brands, we see many opportunities to continue to grow in all markets.

### **Quality Growth: Spain**

Having looked at the four sales growth drivers, let's look at them in action by giving some market examples.

I will be focussing on Spain and Russia, two very different markets, as examples of how we are delivering against our top line objectives and how we see opportunities to deliver high quality sustainable growth.

Spain is a difficult market for all corporates and in these challenging conditions we have the opportunity to continue to improve our performance through our sales growth drivers.

### **Portfolio & Innovation – new consumer experiences (Spain)**

You may recall that 2011 was an eventful year with ongoing economic recession, rising unemployment, substantial duty increases, the extension of bans on smoking in public places and a price war on top.

During this period, the pricing debate was to the fore but it was key to make all four of the growth drivers work rather than just the one.

There has been a lot going on with our portfolio through the back end of 2011 and even more in 2012 as we invested in our key brands.

With Fortuna, we have introduced a new campaign, a new pack design, line extensions and Glide-Tec;

With Nobel, we've introduced queen size and slims, which have proved particularly successful with female consumers and helped to grow our share; and

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We launched Ducados Natural in July 2012.

And it's not just been about price with the focus on mid-price and value brands, we launched Davidoff iD at the premium end in May this year.

### **Pricing & Customer Engagement (Spain)**

We are the only international tobacco company to manufacture in Spain and we've developed excellent relationships with the trade as well as the authorities.

There have been huge strides with our other sales growth drivers, in pricing, we have top-notch modelling supporting our price decisions and excise forecasting. We've also been focusing on maximising revenue through new formats and pack sizes.

And in customer engagement: we have the only sales-out model in the market, which provides us with consumer purchase data; our focus on availability has delivered great results and we lead the market in trade advocacy programmes, based on deep customer understanding.

### **Driving Quality Growth – portfolio focus delivering (Spain)**

And our market share is on an improving trend.

The chart shows our combined share of domestic blonde cigarettes, fine cut tobacco and cigars on a weighted basis. The very encouraging performance highlights our total tobacco strength. The dip reflects competitor promotions but growth's ongoing and this strong performance has added to the recovery of our Spanish profits in the current financial year.

### **Quality Growth: Russia**

Let me now move on to Russia, which is a very different opportunity for us but with very familiar challenges, such as rising excise rates and increasing regulation.

We have under 10 per cent share but the different market dynamics and areas of consumer motivations provide the opportunity for us to grow going forward in spite of the headwind of declining domestic brands such as our Balkan Star.

### **Portfolio & Innovation – new consumer experiences (Russia)**

Russia is an excellent example of how we are taking consumer needs and insights and applying them to our portfolio to focus on those brands and segments where consumer demand is strongest.

We identified our portfolio included an unnecessarily large range of brands, including domestic ones, which meant that some investment was being diverted away from the key brands that were driving our performance. We fixed this by restructuring our approach to investment to clearly focus on four brands: Davidoff, West, Style and Maxim.

Through our work with consumers in understanding their motivations, we successfully

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launched a number of new formats under these four brands with excellent results.

In addition, our team have been hard at work delivering new and exciting innovations into the market. The four brand focus provides a clear framework within which our innovation pipeline can be introduced to maximise brand development.

We have had excellent success to date with our slimmer format cigarettes, such as Slims, SuperSlims and King Size SuperSlims, driven by West and Davidoff, and Russia was one of the first markets in which we released West Duo, a cigarette that offers consumers the option of a refreshing mint burst by squeezing the mint-flavoured crushball in the filter.

Russia is a key market for Imperial, and the focus on investing in our portfolio will continue to fuel future growth.

### **Pricing & Customer Engagement (Russia)**

Once again, under pricing our focus is on improved modelling in order to understand the interaction between key brands and on obtaining information to support our excise engagement and excise/portfolio plans.

In customer engagement we have worked: to better prioritise key accounts to drive growth; to drive stronger retail partnerships; and to better align our objectives with our distributor.

### **Driving Quality Growth – brand focus delivering (Russia)**

And the result of implementing our sales growth drivers is that volumes have grown over the year to March 2012 for each of our focus brands: Davidoff, West, Style and Maxim. A great achievement with net revenue up 17% in the same period.

### **Driving Quality Growth – our business model**

We have a great and unique portfolio of assets, which we are growing through our focus on excellence in our four sales growth drivers and enabled by differentiated consumer insights, operational and supply chain alignment and a focus on shaping our environment.

When combined, these are driving sales, delivering high margin profits and strong cash flow, delivering shareholder returns.

### **Driving Quality Growth – a differentiated approach**

In summary, I've taken you through how we are driving our top line and you have seen some of the results in the performances of our key strategic brands and acceleration in the rate of our innovation in both Spain and Russia.

The quality growth momentum is building through our differentiated focus on consumer understanding combined with our unique portfolio of total tobacco experiences and our mindset and ways of working.



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This differentiated approach is central to our focus on driving quality growth and creating sustainable value for our shareholders.

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Thank you; I'll now take any questions you may have.