

Annual General Meeting

28 January 2015

Mark Williamson - Chairman

Good afternoon, ladies and gentlemen and welcome to our 2015 Annual General Meeting.

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

On my very far right are Non-Executive Directors Ken Burnett, and Karen Witts, followed by Michael Herlihy, Senior Independent Non-Executive Director. Then we have our Corporate Affairs Director Matthew Phillips and Alison Cooper, our Chief Executive.

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

We have a full agenda today and I'd like to remind you that proceedings are being recorded. I'll give you a brief overview of our performance and Alison will then provide you with a wider review of the year. Full details of our 2014 results are set out in our annual report, copies of which are available here today.

We will then deal with the resolutions that are set out in your notice of this meeting. Following the conclusion of the AGM we have a General Meeting, scheduled to start at 3pm, at which we will be seeking shareholder approval for the acquisition of a number of assets in the USA.

A Reminder of our Strategy

I'll start with a reminder of our strategy, which is focused on building the quality and sustainability of our earnings in order to maximise returns to shareholders. We do this in four ways – by strengthening our brand and product portfolio, developing our market footprint and effectively managing cost and cash.

2014 was all about driving that strategy forward.

FY14: Driving Strategy Forward

And here you can see some of our key achievements.

We completed a stock optimisation programme, removing nine billion sticks from the supply chain in markets such as Russia, Taiwan and the Middle East, to improve the effectiveness of our supply.

This inevitably affected volume, revenue and profit. Our presentation therefore focuses on our underlying performance, which excludes the impact of the stock programme and therefore gives a much clearer picture of how we have performed.

We increased revenue from our Growth and Specialist Brands and launched our first e-vapour product, Puritane, through our non-tobacco subsidiary Fontem Ventures.

We showed resilience in Returns Markets and delivered some good performances in Growth Markets. We also expanded our footprint, establishing positions in Egypt and Japan, as well as announcing a significant acquisition in the US.

Our cost optimisation programme delivered savings of more than sixty million pounds last year, which was re-invested to support our growth agenda.

And as part of our focus on embedding capital discipline in the business, we

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improved cash conversion to over 90 per cent and reduced our level of net debt by a billion pounds.

This significant reduction was achieved through the proceeds of a partial divestment of our logistics business, Logista, foreign exchange benefits, and improvements in working capital management.

That's a flavour of 2014 – a successful and eventful year for Imperial, and one in which we again rewarded shareholders with a 10 per cent dividend increase.

Before handing over to Alison to take you through the detail, I'd like to thank my colleagues on the Board, our senior management team and over 30,000 employees around the world for their contribution.

Thank you. Alison.

Alison Cooper, Chief Executive

Good afternoon. I'll start with an overview of our underlying performance.

Underlying Performance

As Mark said, this removes the impact of the stock programme and gives a clearer insight into how we performed. I don't propose to go through every line but a couple of points to highlight: our 4 per cent volume decline was the same as the overall decline across the markets in our footprint, and the strong second half volume and revenue gains from our Growth Brands, were driven in part by the step up in our brand migration programme, which I'll come onto later.

Our good performance in Growth Markets was complemented by a robust performance in Returns Markets, where conditions in Returns South are particularly challenging.

Let's now look at some of our portfolio successes, starting with some of our key Growth Brands.

Strengthening our Portfolio

Our new global design for Davidoff is resonating well with consumers. We introduced the new pack in most of Davidoff's key territories during the year and saw the brand's share move up across its top 10 markets.

Gauloises also benefitted from a new pack and a global re-launch, underpinned by a new campaign to evoke the essence of joie de vivre and spontaneity that the brand represents.

With West, slimmer formats in Central Asia, share growth in Taiwan and a growing presence in Japan all contributed to the brand's overall growth.

And then there's JPS - a huge success story for us last year, growing by almost 15 per cent in underlying volume, over 15 per cent in net revenue, and gaining share in markets such as the UK, Spain, Italy and Australia.

Our Specialist Brands span the tobacco spectrum and include snus and cigars. We delivered good results in both product categories.

In snus, Skruf continues to go from strength to strength in Sweden and Norway, increasing share, volume, revenue and profit. And in cigar, our mass market US

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brand Backwoods performed well and our range of premium cigars made gains across a number of Growth Markets.

Brand Migrations

Brand migrations supported the performance of our Growth Brands. Our migration strategy is focused on moving Portfolio Brands into Growth Brands.

Portfolio Brands are largely single market offerings with limited brand equity and can better support our growth aspirations by being migrated into higher-quality Growth Brands.

We began 22 brand migrations in the year and completed five, including the two examples on the slide. I'm pleased with the success of the programme so far and more migrations are being progressed this year.

Fontem Ventures

Fontem Ventures is our standalone non-tobacco subsidiary, that's focused on developing products in lifestyle consumer goods categories.

The current focus is e-vapour and during the year Fontem unveiled its first e-cigarette brand, Puritane.

Puritane was launched in the UK in a partnership with the national retailer Boots. Fontem's now widening the brand's availability by partnering with other retailers, and is also gearing up to launch new products this year.

Turning now to our footprint.

Developing our Footprint

And I'll start with a brief look at some of our Growth Markets, where our priority is to drive long-term share and profit growth.

I mentioned Skruf's great performance in Norway earlier, here's a bit more colour on what we achieved, establishing Skruf as the number one snus brand in the market and growing our share to 36 per cent.

Italy's a good example of a market where we've built share steadily and consistently through investment in our Growth Brands, in this case JPS. Consumers responded well and the JPS share moved up to 3.6 per cent in the year.

We also expanded our Growth Market footprint, with investments in Egypt and Japan.

In Egypt, we have a partnership with one of the country's leading distributors and are focused on building the presence of Davidoff and Gauloises.

In Japan, we're building a strong position in the convenience channel, which is around 60 per cent of the market. Here, the focus is on West and towards the end of the year the brand had achieved a share of 0.7 per cent.

USA

In the US, we continued to make progress with USA Gold in our 19 focus states. We increased the availability of USA Gold in GlideTec packs and focused on building

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consumer equity in the second half with a new direct marketing campaign.

The US is a key Growth Market for us and one in which we again grew profits. We're also proposing to significantly extend our presence by acquiring a number of assets, including cigarette brands and an e-cigarette brand. That proposed acquisition is the subject of our general meeting later and we'll provide more information then.

Spain, Morocco and France

Our Returns Markets are split into North and South. In both divisions we prioritise sustainable profit performance, while actively managing our strong share positions.

In Returns South, trading conditions remained challenging in Spain, Morocco and France and we focused on our portfolio in each market to strengthen our position.

These included brand migrations in Spain and initiatives in the make your segment in France, which stabilised our overall fine cut tobacco share.

In Morocco we launched MQS cigarettes and the market's first fine cut tobacco products through Gauloises and Marquises.

Developing our Footprint

We delivered robust results in Returns Markets North, where the UK and Australia are two of our key markets.

In the UK we maintained our leadership position in an environment of weak industry volumes, strengthening the Lambert & Butler brand franchise with the launch of L&B Blue and achieving fine cut tobacco gains with Player's Gold Leaf.

And in Australia we had another great year, growing volume, share, revenue and profit with JPS through a continued focus on customer engagement.

Cost and Cash Management

Effective cost and cash management supports our sales growth strategy. Our cost optimisation programme will deliver savings of £300 million a year from September 2018. We've achieved £90 million so far; 60 of that was generated in 2014, and we are targeting a further £85 million this year.

Cash conversion was up 5 per cent - a good performance that we want to build on over the coming year by targeting improvements across the Group.

Before turning to the 2015 outlook, a few words on Corporate Responsibility.

Corporate Responsibility

Managing Imperial responsibly is integral to the way we do business, it supports our sales growth strategy and is crucial to our long-term success.

We made further good progress in the four areas that define our responsibility framework: being responsible with products, creating a rewarding workplace, respecting natural resources and reinvesting in society, and our achievements were once again recognised externally.

We scored 94 per cent in the Business in the Community Corporate Responsibility Index, and 74 per cent in an assessment for the Dow Jones Sustainability Index.

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FY15 Outlook

We remain focused on maximising our long-term growth potential and 2015 is all about building on the progress we made last year.

The portfolio priority is to keep driving the performance of our Growth and Specialist Brands, that's where the quality of our portfolio lies, and migrations and further investment will support their on-going development.

From a footprint perspective, the priority is to build momentum across our Growth Markets, whilst maximising performance in Returns Markets.

Our focus on cost optimisation and capital discipline supports our sales strategy by building resilience and freeing up funds to invest in growth.

External conditions will remain challenging in 2015 but the actions we've taken have strengthened our ability to grow in this environment, and we look forward to adding to our track record of shareholder value creation over the coming year.

(Hand back to Mark)

Thank you Alison

Lao Tobacco Limited

Before turning to the formal business of the Meeting I'd like to respond to allegations that have been made about our operations in Laos, specifically that we have a 'special tax deal' with the Lao Government whereby excise tax on tobacco has been capped for 25 years.

This is not true.

In 2001 we entered into a long-term joint venture agreement with the Lao Government and our investment effectively saved the state-owned tobacco manufacturer from bankruptcy.

The government benefits from a 47 per cent holding in the business and we continue to enjoy an excellent working relationship.

Working together, we've significantly reduced the level of illicit trade in Laos and reduced rural poverty by developing a sustainable leaf growing strategy.

In the process, we've created a successful business that directly and indirectly supports 29,000 families nationwide.

Our partnership continues to go from strength to strength and as you'd expect, the original agreement between us has evolved over the years.

There is no special tax deal and excise on tobacco has not been capped for 25 years.

All tobacco companies in Laos are subject to the same excise rates and since our first full year of operation in 2002, government revenues from tobacco excise have gone up every single year.

The government raised tobacco excise in 2010 and 2011; on average this increased the excise on a pack of cigarettes by 280 per cent and led to a significant increase in the retail price.

We're proud of the business we've built in Laos and I'm delighted to have this opportunity to set the record straight.

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

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There are 20 resolutions to be put to the Meeting, all of which are set out and explained in the Notice of Meeting and which I will take as read.

Unlike in previous years I intend to take questions in respect of all resolutions now and then ask you to vote on all 20 resolutions rather than propose each resolution in turn.

Given our very full agenda today, may I please ask you to keep your questions short and to the point.

If you do ask a question, it would be helpful if you would please wait for a microphone and then let everyone know who you are before asking your question.

Are there any questions please?

(PAUSE)

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

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

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

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

Resolutions 18 to 20 are special resolutions and will be passed if more than 75 per cent of the votes cast are in favour.

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

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

(PAUSE TO ALLOW TIME TO COMPLETE VOTING CARDS)

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

[Pause]

Ladies and gentlemen, that completes today's AGM agenda and we will now move on to our General Meeting/take a short break until 3pm when the General Meeting will begin.