2021 Interim Results Script –18 May 2021

Slide – Interim Results 2021

Stefan

Slide – Disclaimer

Good morning everyone…

Slide – Agenda

Welcome and thank you for joining our interim results presentation.

I'm joined today by Oliver Tant, our Chief Financial Officer and Peter Durman, our Investor Relations Director.

Lukas Paravicini, our incoming Chief Financial Officer, is also with us. Lukas joined Imperial and the Board on 1 May. He will be formally appointed CFO tomorrow and will work with Oliver to ensure a smooth and orderly handover.

Before getting into the results, let me hand over to Lukas for a few brief words.

Lukas

Thank you Stefan and good morning everyone.

I am delighted to be able to join the team this morning and to have this opportunity to introduce myself.

Perhaps a little bit of background about me…

I've spent the majority of my career in consumer goods – working in a range of senior finance and operational roles in large international companies.

I was at Nestle for 22 years and worked across a range of different parts of the business in Switzerland and in several Latin American markets.

I also spent six years at Fonterra, the world's largest dairy co-operative and responsible for some well-known leading dairy brands… joining first as CFO and then becoming Chief Operating Officer of its Global Consumer and Foodservice business.

So I bring a blend of strong financial and commercial expertise – and have specific experience of driving significant change programmes, including implementing global shared services in large international organisations, all of which should be relevant for Imperial.

I'm really pleased to be joining the Company at such a great time, as we begin to implement the new strategy and drive the changes necessary to strengthen performance and create sustainable shareholder value.

I'm eager to get to grips with the business and to a time when we can meet in person. I am looking forward to establishing a transparent engagement with all investors.

Thank you. I'll now hand back to Stefan…

Stefan

Thank you, Lukas. Today I will start by providing some performance highlights and then Oliver will take you through the financial results in more detail.

I'll then give some more colour on how we are implementing the new strategy and some of our operational actions to strengthen performance.

I'll conclude with our outlook and priorities for 2021… and we look forward to taking your questions after that.

Slide – 2021 Interim Result Highlights

I am pleased with the progress we have made on implementing the new strategy we announced in January.

The one thing I am most encouraged by in these results is the progress we have made on stabilising the aggregate market share performance in our top five priority markets following several years of consecutive decline. It reflects an improving momentum from an increased focus on collaboration and performance management with these markets – which are all part of the important changes we've made over the past year.

In NGP, the actions we have taken over the past year to focus our investment and improve returns have delivered a further reduction in losses. This is about resetting the business and creating a sound foundation so we can make a meaningful contribution to harm reduction over time.

It has been a good start to the year, as we start to build momentum, with growth in net revenue, operating profit and strong cash flow… and I'd like to thank all of our people for their great work in ensuring the business continues to move forward in a COVID-19 environment.

So, I am pleased with the start to the year and we remain on track to deliver our full year results in line with guidance.

Slide – Strengthening Performance

As I touched on earlier, our market share in the five priority markets increased modestly by six basis points, compared to a 37 basis point decline in the same period last year. Share gains in the US, UK and Spain were partially offset by share declines in Germany and Australia… which will take time to turn around.

We grew net revenue by 3.5% driven by strong pricing in tobacco and better NGP sales against a relatively weak comparator period.

The business has performed well in spite of the coronavirus continuing to influence customer and consumer buying patterns. The lack of international travel has impacted our duty free sales and also affected demand across markets… Oliver will provide more detail later.

Our growth in operating profit of 8.1% was driven by a better performance in NGP, against a period affected by write-downs, and a sharper focus on investment, prioritising the markets with the best prospects for growth.

A stronger performance at Logista also contributed to profit growth.

Although tobacco revenue grew, tobacco profitability was affected by some temporary factors that Oliver will take you through in a moment. The good news is underlying tobacco profitability, excluding these factors, grew almost five percent… reflecting our strategic focus on driving performance from our five most profitable markets.

We also delivered another strong cash performance on a 12-month basis with net cash flows of £2.5 bn, supporting our debt reduction priorities.

Slide – Embedding the New Strategy

Since unveiling the new strategy in January, I have been focused on implementation and taking action to improve performance.

It will take time to get to where we need to be as a business, but I believe we are making the right choices to create value for our shareholders.

A key element of the right choices is the clear market prioritisation we have now put in place… and we are beginning to realign investment to support the strategic initiatives in our five priority markets.

In NGP, we have taken steps to reset our approach and we are managing operations in a much more measured and disciplined manner. I want to see this part of Imperial flourish to enable us to make a meaningful contribution to harm reduction.

Our plans for market trials in heated tobacco and vapour are on track.

This means investing in markets where we believe we can succeed and withdrawing from markets where we don't think we can create shareholder value with our NGP portfolio.

Another key priority has been to assemble the right leadership team with the necessary leadership qualities to deliver the new strategy. The team brings together new capabilities, skills and expertise from outside the industry, and blends them with the existing valuable experience we have in tobacco at the senior executive level, as well as more widely in the business. I am pleased that alongside our new strategy we have been able to attract some very high calibre individuals with blue chip FMCG experiences like Nestle, Unilever or PepsiCo to the tobacco industry.

Beyond this, we are also beginning to implement the organisational changes and adopt the new ways of working we highlighted in the strategy update. I will outline later the changes we are already making to our sales and marketing organisation to streamline and simplify our operations.

Before I hand over to Oliver for his financial review…

This is Oliver's last results presentation for Imperial and I would like to take this opportunity to thank Oliver for his seven and half years of service to Imperial.

On a personal note… I also thank him for the very warm welcome he extended to me when I joined the Group, and for the help and support he gave me with my induction. I wish you all the best for your retirement.

Oliver… over to you…

Stefan

Slide – Financial Review: Oliver Tant

Thanks Stefan and good morning everyone.

First, let me say I'm pleased to be able to report a stronger set of numbers for my last set of financial results.

I'd like to thank all of you for the interactions we have had during my tenure.

I have very much enjoyed working with Stefan and the refreshed executive team over the past year – and I wish them, and Imperial, every success for the future.

As Stefan outlined earlier, our business is performing well with growth in revenue and profit – albeit against a weaker comparator period – and with continued strong cash delivery.

Slide – Volumes in Line with Expectations

Total tobacco volumes declined by 3.3 per cent, including a 1.3 per cent reduction from our global duty free business as restrictions have continued to affect travel. An inventory reduction in the US contributed a 0.8 per cent decline following strong wholesaler purchases in March last year.

Excluding these impacts underlying volumes declined by 1.2 per cent, better than the level we've been used to over recent years.

Our volume performance benefited from a 30 basis point share gain across our footprint, as well as better market size performances, particularly in Northern Europe…

Slide – COVID-19 Continues to Impact Market Size

Let's take a closer look at how COVID has continued to influence market size…
For example, in Spain, the Canaries and the duty free channel, we have continued to suffer from the impact of border closures and reduced travel.

In contrast, Northern European markets have benefited from higher domestic sales and lower levels of illicit trade. The rate of US market size decline has also slowed from its recent historic trend where consumer spending has been boosted by stimulus payments.

The COVID impact on market size is likely to be less pronounced in the second half as we cycle against a comparator already affected by the pandemic.

Slide – Net Revenue Growth in Both Tobacco and NGP

Overall, net revenue grew by 3.5% at constant currency.

Despite the US wholesaler inventory movements and a reduction in duty free sales, we grew tobacco net revenue by 3.2%.

Tobacco price/mix of 6.5% benefited from strong pricing and a return to growth in our US mass market cigar business, which benefited product mix. Geographic mix was neutral.

Our NGP revenues were up 16% against a weak comparator, which was impacted by destocking of the supply chain.

Slide – Revenue Growth Driven by Positive Pricing
Looking at tobacco price/mix in more detail, we have seen continued strong pricing in both Europe and the US.

In Europe, positive market mix from sales growth in the higher margin European markets of UK, Germany and the Nordics, benefited tobacco price mix. Our total net revenue performance, however, was held back by the volume reductions in Southern European markets and lower duty free channel sales which are reported within Europe.

US price/mix was up 12.7%, driven by two cigarette price increases in the first half – as well as the carryover of last year's pricing. Price/mix further benefited from an exceptionally strong performance from our mass market cigar business.

Revenue performance in triple A benefited from improved pricing in Russia and Saudi. However, it was negatively impacted by adverse market mix as volumes declined in the high margin Australian market… as well as the prior year stock profit of around £40 million which benefited revenue and profit.

The Australian government has announced there will be no 12.5% duty accelerator this year and therefore limiting the industry's ability to make stock profit this year. This will create a further £50 million headwind to revenue and profit in the second half. We also expect further market size and share declines which will impact on profitability – although we can absorb this factors within our existing guidance.

Slide – Organic Profit Growth Driven by NGP and Distribution
Adjusted operating profit was up 8.1%.

There are three factors in the first half of last year that have affected our operating profit performance. These are the US wholesaler inventory pull of £49 million, the timing of Australia's stock profit and the NGP write-downs of £95 million. These net out to a £5 million upside.

In this half year, we made progress in reducing our contingent liability as we reached a settlement for US state litigation in Minnesota. This is a good result. Resolving this issue reduces Imperial's overall risk and the slightly higher ongoing costs are manageable. We expect to do the same shortly in Texas and we have taken a £42 million charge for the settlement and we retain our guidance for the full year nonetheless.

Outside of these items our underlying tobacco performance was up £76 million, or 4.8%. Underlying NGP operating income improved by £46 million, driven by our more targeted investment approach and cost cutting.

The other key driver of our year-on-year profit performance was distribution, which was supported by better first half trading, particularly in the Pharma category, as well as recognising the reduction in inventory levels held by Logista. This follows stock increases last year to reinforce supply contingencies because of COVID-19.

Slide – Organic EPS Growth Driven by Higher Operating Profit

The Premium Cigar divestment was a 3 pence dilution to EPS. Organic EPS performance is up 6.9% at constant currency, benefiting from the higher adjusted operating profit, which was partly offset by the increased tax rate, as previously guided.

We expect the full year adjusted tax rate to also be around 23%.

Slide – Resilient Cash Delivery

Net cash flow generation remains strong and in line with expectations.

However, net cash flow in the first half was impacted by adverse working capital from the unwind of the temporary excise benefit at the end of last year, largely due to Logista.

Our 12-month rolling net cash flow increased by £2.4 billion to £2.5 billion. This reflects working capital improvements driven by excise and VAT timings in Logista and the UK, , the re-based dividend and the premium cigar divestment proceeds.

This net cash flow has been used to accelerate deleverage, supporting progress to the lower end of our target gearing range.

As a reminder we continue to operate a centralised cash pooling arrangement with our entities, including Logista. Whilst the daily cash balance will fluctuate, over the last 12 months, the average Logista benefit was £2.1 billion.

Our 12-month rolling cash conversion of 122% remains high. However, as previously guided, we expect full year cash conversion to be around 80%. This reflects the unwind of the Logista excise and duty deferment benefits bestowed by governments in the second half of last year.

Slide – Debt Performance – rolling 12 month

As highlighted net cash flow of £2.5 billion has been used to support a reduction in our adjusted net debt, which at the half year was £10.3 billion.

Adjusted net debt to EBITDA was 2.6 times, down from 2.7 times at the end of September, and from 3.5 times at the end of March last year. We remain focused on reducing leverage towards the lower end of our 2 to 2.5 times target range.

Slide – Financial Summary

These are a solid set of results – and the business continues to perform well despite some short-term COVID-related changes to buying patterns.

The business benefits from high margins and a strong track record in managing cost inflation, further supported by its ability to take pricing.

We are well-placed to fund investment in the new strategy while also strengthening the balance sheet and reducing leverage which will underpin our investment grade rating.

The cash fundamentals of the business remain strong, supporting the delivery of attractive and reliable future cash returns.

I will now hand you back to Stefan.

Stefan

Slide – Embedding Our New Strategy

Thank you, Oliver.

It is less than four months since we set out our new strategy… and, while it is still early days, we have made some good initial progress on implementation and I am pleased with the way employees are embracing change.

I will cover our progress here and touch on our operational performance before summarising priorities for the second half and the outlook.

Slide – Positive Start to Embedding New Strategy

As a reminder… our strategy is built around three strategic pillars and three critical enablers.

Today I will give an update on some of the key actions we are taking to deliver the strategy.

I will start by outlining our focus and initial progress on the operational levers in tobacco. The tobacco business has the potential to deliver a strong performance – and my view of the value creation opportunities in tobacco remain clear.

We have also continued to take important steps to reset our NGP investment – by focusing on our existing market strongholds and preparing for the market trials later this year. This is about building a successful NGP business, supporting our commitment to harm reduction.

To support delivery of the new strategy, we also need to make some changes to the way we operate, improve our culture and strengthen our capabilities… and we have made some important early progress in these areas too.

Slide – Stabilising Aggregate Share Performance in Priority Markets

So let me start with our combustible tobacco business, where greater focus and better execution creates the greatest opportunity for value creation over the next five years.

From a tobacco market perspective, at our Capital Markets Day event in January we outlined our detailed plan with clear operational levers for each of our five priority markets – the USA, Germany, UK, Australia and Spain. These markets deliver most of our profit and will therefore receive the highest level of focus and support.

Although it is early days, I am encouraged we have begun to stabilise the aggregate share performance in these markets… with 6 basis points of share growth driven by three of the five markets. This follows several years of serial decline – and a 37 basis point fall last year.

I should stress this has been driven only to a limited extent by investments in the strategy as this is only just getting underway. It is primarily a reflection of the increased focus combined with changes we have made to our performance management approach, especially targeted towards these five markets.

We are now dedicating a greater focus from the Executive team through detailed performance review meetings with the five market management teams, informed by data and consumer insight. This is creating a faster, more agile business, better able to meet changing consumer needs and market dynamics over time.

Of course, market share is only one measure of progress and we are not necessarily expecting to achieve growth in all five markets each year.

Initially, our focus is on arresting the declines, particularly in markets like Germany, as well as achieving a more consistent long-term performance.

Slide – USA: Remains Highly Attractive with Strong Pricing

In the USA, we have continued to build on our recent share growth in cigarettes.

This has been achieved by maintaining our share in the premium value segment with Winston and Kool, while continuing to grow our share of the deep discount through Sonoma and Monclair.

This reflects the momentum the team have established over the past year and we are looking to build on this with additional investment, aligned with the new strategy.

Our recruitment of additional sales people is underway and we have undertaken a detailed assessment of our sales force coverage by geography and by store – which is informing how our sales people will be deployed.

We have also started designing the new technology and sales tools required to improve the effectiveness of our field force and have begun work on longer-term brand equity initiatives to revitalise the performance of our focus US brands. I look forward to sharing details on these in the future.

Slide – USA: Strong Growth in Mass Market Cigar Segment

We have a great portfolio of mass market cigars… and we have achieved an excellent set of results with volumes up around 60%, against a relatively weak prior year period affected by supply shortages. Growth has been driven primarily by the fast growing natural leaf segment.

We have invested to improve the sustainability of leaf supply and to improve quality, particularly in the natural leaf wrappers.

Backwoods is a good example of what can be achieved through great execution and a tried and tested engagement programme, which has enhanced equity and awareness with the target consumer. It shows what can be possible in this industry.

We also identified a gap in the natural leaf segment and launched Dutch leaf in the period to extend our presence across the price ladder.

These initiatives have delivered strong share gains in Backwoods and Dutch, helping us become the number two in mass market cigars, compared with being number four a year ago.

We have further opportunities for growth as we extend the geographic reach and engage with consumers, once live events become more commonplace.

Overall, a very encouraging performance and I believe we are well-placed for further growth in the mass market cigar segment.

The recent proposals to ban menthol cigarettes and flavoured cigars are likely to take several years to implement. We do not believe the science or evidence supports a ban but we will engage with the FDA in what we expect to be lengthy, multi-stage process.

Slide – Germany and Australia: Share Declines Persist

While the German and Australian markets remain highly profitable for us, we have lost share in both over the period.

In Germany, we have lost share for the last ten years, and it will take time for our initiatives to take effect – although encouragingly the rate of decline reduced in the last six months.

Our focus is implementing our market strategy and we have begun by recruiting additional sales people as our field force is under-indexed versus peers. This is part of a broader initiative to optimise our sales force coverage to ensure we have the right representation across sales channels and geographies, while strengthening our key account management capabilities.

Work on the brand equity initiatives has started and we look forward to updating you on progress in due course. In the meantime, we have launched a new duo-pack for JPS to meet consumer demand for different formats, and we have raised awareness through a campaign to celebrate the 50th anniversary of JPS.

We are confident that as we invest behind the operational levers, our share performance will improve over time… although I am expecting share will still record a decline at the full year.

In Australia, we deliberately prioritised financial delivery and put through price increases early in the year, although this impacted on our market share.

It is a market affected by downtrading, with strong growth in the fifth price tier at the bottom of the market. Parker & Simpson has grown well in this price segment but has been more than offset by share declines with JPS.

We've launched crushball formats to meet consumer demand shifts and our Riverstone brand has grown share in the fine cut segment.

Work is underway on our operational levers but, like Germany, it will take time for these to take effect.

Slide – UK and Spain: Market Share Improvements

We achieved better share performances in the UK and Spain, which have both been supported by a focus on local jewel brands.

This is an important change in strategy, where we are now focusing on these local brands, which have been neglected in recent years in favour of their international counterparts, contributing to our share losses.

In the UK, we have focused on Embassy with the launch of Embassy Signature, coupled with an approach to fill regional gaps in brand presence.

This has been supported by leveraging our existing trade incentive programmes, which have been independently recognised as 'best in class'.

In Spain, our share have been supported by gains with several brands from across the portfolio, including Nobel and Fortuna, where we are beginning to leverage their potential.

Nobel has strong equity in Spain with national coverage and we have built on this through a successful programme of limited edition packs over the past year with artwork commissioned from a well-known local artist.

We have also invested in new pack formats with Fortuna, which have performed well.

Under the new strategy, we will increasingly raise our investment in these operational levers to strengthen our tobacco performance and build on this initial good progress.

Slide – Our New NGP Strategy

Turning now to NGP…

I believe we have an important opportunity to build a successful NGP business over time, one that plays to our strengths and is centred on meeting consumer needs.

Our approach will be more measured and disciplined – although this should not be interpreted as a lack of conviction in NGP.

Quite the reverse… I want to build a business that is <u>better</u> at attracting adult smokers and is therefore, successful, enabling Imperial to make a meaningful contribution to harm reduction.

We have carefully assessed our market positions, the category opportunities and the effectiveness of our investment, resulting in a better targeting of our investment behind our strongholds in the US and Europe.

At our strategy update in January, we set out how we would prioritise investment in certain category market combinations…

Slide – Committed to Harm Reduction: Vapour – Disciplined Investment

In vapour, we have focused investment even more tightly in line with our strategy, on the US and key European markets, where we've already established strong market positions by leveraging our route to market.

Our investment has been more targeted in marketing and point of sale activities with a proven track record… enabling us to retain our strong position in markets such as Germany and Spain.

However, in markets like the US, we have also chosen not to participate in some of the more aggressive discounting that is common in the sector – causing some share pressure.

Slide – Committed to Harm Reduction: Vapour – Resetting for Success

One of the other notable changes in our approach is our increased focus on performance management and collaboration to drive improved results.

This disciplined approach, as well as our negotiations for better trade terms with retailers, have significantly reduced losses, even leading to some markets becoming profitable on a local basis.

However, there are some markets where the business case is hard to justify and so we have chosen to withdraw from several markets such as Japan and Russia, where we lacked the route to market scale to make it work.

This is about resetting to create a solid foundation to rebuild a better business.

As part of this, we are working on a revised consumer proposition for blu. We've often focused too much on the product and its features… and we can do better with the brand building and the way we connect with our target consumers. This is a top priority for Andy Dasgupta, who joined us recently in the newly created Chief Consumer Officer position.

Our plans are on track to test this new proposition with consumers in a targeted geographic area in the US later this year, all within the US PMTA rules.

Slide – Committed to Harm Reduction: Heated Tobacco/OND

In heated tobacco, we have a clear plan to offer consumers greater choice in selected European markets where the category is well established and where we can leverage our existing route to market and local insight.

As a result, we have decided to exit from Japan, where we lacked the scale to make a success with Pulze. However, we have gained some useful insights from this extended trial.

I am pleased with the progress we are making towards launching the pilot trials of a revised consumer proposition in two European markets later this year. This work is already benefitting from the insight and involvement of Andy, who started getting engaged in this work over the last couple of months ago, even ahead of joining us.

We have chosen markets where there is already a good penetration and understanding of the heated category among adult smokers.

I look forward to providing more details once the trials are underway.

In modern oral, our efforts are focused on Scandinavia and certain markets in Europe where there is a history with oral nicotine products.

Demand for modern oral is increasing rapidly, particularly in Scandinavia. Our overall volumes are up 50% against last year, driven by strong growth in Norway and Austria.

To meet growing consumer demand in the category, we have new product launches planned for the second half.

In summary, it is still early days on our new NGP journey. We have made good progress in resetting our investment and I look forward to updating you as we move forward with the trials later this year.

Slide – Adopting New Ways of Working to Deliver our Strategy

Our new strategy is underpinned by three critical enablers: putting the consumer at the centre of the business, embedding performance-based culture and capabilities and ensuring our operations are simplified and efficient.

Having spent time working with our people and observing past behaviours and processes, I am more convinced than ever that driving change in this area is really critical to the successful execution of our five-year plan.

Slide – Progress Against our Critical Enablers – Consumer Centric

One of the key changes is to place the consumer at the centre of the business and to ensure all our key decisions are grounded in consumer insights and data.

The voice of the consumer has not been represented at Executive level for the last four years.

As I mentioned earlier, I am delighted Andy Dasgupta has joined us as Chief Consumer Officer at the beginning of May.

Andy will lead our focus on consumers by ensuring we have the right marketing, brand and portfolio management capabilities to support both our tobacco and NGP businesses.

He will also oversee the company's drive to bring a far more co-ordinated approach to how we collect and use consumer insights and data.

Andy brings extensive experience in these areas, having held senior roles in significant international consumer goods companies, such as Pepsi, Fonterra and GSK.

Andy will be accountable for a newly defined innovation programme, making sure we have a pipeline of both combustible and NGP products.

The consumer will dictate everything and will be central to our culture.

Slide – Progress Against our Critical Enablers – Culture Change

And culture is critical to how we operate and how we will deliver our strategy.

We want to create a performance-based culture centred around teamwork, collaboration and accountability.

We have already made two important changes to the incentives framework to reinforce these behaviours.

First, is to create a greater alignment to Group objectives so 80% of the annual bonus is now dependent on Group metrics. This is important to create integration and break down silos.

Second, is to change the market share metrics for the bonus to a weighted average for the five priority markets. This will ensure we are growing share in the markets that drive profit and value.

We are also changing our LTIP metrics to reinforce the delivery of sustainable earnings growth, a strong balance sheet, improving returns on capital and total shareholder returns.

I continue to encourage open employee feedback. This year, we have embraced technology and continued to hold town halls and attend manufacturing sites, albeit virtually.

We will be building on these over the next few months with an ‘employee engagement roadshow’ to work with our people on our new purpose, vision and values.

Slide – Progress Against our Critical Enablers – Aligning our Organisation

We are simplifying our ways of working and our initial focus has been on the customer and consumer facing areas.

We recently announced plans to simplify our sales and marketing organisation by reducing the number of market clusters from 13 to 10. Each of our markets will have an organisational structure tailored to its strategic role that allocates the resources in line with our market prioritisation. This will ensure each market has the right consumer insights and capabilities to deliver on its plan.

We have also strengthened the cluster leadership through several key appointments.

In NGP, we have unified our operations under the leadership of our new Chief Consumer Officer, with a clear category-led structure aligned to the new strategy – with new heads for each of the category areas: vapour, heated and modern oral.

Elsewhere, we are progressing design work on the enabling functions to ensure the efficient allocation of resource and service. These are the first steps towards transforming the business and unlocking value for our stakeholders.

Slide – FY21 Outlook: Guidance Remains Unchanged

So to conclude, I believe we have made a good start to the year.

The tighter focus on performance management in our priority markets is supporting a stronger operational and financial performance. We will begin to step up investments behind the strategy in the second half in line with our plans.

Even so, our full year guidance remains unchanged with low to mid-single digit adjusted operating profit growth at constant currency, excluding the impact of the premium cigar sale.

Let me give you some details on the moving parts…

It is clear that COVID continues to impose restrictions across our markets, affecting travel and consumer buying patterns.

We expect these restrictions to ease but the duty free channel is likely to remain significantly depressed for the rest of the year. Similarly, where we have benefited from better volumes in certain markets due to border closures, we anticipate a return to more normal decline rates gradually over time.

Tobacco revenue in the second half is expected to be affected by mix headwinds as some of last year's COVID-related benefits unwind in the second half… for example the UK stock profit and the German VAT benefit.

As Oliver mentioned, there will also be a headwind of around £50m from lower stock profit in Australia.

Despite these headwinds, and increased investment behind our strategy, second half tobacco profitability is anticipated to grow modestly against the same period last year.

Our disciplined approach to NGP will support investment behind the new market trials in heated tobacco and vapour, while maintaining investment levels, and therefore losses, at a similar level to the first half.

As previously guided, a higher tax rate will have a c. 2% impact on earnings, with organic adjusted earnings per share expected to be slightly ahead of the prior year at constant currency. Adverse foreign exchange translation is expected to be a headwind of almost 3% on full year earnings.

Slide – Priorities for 2021

As you can imagine, we have a full agenda and we are continuing our relentless focus on embedding our new strategy that we started in the first half of the year.

In our priority tobacco markets we are maintaining our rigorous performance management and will implement investment in our key operational levers.

In NGP, we plan to begin the trial market launches of our new customer propositions in both vapour and heated tobacco.

We will be rolling out the new organisational design for sales and marketing, and continue to adopt new working practices.

Our focus on strong cash flow will remain a key priority. From a capital allocation perspective, we are clearly set on a path to deleverage and strengthen the balance sheet. This will also enable us to deliver the enhanced cash returns to shareholders, which we fully recognise as an important part of the investment proposition.

We have made a good start and I'm excited about the future and truly believe that over time, we will deliver a stronger and more consistent performance and unlock long-term value for shareholders.

Thank you for joining us today… and giving us the opportunity to take you through or results.

We would now like to take your questions. I will hand back to the operator to start the Q&A session.

Thank you for listening.

Q&A

Operator: Thank you. As a reminder, to ask a question you will need to press star one on your telephone. To withdraw your question, press the pound/hash key. Please stand by while we compile the Q&A roster.

Your first question today comes from the line of Gaurav Jain from Barclays. Please go ahead. Your line is open.

Gaurav Jain (Barclays): Hi, good morning. Thank you, Stefan and Oliver. I have three questions. You know, one is on the leverage. So clearly you have benefited and advantaged from, you know – because of foreign exchange of almost £700 million, which is on slide 15. So leverage is coming in lower than what we thought. So how does that impact your view on when share repurchases could happen and, you know, how are rating agencies looking at your leverage right now?

Stefan: Gaurav, good morning. It's Stefan. Number one, we're pleased with the progress we're clearly making on deleverage, but I give it over to Oliver to walk you through the details.

Oliver: Yes, thank you, Gaurav. You're right to say, I mean, we're obviously very pleased with the deleverage progress in the first half, but I think we shouldn't lose track of the fact that part of that deleverage benefit has happened from a currency perspective. So over 25% of the impact on our net debt balance of about £700 million has been because of the strengthening of sterling and the impact that's had in the context of the value of that debt. The underlying level, of course, has also benefited in terms of levels of cash generation from the proceeds that have come from the sale of our premium cigar business, which benefited the period as well.

If we look at the underlying momentum, it's very much in line with the trajectory that we set and talked about at the capital markets day earlier on this year. And I think, as a group of analysts, one should sort of take comfort in the fact that we're delivering absolutely in line with that expectation, so our expectations around when we get to the position when we hit our target is consistent with where we were earlier on in the year.

Stefan: And I think I would just emphasise that last point from Oliver that we should see now in this half year is the deleverage being delivered that we talked about at the capital markets day.

Gaurav Jain: Sure. Thank you. My second question is on Pulze, you know, and the launch which is happening later this year. So now we are seeing some, you know, patent litigation between some of the companies in the sector around heat-not-burn technology and products, you know, how are you approaching those sorts of issues and, you know, what if they happen, and how would you handle that when you launch Pulze?

Stefan: I think one thing which is important to know that our Pulze product in its basic form has been in the marketplace in Japan, without any litigation challenges for an extended period of time. So I think that gives us comfort that, to our best knowledge, our launch in Europe shouldn't be impacted by any litigation on this front.

Gaurav Jain: Okay. And, you know, on heat-not-burn, so, look, there are tariff gaps between cigarettes and heat-not-burn product currently everywhere in the world, including in Europe, and in a market like UK, which you're really not prioritising for your heat-not-burn launch, you know, one can argue that that tax difference actually negatively impacts your cigarette business. So do you think the tariff gaps are too wide in certain markets and should close?

Stefan: Sorry, Gaurav, I think I was just trying to understand the question. It's about the attractiveness of certain markets for heated tobacco, correct?

Gaurav Jain: No. What I'm trying to understand is that, in some markets, like the UK, these tariff gaps between heat-not-burn products and cigarettes, they actually negatively impact you if consumers keep moving to heat-not-burn products in the UK where you are not present. So would you be doing further closure of these tariff gaps over the long term?

Stefan: Okay, I got it. Sorry. Reality is, I think one of the things – our strategy is around and our NGP strategy overall, like with the rest of the industry, is built around the fact that Governments across the world will incentivise in their tax regime for consumers to switch over to NGP products. I think there is a level of robustness to the strategy that it isn't built around some specific, exact position of a Government to take. So I feel – and, to be clear, I think there will continue to be movements around tax rates around NGP products across the world in the years to come. Overall, what we're seeing is the direction is in line with what we expected. When we formulated in January our strategic plan, we did foresee an increase in tax rates related to NGP products. So we have seen nothing in the last couple of months that would worry us in this context.

Gaurav Jain: Okay. Sure. Thanks a lot.

Operator: Thank you. And your next question comes from the line of Adam Spielman from Citi. Please go ahead. Your line is open.

Adam Spielman (Citi): Thank you. Three quick questions for me. Just returning to share buybacks, can you just really make it simple for us? You know, when should we expect share buybacks? And also, have the rating agencies put more pressure on you in any way because of the possibility of a menthol ban in the US? That's the first question.

Stefan: Yeah. Adam, let me answer it, and Oliver will jump in with more details. I mean, in principle, in the capital markets day I think we outlined very clear what is our capital allocation policy. And I think what you should look at the results today – we are delivering against the deleverage that we promised at this point in time. I think – in Oliver's answer to Gaurav, I think one of the things – I would just be mindful about there can always be moving pieces around it. I think, therefore, we're not – we do not want to give a forecast when we'll get to that deleverage level that we have targeted. And I hope for your understanding on this one?

On your second question on the rating agencies, to be clear, we are in constant discussion with the rating agencies. What we have outlined as our strategy is very much in line with the discussions we had them to protect our credit rating in this context

Oliver: And, I mean, Adam, just the point about pressure – you'll see that all three rating agencies are now stable outlook. So we've actually improved the position over the past few months or so, where we were on negative watch, I think partly as a result of the uncertainty around our future given the arrival of a new chief executive and a new strategy, but that has now been – that has now been addressed in their ratings and we are on stable outlook on all three rating agencies who formally assess us.

Adam Spielman: Okay. My second question is talking about sort of innovation and next-generation products. I notice that you're very much talking about that you need to connect, have more of an emotional connection – connecting – connection with consumers, but you didn't talk anywhere about product upgrades. And, you know, I'm well aware that PMI and BAT – they're investing – and PMI, actually – are investing a lot of money, hundreds of millions, in upgrading their products. And so I'm just wondering, in this category, do you really believe that emotional connection is enough, or – because of PMI, I think, you know, your products just need to be really substantially better, and that's going to be very expensive.

Stefan: Sure. Adam, in – by saying – you – you're absolutely right. I mean, to be clear, the ambition is not it's just an emotional connection. I think, look, being a marketeer by training, it's a combination of your product offering with your – with your marketing programme and your emotional connection and, to be clear, also your route to market. Where can my consumers buy my product, at what price? So it's the whole marketing mix? So I think what we wanted to highlight is that historically we have very much relied on our product offering being – carrying our message. And I think, with the arrival of Andy and really having a marketeer sit at the top team of Imperial, we want to up-dial our mark – the quality of marketing communication with our consumers. But, to be clear, product and product innovation will continue to play an important role.

The second point I would want to make here – and I think it's important one to keep in mind – is we, as the number four player in the world, our ambition is not to be the market leader in NGP. And our strategy now really focuses on NGP countries where there is a sizeable NGP segment, where consumers are increasingly looking for choices. So, in principle, our assessment is we can compete for the market share that we are looking for as part of our strategic plan in these markets with what we have to offer, but, to be clear, part of our markets tests – the trials that we're planning for NGP specifically our vaping product in the US and our two European heated tobacco markets, is to validate our proposition.

Adam Spielman: Okay. And then, finally, finally, I wanted to know about your brand strategy in tobacco. And it seems to be very much focusing on local heritage brands. And in the context of, you know, the history of the last 20 years in tobacco, that's a very unusual strategy. Most – you know, the growth has all been in – and the move has all been towards international brands. You know, obviously you have some strong local heritage brands, but do you think you can continue like that? Is this a sort of perpetual strategy that now – everybody else is swinging towards international brands and focusing more and more on that. You will be pretty much the sole player who's focusing on local heritage brands. Is that, you know, how you see it going forward for many years?

Stefan: Adam, thank you for the question, because I think it allows me clarify one point is, it is a combination of focus on global brands and local brands. The difference is – and therefore we do not drive a strategy that is focused solely on local brands. The strategy is – and this is the strategic change – we have completely neglected local brands in the last couple of years. Our level of investments in local jewels has been negligible. They were excluded from any – receiving any support from an innovation side, for example, and major marketing spend. And that, we think, is a mistake. If you're really consumer-centric, given the history of our company, we actually have a disproportionate share of strong local jewel brands, given our acquisition history. And what the strategy has corrected – instead of giving no money to them and trying to migrate them as hard as possible into global brands, we've put the consumer first and saying we will continue to absolutely – priority number one is our global brands. But we are now supplementing that with selected bets on local jewel brands. And you can see in these set of results, if I may, in the market share performance – two markets in our top five markets have grown share, in UK and Spain. A very substantial part of that share growth has been a reinvestment in local brands in Spain, in Nobel and then Fortuna, and in the UK into the launch of Embassy. So actually we can see, in this set of results, the first green shoots of actually starting to reinvest in some selected local brands, but that is not that we will not stop – that we will not invest our global brands. So it's a combination of the two.

Adam Spielman: Okay. Thank you very much. That was my last question.

Stefan: Thank you, Adam.

Operator: Thank you. Your next question comes from the line of Alicia Forry from Investec. Please go ahead. Your line is open.

Alicia Forry (Investec): Good morning, everyone. Thanks for the questions. Two questions. The first one's on Australia, which has, I guess, struggled to turn around as quickly as some of the other markets, for the reasons you identify. My question is, do you think that you have the correct pricing architecture for that market longer term? And then secondly, on the US, can you talk a bit more about what gives you confidence in the US vapour turnaround, you know, after competitors have obviously made a big push there in recent months? Just would appreciate a bit more colour on how you think you can regain some of that loss share. Thank you.

Stefan: Two very good questions. On pricing architecture Australia, I have the confidence that we have the product line-up and the pricing architecture to compete effectively in the Australian market. And let me explain that better. The share loss you see reported in the half-year results for Australia is primarily driven by our decision to increase prices and pass on duty excise to consumers and to customers.

However, some of our competitors have chosen not to do that, and especially at the lowest entries – the fixed price tier in the market, we became uncompetitive. So all our share losses are related to that specific price tier. We have now, in the last couple of months, taken corrective steps to actually – and we've very quickly started to recover that share. So I feel quite confident that there's nothing problematic from a consumer perspective behind our brand architecture or pricing architecture. It was a very clear choice that hopefully will fill you with confidence that we're not here buying our shares. We're actually – here, we're pricing more than our competitors at the beginning of this fiscal year. So that hopefully gives you some confidence that we have the right product hierarchy, we have the right pricing architecture to actually compete in the Australian marketplace.

To your second question about the US on NGP and specifically Blu, we will have our market test at – in the United States and then in one area of the US where we'll test the whole proposition, which is primarily a reset of our marketing and routes-to-market capabilities. So we do believe that, with these two key marketing elements being reset, we absolutely have an opportunity to compete in the US market, but I would come back to one point: we are the number four or number three player in the US market – way you look at it, four in NGP, three in tobacco. Our ambition doesn't have to be to be a number one or number two to make money in this marketplace. So that's an important piece to keep in mind when you look at our ambition. It is linked back to what is the right ambition for this company, yeah?

And the last point I would make here on NGP is some of the market share movements, when you look very closely, are driven by very heavy discounting of devices down to 99 cents. And you have to question yourself, I believe. It will get good initial trial. I think it will see whether consumers stick with these brands once pricing moves up and what kind of loyalty you're buying with deep discounting of devices, which is a technique we at Imperial have not engaged in and have deliberately accepted some market share loss, because we're not sure this is good market share.

Alicia Forry: Thank you.

Operator: Thank you. Your next question comes from the line of Patrick Folan from Redburn. Please go ahead. Your line is open.

Patrick Folan (Redburn): Hi. Yes. Good morning. Two questions, please. First, on Germany, I was hoping you'd give more detail on what is happening from a portfolio perspective that is causing the current headwinds. Is it more branding focus or a portfolio that needs to be moved towards value formats? And has there been any improvement in east Germany, where prices are a bit more competitive, or is that really dependent on your sales recruitment that is ongoing?

Stefan: Patrick, good morning. If you look at Germany – very happy about your question. If you look at it, one thing – we still lose share in Germany, very clearly, but we lose less share than we used to do last year. So we've lost share in Germany for 10 years in a row. So I – what I take as an encouraging signal – we're slowing the level of decline. Now, it's very clear that's not where we want to be mid-term, but it at least shows some first green shoots that the initial actions are starting to short some benefit. Now, there's a specific part of your question. What we are seeing is our sales efforts are starting to make – are starting to begin to make a difference, but we're at the relatively early stages here. Our brand renovations – reinvestment in brand equity in JPS and in West and JP – and in Gauloises are at the early stages. So the arrival of Andy, who's now deeply involved previewing the marketing programmes, will only start to make a difference over time.

To the question of east Germany where we historically hold a lower share than in our national market, now one thing that has hurt us, with the border closures towards the Czech Republic and Poland because of COVID, the east German market has actually become more important. Therefore it actually has a negative impact on our overall market share, because suddenly east Germany has a higher weighting of the total German share because consumers do not travel into Poland and Czech Republic at this point in time. There it's primarily about rejigging our sales force. We are building a better coverage of east German outlets, but that is just work in progress. So, in summary, you can see the very early signs of our new strategy being put in place in Germany, but it's probably the place where we'll take the longest. But when I look at it, the steps we've taken there are starting to show the results we're looking for, but there is a lot more to come, especially on the brand side.

Patrick Folan: Okay. That makes sense, yeah. And just with regard to MMC, you talked about a Dutch natural leaf brand extension. Considering the current menthol situation, does that make sense, or are the cigars more geared towards pure tobacco flavours as opposed to flavours that could be at risk of being banned?

Stefan: Sure. Good question. The key motivation for us – and I'm very happy about the question – is, if you look at it, we have, for a long period of time, a very good position in the mass-market cigar segment with Backwoods. But it's very clear, Backwoods is a very premium priced product, priced at double the typical price of the market. And we have good consumer understanding, so the position, as we outlined in the capital markets day, we really see mass-market cigars as a very attractive segment. It's a growing segment in the US, but we have only played at the premium end. So the decision we have made of really serving all our consumer needs to position a new product offering under the Dutch brand name in the price segment below. So it's meeting a consumer need that we as Imperial haven't served in the past. And the initial success, with the quality we can offer, has been very strong to consumers. So we haven't linked it really to any potential bans on flavoured cigars. It's just us going into a price segment where we as Imperial really haven't played, and the initial reaction has been quite strong.

Patrick Folan: Okay. Thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star and one. Your next question comes from the line of Sanath Sudarasan from Morgan Stanley. Please go ahead. Your line is open.

Sanath Sudarasan (Morgan Stanley): Hello. Good morning, Stefan, Oliver, team. Two questions from me, please. The first one – you have called out about share gains in combustibles across three of your strategic markets – US, UK, and Spain.

Can you perhaps give us some more sense about your performance in these markets across the overall nicotine user base, just to calibrate how the movements of NGP is working in these key markets? And then secondly, Stefan, you have announced your intentions a few times today on meaningful harm reduction. Could I press you a bit on what in your view is meaningful here, please? Thank you.

Stefan: Sure. On total nicotine market shares, happy to look at the stock markets. Now, the easy ones are simple. If you look at Spain, for example, I mean, there's a relatively small NGP segment, and actually we hold the leading market share in vaping, which is the largest category here. So actually I'm very encouraged when I look at total nicotine share, because we shouldn't forget, we lost share in Spain for a long period of time. And the refocus on Nobel and Fortuna as local jewels, complementing our global brands like West and JPS, actually is driving share forwards. Very happy with that. If you go to Germany, reality is here we are holding our share in the NGP segment, behind our vape – behind blu in a very good way. And I think we need to see what happens with all nicotine with the legislation on this front. So, overall, the challenge in total nicotine in Germany is clearly on the tobacco side. Dealing with the US, reality is, as you know, when you look at it, the NGP share over all of total nicotine consumption is just progressing as it would have done in the past, and therefore our US test to get more of our fair share in the vaping segment is the key thing that we're working on. So I see – I feel our – what we're doing behind our new strategy to get to the right share position in the US is absolutely right, because we're now starting to grow faster on our tobacco share, and at the same time we're addressing with the market trial how do we compete in the vaping segment, yeah? And then, to round it off, UK. You've seen a very strong performance. Also our vaping proposition is doing quite well, and the heated tobacco segment tends to be quite small at this point in time. So I think also happy about our total nicotine proposition there. And I'm just trying – Australia, as you will know, there is no legal NGP offer, so we're really talking about the tobacco position there. So hopefully that gives you an idea where we are there.

Sanath Sudarasan: Thank you –

Stefan: And can you just remind me of the second question, please?

Sanath Sudarasan: Sure. So I wanted to understand is your definition of meaningful harm reduction – what does 'meaningful' quantify as?

Stefan: I think, to be clear, I would probably be better placed once these market tests have completed. I think, once you definitely read into it, we do believe we, as one of the large players in our industry, we wanted to make the right contribution in offering our consumers a harm-reduced product offering. I wouldn't want to put a number at this point in time, because we're talking about a market that is still highly volatile, still in development. But it will make a meaningful difference to the harm reduction for our consumers. It will also, over time, hopefully make a meaningful difference to our financial situation as a company.

Sanath Sudarasan: Thank you.

Operator: Thank you. Your next question comes from the line of Jon Leinster from Société Générale. Please go ahead. Your line is open.

Jon Leinster (Société Générale): Thank you, and good morning. Yes, three, if I can. First one, just on the sales force expansion in the US and Germany, has that already started with in the US, and is that going to be something that's really coming into the second half of this year and therefore should start to have an impact next year? Or what – could you give a – perhaps a timeline on when you expect the results of that expansion, please?

Stefan: Absolutely, Jon. Good morning. You've got it. In principle, what's happening – in half one, we have primarily prepared. Recruitment has happened, but, as you will know, if you want to recruit people in the right way – and they are going through training right now. So virtually these new colleagues will hit the road and customers, in the half two in US and in Germany. Reality is, when they go off to new territory – and we shouldn't forget, these are customers that we haven't covered with face-to-face interactions. So probably the financial – put it this way, the net revenue impact in the second half is going to be smaller, but it will be an investment in the second half, because the salaries of our new colleagues are in there. You will see the benefit from a market share perspective most likely more in fiscal year '22, when they have found the right routes, they've built the relationship with the customers, they have put the right picture of success and shelving out there. So that's how I would see you being able to track the progress we're going to make.

Jon Leinster: Okay. Thanks. Second question. Maybe I misheard you; did you say your mass-market cigars in the US were up 60% – six zero?

Stefan: No, you haven't misheard us. It's actually up 61%.

Jon Leinster: Okay.

Stefan: Now, before we get too carried away, I think – just to help you, Jon. Now, number one, the big brand in there is Backwoods. Backwoods in half one 2020, so the like-for-like comparison period – we suffered supply chain issues because we really want to make sure the quality of the leaf is correct. And we had seen such an increase. So actually last year we really struggled with supply. So the plus 61 is logically – was helped by that fact that the base was quite low. It's also helped, to be clear, by the launch of Dutch that we touched in one of the questions before where you have the pipeline-filling effect of that as well, as retail partners actually give us extra shelf space and stock the brand. So please do not expect a repeat of that in half two. We'll still have a positive number, and I think you should probably see the bigger picture is that there's a segment that actually is in growth overall. Growth in volume. We as Imperial have the strongest brand in that segment. We're building out our portfolio. We're getting to a supply chain situation that actually will allow us, over time, to meet consumer demand. So this should be one of the growth engines of our US business for the years to come, and it's clearly baked into our overall global strategy.

Jon Leinster: Actually – apologies, the question was actually going to be, I mean, given that level of growth, do you actually have the capacity to maintain that sort of level – of that, you know, sort of significant growth rate that you've seen, or is that something where you'll have to invest quite a lot more in order to maintain that sort of growth?

Stefan: We have the investments, and, to be clear, the leaf supply is kind of independent farmers, so this isn't a CAPEX investment from Imperial's side. The manufacturing capabilities we absolutely have. So we will be able to actually grow the brands in the way we have forecasted. The only thing – please do not expect it to grow 61% year on year. That would be the key thing. But expect to see good positive growth – hopefully, over time, also double-digit growth behind the brand proposition here.

Jon Leinster: Thanks. And lastly, the – obviously, you had a settlement with Minnesota and Texas. Does the provision cover – does – is that all the outstanding disputes with the US states, or is there potentially more to come in terms of that provision for the MSA disputes?

Oliver: Well, the answer is it's just covering Texas and Minnesota. We do have litigation with Florida, which is ongoing, but we are extremely confident about our position with Florida, which is why we – you will see there's no provision in the context of where we sit with that particular litigation. So it doesn't cover everything, but it covers the areas which we thought it was sensible to settle upon, based upon where our position is at the moment.

Jon Leinster: Great. Okay. Thank you very much.

Operator: Thank you. We have one further question, and the question comes from the line of Faham Baig from Credit Suisse. Please go ahead. Your line is open.

Faham Baig (Credit Suisse): Morning, guys. Following the trend, three from me as well, please. Can I start quickly with the mass-market cigars business? Stefan, you mentioned it's in volume growth. What do you think is driving that performance? Would be helpful? And, just on that, has there been a price increase? I know one of your competitors announced a price increase at the start of the year. Have you also taken a price increase there? That – that's the first question.

Stefan: Absolutely. Good morning. Number one, why is mass market cigar in growth for us? There are two drivers. The biggest drivers is our market share gains. And we gained very significantly market share in that category. That's the number-one driver. What – a smaller effect is that it is – when you look at total nicotine consumption in the US, it's actually the one second that actually is grown nicely as consumers are switching to this product offering in the marketplace. And on the question of price increases, we are the most premium priced product in the marketplace with Backwoods, with double the price of the next competitor. So actually we have not taken some specific pricing on this. So pricing has not been a key driver disproportionately for – contributing to the 61% growth.

Faham Baig: Okay, perfect. And then, moving on to modern oral or nicotine pouches, could you remind us how big that business is for you guys now? And could you maybe help us with the strategy in modern oral specifically? I know you mentioned you have some market trials in the other two NGP businesses, but what is the strategy here? And what – what could lead you to potentially changing your view on taking oral nicotine in the US, where you would have a very good route to market, and clearly there is a potential benefit from a returns standpoint as well in that market? Thank you.

Stefan: Just to give you an idea, our modern oral nicotine business, roughly in these numbers, a £15 million business, just to give you a dimension. It's meaningful, but logically it's dwarfed by the EVP business. Now, to be clear, one thing we've – it's a very fair question about the US, but I think we should step back and look at it a bit. We have a very strong position in our European markets where the brands are well established and there is a consumer habit for that. So you're very right to point out the only market where there is a well-established oral nicotine segment where we're not present in the US. Absolutely right. But you will know well, to launch a new brand into the US will – you will have to go through a very lengthy PMTA process, unless you are going to buy a competitor in the US, which we have chosen not to do. I think we had bigger opportunities for us as a company, but we'll see how this progresses over time. But we think there's a bigger opportunity for Imperial to compete in the much larger vaping sector.

Faham Baig: Okay. And just one final question. I think you mentioned on the slide deck your share in the top five markets was up six basis points, but actually your tobacco share overall was up 30 basis points. What markets are making that difference, and is it you driving that performance, or is it an issue of product portfolio? Just – and which markets in particular are driving that, would be helpful to understand?

Stefan: Well, one of the biggest drivers is that our top five markets exactly a year ago lost us 37 basis points. So actually the biggest improvement here is actually our core markets. Now, if you look at why are the wider markets still showing better share gains, there are a couple of markets which are big volume markets, because we're talking volume share. You're talking markets like Saudi Arabia. You're talking markets like Russia in our portfolio. So there are a couple of markets that actually – where we have good market share performance, but, to go back to strategy, these are not markets where we as Imperial make good lots of money. So that is one of the things, but I think what is reassuring probably for you is about the focus on the top five markets hasn't slowed down some of the other markets in our market share position. And the other one in this one, just to complete it – our African markets, which we highlight by the strategy, also had some very good share performance, which is probably, of all of them, the most important one, because they are strategically not within the top five, but not too far behind, which gives us confidence about our strategy in the longer term.

Faham Baig: Many thanks.

Operator: Thank you. Your next question comes from the line of Jon Leinster from Société Générale. Please go ahead. Your line is open.

Jon Leinster: Hi guys, back again. Sorry about that. A quick question. On the first six months, you mentioned that total market size was down 3.2% and that obviously, with COVID sort of unwinding, so what would you expect the market size to be down for the full year, please?

Stefan: It's a tricky one. And just to share the dilemma with you, I think, when you look at it, overall market size has been slightly helped by the COVID situation. As COVID kind of starts to unwind, I think we'll see more the return of volume market declines back to historical levels. But I think the challenge for all of us at this point in time, when you look at our half two, being April through September, it's quite tough at this point in time to forecast how much it will start to unwind in these next couple of months, primarily based about travel restrictions – the ability of consumers to return back to their normal consumption patterns. So, if you ask me today, I would say you will see a slow return back to normal consumption patterns and, therefore, normal market decline rates from a volume perspective. But I don't think you will see in half two a complete return to a normal pattern yet.

Jon Leinster: Great. Okay. Thank you very much.

Operator: Thank you. Your next question comes from the line of Jared Dinges from JP Morgan. Please go ahead. Your line is open.

Jared Dinges (JP Morgan): Hi, guys. Actually, all my questions have been answered, but maybe just one quick one. So, you know, in the US, for a while now we've been seeing some downgrading from kind of the premium discount segment to the deep discount segment. Is this something that you guys would expect to continue, and are you kind of adjusting for that and planning your strategy around that? So maybe if you can comment on that one.

Stefan: Yeah. I mean, one thing is consumers – I mean, we've been more consumer-centric as a company. I think it's important. We follow and want to serve our consumers wherever they are. I think one of the things which is exciting for us as Imperial – while we're only the number-three player in the US, we do have an attractive offer in the deep discount segment. So one thing that I think that distinguishes us in the US is about, of all the big players, we're the one with the most complete assortment of brands, going from premium all the way down to deep discount. So the ability to serve our consumers – and you're right, if there is a segment that has grown in the last couple of years slightly ahead of the rest of the market, it's that deep discount segment which we do serve as well as a brand, and it has helped us on our share development. So that is something I'm very happy with. And when we look at – now with Andy arriving as our new Chief Consumer Officer, we're looking about what offer – what brand offer do we have for what price point in the US market. And you will be aware that the deep discount segment in the US, despite its name, is still a very attractive segment for industry players like ourselves from a cross-margin perspective.

Jared Dinges: Thanks.

Operator: Thank you. I will now hand back the call for closing remarks.

Stefan: Okay. Sure. I mean, first, thank you for a set of great questions. So hopefully you get a good sense about kind of a good start into the year. Good top-line performance. Really happy, especially being able to stabilise our market share in our top five markets. And looking forward to a good year. But I think it’s good to have the first half year under our belt, and I just wanted to reiterate the guidance that we gave for the full year. And hopefully looking forward to seeing you when we do the full-year results face-to-face. None of us are giving up hope on that one. All right. Take care.

[END OF TRANSCRIPT]