

Annual General Meeting

30 January 2013

Iain Napier – Chairman

Good afternoon, ladies and gentlemen.

I'm delighted to welcome you to Imperial Tobacco Group's 2013 Annual General Meeting. A quorum of shareholders is present, so I declare the meeting open.

I'd like to start by introducing your Board and updating you on some changes we've announced today. I'm Iain Napier, the Chairman of your Company.

On my very far right is Berge Setrakian a Non-Executive Director, then Michael Herlihy, Chairman of the Remuneration Committee and then Mark Williamson, Senior Independent Director who has today been appointed Deputy Chairman.

Moving in, next to Mark is Matthew Phillips, our Corporate Affairs Director and next to me, Alison Cooper, our Chief Executive.

On my immediate left is John Downing, Company Secretary, then Bob Dyrbus, Finance Director.

Bob has informed the Board of his intention to retire after a very successful 25-year career with the Company and I'd like to take this opportunity to thank him for the huge contribution he's made to our success.

I am pleased to say that Bob will remain in post during the search for his successor and that process is already underway.

Next to Bob is Malcolm Wyman, Non-Executive Director and Chairman of the Audit Committee, then Susan Murray, Non-Executive Director, next to Susan is David Haines, Non-Executive Director and then finally on my far left is Ken Burnett, a Non-Executive Director.

Before moving on to the business of the Meeting, you might like to know that today's proceedings are being recorded.

This afternoon, I'll give an overview of our results from our 2012 financial year. Alison will then present a more detailed review of our progress as well as a brief update on trading in the first quarter of our current financial year.

We'll then turn to the resolutions that are set out in your notice of this meeting.

Creating Sustainable Value

At last year's meeting we presented a detailed overview of our business model for growth – we apply our sales growth drivers and key enablers to maximise the growth of our total tobacco portfolio driving high margin sales to generate cash that we use to reinvest in the business and create value for our shareholders.

The success of this model delivered a number of highlights last year.

FY12 Results Overview – sales growth momentum

We increased tobacco net revenues by 4 per cent and grew revenues of our key strategic brands Davidoff, Gauloises Blondes, West and JPS by 13 per cent.

These brands now account for 30 per cent of our total stick equivalent volumes and their success was a key driver of the 10 per cent revenue growth we achieved in our Rest of World region.

Our overall stick equivalent volumes declined 2.7 per cent – but were broadly flat excluding compliance with Syrian trade sanctions and the impact of Ukraine and

Annual General Meeting

30 January 2013

Poland, where there was a steep decline in the legal markets.

This reflected the performance of our key strategic brands and the strong growth we achieved in make your own tobacco.

Fine cut tobacco volumes were flat overall however, we improved revenues by 13 per cent. Our premium cigar division had another great year, growing volumes by 11 per cent and revenues by 10 per cent and we made further excellent progress in smokeless tobacco in Scandinavia.

Tobacco operating margins were strong at 42 per cent. Tobacco adjusted operating profit was up 4 per cent and adjusted earnings per share grew by 8 per cent. Free cash flow was 1.3 billion pounds.

We wrote down the value of our Spanish goodwill due to a further deterioration in the Spanish economy. This was an accounting requirement, the impairment charge was a non-cash item and was excluded from our adjusted results.

In terms of supporting sales growth, last financial year we increased our investments behind our key assets – ensuring we balance investment with price, mix and cost management.

Our focus on maximising value increased returns to shareholders by over 40 per cent in the year – up to 1.5 billion pounds – including share buybacks of just over half a billion pounds and the buyback programme is ongoing.

Your Board proposed a final dividend of 73.9 pence per share, bringing the total dividend for last year to 105.6 pence per share – an increase of 11 per cent.

In addition, we again increased our dividend payout ratio – up to 52.5 per cent of adjusted earnings per share. I'd now like to hand you over to Alison to update you in more detail.

Alison Cooper – Chief Executive

Sales Growth – a differentiated approach

Thanks Iain and good afternoon.

Over the last two years we've made great progress in shifting our strategic focus, putting consumers at the heart of our business.

Our success is built around a differentiated approach that's focused on applying our understanding of consumer motivations to realise the potential of our portfolio – fantastic brands and products that offer consumers the best tobacco experiences.

This is fuelled by our winning culture, our people and our values; it's not just what we do, it's how we do it.

The response from our people to the changes we've been driving has been great to see; a united focus on sales on building total tobacco brands and consumer experiences that deliver high quality sustainable growth.

Our People

Values, capabilities and engagement are integral to our people agenda.

Our values sum up the essence of what Imperial's about, guiding the way we work with each other and our stakeholders and we continue to invest in the development

Annual General Meeting

30 January 2013

of our people, building capabilities to drive sustainable growth.

Towards the end of 2012, we conducted our first global engagement survey with very encouraging results; overall 51 per cent of people are engaged in the business and a further 27 per cent are nearly engaged, which is a great foundation to build on. From a management team perspective 65 per cent are engaged, up from 59 per cent two years ago.

Corporate Responsibility

Our approach to Corporate Responsibility supports the behaviour of our people and our sales strategy.

We've identified four long-term goals and focus areas which are defined in our CR Framework: responsible in how we make and sell our products creating a rewarding workplace so our people can do their best work respecting natural resources by minimising our environmental impact and re-investing in society – being an active member of the many different communities around the world of which we're part.

FY12 Responsibility Highlights

We've made great progress in each of these areas last year.

We stepped up our anti-illicit trade activities and provided intelligence to law enforcement agencies which resulted in the largest ever seizure of counterfeit cigarettes in Europe; we further reduced accident rates, cut our energy use by 5 per cent and continued to work with suppliers to improve standards for the ethical sourcing of tobacco leaf.

We were awarded another gold award in the 2012 Business in the Community Corporate Responsibility Index and achieved our highest ever score of 76 per cent in the SAM assessment for the Dow Jones Sustainability Index.

Driving Quality Growth – Building Total Tobacco brands

Turning to our 2012 operational performance and our focus on building total tobacco brands to drive quality sustainable growth, resulted in a number of strong portfolio performances.

High quality growth through Total Tobacco – Building Brands: Davidoff and Gauloises

We grew Davidoff by 9 per cent, with very good results in Asia, the Middle East and Eastern Europe, where we gained volume and share at high margins.

Davidoff iD, launched last June, was a major portfolio initiative in the second half of last year; through iD we're opening up the Davidoff experience to a much broader consumer base, making the brand more accessible to more consumers in more markets.

We delivered another great performance with Gauloises Blondes, building on its strong base in the EU and driving sales in emerging markets.

Volumes were up 11 per cent, with excellent results in Africa and the Middle East.

Annual General Meeting

30 January 2013

High quality growth through Total Tobacco – Building Brands: West and JPS

We grew West volumes by 5 per cent, with particularly good results in Eastern Europe and Asia Pacific.

We improved the brand's position in Turkey through new pricing and customer engagement strategies, with volumes up over 50 per cent last year.

JPS delivered very strong results in the UK and Australia as it continued to resonate strongly with value seeking consumers.

Gains in cigarette, and both roll your own and make your own fine cut tobacco were the key drivers of the JPS growth story.

High quality growth through Total Tobacco – Building Brands: fine cut tobacco, cigars, snus

Our world leadership in fine cut tobacco is a real strength of the business. Excluding the impact of Poland, last year's volumes were up by 4 per cent and revenues grew strongly by 13 per cent.

There were some great successes in core EU markets, particularly in the high growth make your own sector.

Our premium cigar division, which includes Habanos and other premium cigars, performed well with very strong results in emerging markets with our luxury Cuban cigars, and excellent growth in China, Russia and the Middle East.

Limited edition launches supported sales and overall, we increased volumes by 11 per cent and net revenues by 10 per cent.

Our Scandinavian snus portfolio built on its strong track record of growth – volumes grew 53 per cent and revenues improved 46 per cent and our market shares increased in both Sweden and Norway.

Driving Sustainable Growth – EU

Applying our sales growth drivers and consumer understandings across our footprint is key to driving sustainable growth.

In developed markets, such as those in the EU, economic and regulatory pressures continue to shape consumer choices.

Our bias is on driving revenue and profit performance, whilst actively managing our market share positions. By strategically balancing shares, revenues and profits – we focus on maximising returns.

Despite the weak environment we grew EU revenues last year by over 3 per cent. Operating profit was up by 4 per cent – and up by almost £80 million pounds in absolute terms.

Americas

In the USA, we're implementing a very clear plan to strengthen our competitive position.

We developed a fresh focus on driving growth on a state by state basis with a new cigarette pricing strategy. We rolled this out across 19 states last summer after a successful trial phase and our cigarette share's been on an upward trend since then.

Annual General Meeting

30 January 2013

The excellent performance of our premium cigar portfolio meant we improved volumes by 11 per cent and revenues by 10 per cent.

Driving Sustainable Growth – RoW

In our Rest of World region our focus is biased to quality volume and share growth and we see considerable future growth opportunities across these markets.

Our investments are supporting growth in this region and enhancing momentum behind our key strategic brands.

We made excellent progress last year, growing revenues by 10 per cent and profits by 7 per cent in our Rest of World region with strong performances in a number of markets including Russia, Algeria, Saudi Arabia, Taiwan and Australia.

Logistics

Finally, in our Logistics business we grew profits by 2 per cent last year, an excellent result given the challenging operating environment.

In Tobacco logistics, price increases and cost saving initiatives benefitted results, offsetting cigarette volume declines.

In non-tobacco logistics our pharma business improved sales and gained share and expanded direct distribution, and our lottery business grew by adding new points of sale.

Sales Growth – a differentiated approach

I began by talking about the change that's been driven through the business, we've put consumers at the forefront of everything we do and applied that to a portfolio that offers consumers unrivalled choice.

Our strategic approach to maximising the potential of our portfolio is delivering sustainable results and we're building total tobacco brands and consumer experiences that deliver high quality growth across our markets.

Our success is down to the things that set us apart: our total tobacco expertise, our approach to consumer insights and the motivation of our people and the values that bind them.

Interim Management Statement

Before I hand back to Iain, I'd like to update you on trading in the first quarter of our current financial year.

Strategic Focus Delivering Quality Growth

We've continued to deliver further quality growth across our total tobacco portfolio, including excellent results from our key strategic brands.

However, the macro-economic environment continues to be challenging and towards the end of the first quarter and into January, market trends have worsened in a number of key markets including in the EU and Russia.

We are confident in our strategic focus and are continuing to increase investment behind our key total tobacco assets and geographies.

Annual General Meeting

30 January 2013

Given our ongoing investment, and the European market pressures, we expect first half adjusted operating profit to be down year on year.

Our full year results remain in line with our expectations, reflecting the benefits from an acceleration of a cost optimisation programme, designed to fund our continued investment and offset the current European market pressures.

There's no doubt the current economic environment is challenging; but challenging environments also present opportunities.

Our focus on the consumer, our total tobacco portfolio and new consumer experiences are key to realising those opportunities and continuing to drive sustainable quality growth.

More details are available in our interim management statement; copies are available from the information point at the back of the room and on our website.

Davidoff iD is an exciting new king size range that will fuel further growth by making Davidoff accessible to a wider range of premium consumers.

The innovative iD concept is the result of our passion to translate the voice of the consumer into the smoking experience; Davidoff iD surprises the consumer every time they open the pack by revealing a new stylish, modern design.

Davidoff iD offers the consumer an exclusive new blend to enrich the smooth smoking experience and will be available in standard king size and GlideTec packs, both of which feature fresh iDeas whilst retaining Davidoff's unrivalled reputation for quality.

Discover iDeas everyday

Davidoff iD is a needs-based range which continuously excites consumer interest and enhances the opening ritual by revealing a new artistic discovery each time you open your pack, whilst incorporating a GlideTec one-handed opening in its portfolio.

Creating new rituals

Davidoff iD is not just about opening rituals. It's about engaging more with consumers all along their journey with the brand: when they see it, when they buy it and when they experience it.

iD was unveiled at a prestigious international duty free and travel retail event in Singapore in May this year and received a tremendous reception. It will initially be rolled out in Duty Free as well as in Spain, Ukraine and Taiwan.

Davidoff iD will be instrumental in creating further momentum behind our sustainable sales growth strategy.

Total Tobacco portfolio

As I told you previously, this is not just about Davidoff, or innovation. We are applying the needs approach in a systematic and consistent way across our total tobacco portfolio to generate sustainable momentum behind the top line.

Our portfolio has tremendous potential; we have been very active across our brands and

Annual General Meeting

30 January 2013

products and have a number of exciting initiatives in hand that will further fuel growth:

- On Gauloises, we're introducing queen size variants across various territories. We've entered the additive-free market in Germany and launched Tactil, a GlideTec variant, in France
- With West, we've been active on filter technologies and more particularly crushball filter technology with the launch of West Duo in Russia and Poland
- We have revitalized the JPS and Fortuna families and have added GlideTec variants in Germany and Spain respectively

And this is not just about cigarettes. We explore consumer needs on other tobacco products the same way and deliver new offers for our fine cut tobacco, cigars and smokeless consumers:

- We have had great success developing some of our successful cigarette brands into successful fine cut tobacco brands as well as expanding our premium fine cut brands Drum and Golden Virginia into additive-free variants, all of which extends the appeal of our fine cut portfolio across a broader set of consumer needs.
- We have built on our global leadership and good understanding on cigar smokers' needs, launching ultra mini (Niñas) in France and large filter cigars (Phillies) in the USA, as well as re-sealable fresh packs in the growing resalable segment in the USA.
- In smokeless tobacco, our snus volumes continue to enjoy double digit growth and we are developing new products within this fast growing category.

The launch of Davidoff iD is something I am particularly passionate about. It represents a key milestone in realising Davidoff's global potential and we are confident it will make a valuable contribution to driving our sustainable sales growth.

Our Total Tobacco portfolio, combined with our focus on consumer-led innovation, gives Imperial unique opportunities.

Maximising shareholder returns

To summarise, I have talked about our desire to fully understand what motivates consumers to make their choices. We will continue to develop our expertise in consumer needs and rituals, and this expertise will act as a key enabler in driving growth in our existing brand and product portfolio as well as shaping our innovation pipeline. It will also support our other two growth drivers, pricing and customer engagement, as we focus on excelling at all four drivers to maximise our share of consumption occasions.

Our recent results demonstrate how our focus on all four sales growth drivers is delivering benefit to our top line growth and, as can be seen on this slide, this feeds directly into our operational model, generating high margin profits that drives strong cash flow that we return to shareholders or re-invest back into the business to ensure growth is sustainable.

Thank you and I would now like to take any questions you may have.