



Proposed Acquisition of US Assets General Meeting

28 January 2015

Mark Williamson - Chairman

We will now move to the business of the General Meeting, which has been convened to approve the proposed acquisition of assets in the US.

As with the AGM, I will give you a brief overview of the transaction, Alison will provide the detail and we will then move to questions and voting.

Acquisition Overview

As you will have seen from the circular sent to all shareholders on 15 December, a wholly owned subsidiary of Imperial Tobacco Group PLC has entered into a purchase agreement with Reynolds American for the acquisition of a number of assets. These assets comprise a portfolio of US cigarette brands, the e-cigarette brand blu, as well as the national sales force, offices and production facilities currently owned by Lorillard.

This transaction is consistent with our strategy, establishing a stronger, diversified platform for growth. It's a financially attractive deal that will be debt funded and create sustainable value for shareholders.

We expect to generate a return on investment well in excess of our weighted average cost of capital in the first full year of our ownership, and also expect the deal to be significantly earnings enhancing in the first full year post completion.

Process Considerations

The proposed transaction constitutes a class 1 transaction for the purposes of the FCA's listing rules and is therefore conditional on approval of Imperial's shareholders at this General Meeting.

Reynolds and Lorillard are holding similar meetings today to seek approval from their shareholders. This three-way transaction also requires regulatory approval from the FTC in the US, for us to become subject to the DoJ case order, and for there to be no other law or governmental prohibition or restriction.

We currently anticipate completion in the spring of 2015. I'll now handover to Alison to take you through an overview of the deal.

Alison Cooper, Chief Executive

Thank you Mark.

I'll now run you through the main points of the deal.

Transaction Overview

As you can see from the slide, we're acquiring Winston, Kool and Salem, all Reynolds brands, along with Maverick and blu, which currently sit with Lorillard.

The cigarette brands are being acquired without historic product liabilities. An indemnity against such liabilities will be provided by Reynolds American under the terms of the transaction.

We will also acquire Lorillard's infrastructure consisting of its factory and offices at Greensboro, North Carolina, plus its sales force. These Lorillard assets will be combined with our existing Commonwealth-Altadis business to create a bigger,

Proposed Acquisition of US Assets General Meeting

28 January 2015

stronger organisation that can more effectively compete in this key Growth Market for Imperial.

The US Market

We define the US as a Growth Market because of its size and profit potential. Outside China, the USA is the largest tobacco profit pool and at around \$14bn it is equal to around a quarter of all the profits the industry makes, and the US is also the third largest market by volume at around 270bn stick equivalents, and a profit pool that has been growing by around 3% to 4% a year in the past few years.

The regulatory environment is relatively stable, with the FDA adopting an evidence based approach to regulation.

And finally, the US has a fast developing e-vapour market with a size at retail of approximately \$2.5bn.

Acquisition Rationale

This slide sets out the benefits of the deal; it will transform our US business:

- From a distant number five in the market with a 3% share to number three with a 10% share
- From a business delivering less than ten per cent of Group net revenues to one representing nearly a quarter of the Group's net revenue
- From a limited brand portfolio based around USA Gold to an enhanced portfolio with increased appeal for consumers and more relevance for retailers
- From no presence in e-cigarettes in the US to owning blu, a leading brand in the market
- From a business that has focussed on 19 states, to national distribution supported by an experienced sales force with deeper coverage of key accounts
- From a low level of presence at retail, to having stronger retailer relevance with an increased share of voice and enhanced customer engagement.
- From a management team with a growing track record to a combined team that has the skills and experience to win over the long term. A team led by Marty Orłowski, the highly regarded former CEO and Chairman of Lorillard -

Brand Strategy

As you would expect, we have a clear plan to drive growth from the enhanced portfolio.

The primary brands will be Winston and blu, complemented by our focus on Maverick, Kool and USA Gold.

Salem and others will be largely run for cash in line with our existing portfolio strategy, and the execution of this brand strategy will be based around the four sales growth drivers we prioritise in every market: portfolio, innovation, customer engagement and pricing.

Proposed Acquisition of US Assets General Meeting

28 January 2015

Creating a Winning Business

This is a great deal for Imperial.

Our enhanced portfolio will have more appeal to consumers and considerably more relevance to retailers on a national scale.

More sales visits and better account coverage drives greater retail influence and this is crucial for increasing shelf space, merchandising and point of sale presence for our brands.

We're creating a stronger, winning business – one that gives us the scale and stature to compete more effectively and build a long-term profitable future in one of our key Growth Markets.

Strengthening the Group

In closing, this transaction is not just a transformational deal for our US business, but strengthens the Imperial Group as a whole.

It is aligned with our strategy of investing in Growth Markets and Growth Brands, and provides the Group with a stronger and more diversified platform for growth, with nearly a quarter of revenues estimated to come from our US business post deal close.

The financial rationale is also highly attractive, such that this acquisition is an outstanding opportunity to create value for shareholders.

Thank you. I'll now hand back to Mark.

Mark Williamson, Chairman

Thank you Alison.

The resolution to approve the acquisition of these US assets, which your Board unanimously recommends, is set out and explained in the Notice of the Meeting. With your permission, I will take the Notice of Meeting as read.

I propose the resolution in the terms set out in the Notice.

I will now take your questions on the resolution. If you would like to ask a question, please raise your hand and we will bring a microphone to you.

Can we have the first question please?

[CHAIRMAN ANSWERS FIRST QUESTION OR REFERS IT TO ANOTHER DIRECTOR]

[WHEN THERE ARE NO/NO MORE QUESTIONS]

Ordinary Resolution

As there appear to be no more questions, I will now put the resolution, which is an ordinary resolution and will be passed if more than 50 per cent of the votes cast are in favour, to the meeting.

I would also like to remind you that the Directors are unanimously in favour of the resolution and recommend that you vote in favour.

Please now complete your voting card.



Proposed Acquisition of US Assets General Meeting

28 January 2015

Proxy Votes

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

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 Annual General Meeting and this General Meeting will not be announced here today. We will formally announce the results and then place them on our website as soon as practicably possible.

Proposed Acquisition of US Assets

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