

Imperial Brands participants:**Stefan Bomhard, Chief Executive and Peter Durman, Head of Investor Relations**

Hello and welcome everyone to the Imperial Brands Q&A session.

I am Peter Durman, Head of Investor Relations and I am joined by Stefan Bomhard, our CEO, to answer your questions today.

The strategy you've set out focuses back on the combustible business what gives you the confidence in the outlook for the tobacco sector, particularly given the potential risks around cannibalisation from next generation products.

Hello to everyone, thank you for the first question. From my side it is very clear that the value creation model of combustibles is absolutely in-tact and it remains very positive. We really feel very strongly and the data will support that price growth will continue to offset volume decline. If you look through the eyes of Imperial, two of our markets make up nearly 50% of our profitability in combustibles, which is Germany and the United States and if you look at these two markets they rank among the most affordable markets for cigarettes. So I think from our perspective this will definitely stay in play.

Why have you chosen the top five priority markets and what's the role of the other markets you operate in?

As one of the smaller players in our industry, I think it is extra important that we focus. The reason we picked the top five is quite simple, the top five at Imperial, represent nearly two thirds of our entire profitability. At the same time when you look at the data, in the last five years, in four of these five, Imperial has not gained share it has actually lost share, but they are the most profitable markets overall in our portfolio. So focusing more of our attention on these top five is one of the biggest self-help opportunities for the company. While at the same time our market position, and in several cases also the attractiveness of the markets, most notably in the US and Germany as one and two, is so attractive, so that is why it is right for us to focus on these top five markets.

You said you believe the market under appreciates the opportunity, but you have competitors who have been ahead of similar efforts to build brands and gain share. What gives you the confidence you can regain the share in combustibles in your key markets?

What gives us confidence, there are quite a number of different layers and pillars to our strategy, and they fall into two buckets. Number one, sales improvements and the other bucket, brand marketing improvements. I feel very confident in the sales improvements, because to be clear, as some of them are self-inflicted, such as we have reduced our sales coverage in a number of markets. So that is something, reinvesting in areas where we have not put the right foot forward, where we have reduced over coverage and reduced the availability of our brands to our consumers. So that is something that our competition can do

very little about, as to a certain extent we are catching up where our competitors are. So it is a very positive mechanical effect to our numbers.

On the marketing side, it is also very clear that in a number of markets in order to hit short term profit targets in the past, we have actually reduced marketing investment well below our fair share of voice, and that is something we will correct. Do we expect competitors to react, yes we do, but assume that is already included in our plan.

What are you doing to re-engage investors that might be divesting from the space, owing to ESG concerns?

For us it is very clear, you saw it in the presentation. ESG is for us a clear enabler in the business, for our employees, our consumers, our customers, but it is also a clear element to signal to our investors that it is right to hold the shares in Imperial. So what we will do more, it is very clear that we have overall good ESG activity, but I think we have been lacking in certain areas to give investors the visibility of the KPI's and we will address that.

Would you please comment on the current capacity utilisation in the US. Are there opportunities to improve manufacturing efficiencies and realise savings?

On the US specifically, as you will know part of the new strategy, we have just appointed and has just joined us a new Head of Supply Chain and Manufacturing worldwide, has joined us from Unilever and clearly he will lead our manufacturing footprint overall. I think what is very important, the strategic plan that we have put in front of you, and the numbers we have committed to, have not included any effects from a further manufacturing efficiency drive. So that is a further opportunity, at the same time to take within our overall P&L numbers. Specifically on the US that is, as you would expect, part of the overall review.

One of the challenges you have acknowledged, is that previous management were leveraging the playbook of competitors, but at the same time you asserted your confidence at Imperial being a fast follower. How do you reconcile those two views?

I've done with the top team, a lot of looking at the history of Imperial. What were the periods of strengths and what were the areas of weakness, and its very clear, Imperial has some really key strengths. When we were at our best, we were a challenger company within our industry. If you think of how Imperial came together. There is enough knowledge and enough of our colleagues from that period of time around, who actually know that. I think an important point, there is a real belief inside the company about being the challenger within our industry. One benefit we have, it's very clear, our smaller scale, should give us an inherent higher level of agility over our competitors, which we believe in a fast changing industry like ours, is a structural competitive advantage, that we just need to exploit.

What are the key drivers for growth of the deep discount segment in the US? Do you believe that trend will continue?

Number one I would say, the deep discount segment is just one of the segments, we at Imperial compete in the US. We have a complete brand portfolio, starting with Salem at the top, going to Winston, Kool, Maverick and other brands. We have established a good position in the deep discount segment. It is a group of consumers, who are clearly looking for product at that price point. We have a good brand portfolio and we clearly see that as one of the

growth opportunities. But I also want to be clear, as we outlined in our overall strategic plan, we also want to leverage much more than in the past our overall brand portfolio. So in the US specifically, our Winston and Kool brands which are in the sub premium segment and logically operate at a higher gross margin. We also want to drive harder our mass market cigar business, which as you will know, with Backwoods has one of the hottest brands in the market place. So I think it is about a completely holistic approach to our US market, which I'm very excited about.

What is the relationship between the FDA in the US and Imperial and it's vapour strategy?

I think, one thing overall and I want to reiterate with the new strategy. I have operated in regulated industries before. I am a firm believer, if you operate in a regulated industry, one of the key things is about working together with regulators to really understand their agenda and understand how the two agendas fit together. Our engagement in the US with the FDA is no different to how we engage in our other markets across the world. If we talk specifically about our vapour, as you know we have submitted our PMTA application for the blu brand and our blu products, and we are working through that application with the FDA at this point of time.

In the context of the plans we have for this year, is marketing spending increasing or decreasing this year?

It is definitely increasing. When we talk about the two phases of our strategy, phase one which is this fiscal year and next fiscal year and then phase two which is the following three years. Around the top five markets especially, you will see an increase in our marketing spend because we have identified brand by brand, market by market, which brands according to the data we hold, we are not investing enough to actually hold or gain share. At the same time, as we made the comment there is no margin reset required at Imperial, we will self-fund that by the efficiency savings which are a key part of this programme, but also by shifting some of the market investments out of our smaller markets.

In the presentation you noted examples of brand migrations that did not work, for example Ducados, but others that have worked. What's been the key learning about what makes a successful brand migration?

Number one, we talk about wanting to be more consumer centric and this is a great example. To be honest a consumer doesn't know whether a company like ours declares this as an international, as an asset brand, a priority brand. What consumers care about is that the brand relevant to them. So I think when we talk about brand migrations, the most successful brand migrations have been where there is a brand that actually sits in the same space for the same consumer need. In these cases brand migrations have worked for us as a company.

What is also very clear, that in the past we sometimes tried to migrate brands which had a very different consumer profile, a very different consumer insight from what the product tasted like, what was the target at and that is the one where we actually lost consumers. So one of the big changes, and this is an important one, because if you look at the history of Imperial, with our acquisition history, we carry a lot of powerful local jewel brands, with strong consumer following. As we didn't respect that in the past, we have lost share in these

markets. We want to get the balance right, where we see a strong local jewel brand, with a loyal following, we want to support that brand, not migrate it into a global brand.

Do you have a view on the potential legalisation of the US cannabis market. Would Imperial participate or support such a market?

On the legalisation of cannabis, the reality is we have a very small investment in Auxly at this point in time. So as I look at the industry at this point in time, we have other priorities. Our priority has to be to focus on our core business, on our top five markets as well as establish a more focused and more rigorous NGP portfolio. We will watch this space with interest, if legalisation of the US comes, we will assess the position in the US, you will have seen that the US as one of our top five markets, the number one market worldwide, we will have the right salesforce capabilities that we are investing in, we will observe what is happening in the US market on the cannabis side.

Can you shed a little more colour on Africa, how do you approach such a segmented market going forward?

One of the observations when we look at all the data it became very clear that while Imperial has a small footprint of markets, primarily in western Africa, we hold some very strong positions in these countries, often being the market leader. At the same time, we have not invested in these markets in the right way, and to a certain extent they have been playing more of a profit opportunity for us. When we looked at the outlook for these markets and also the brand portfolio we have bought to these markets, again the comment about local jewels, we were focused very much on global brands, and these markets actually have a lot of local brands. So there is an overlap between a stronger focus on Africa, the markets that we are present in and also investing more behind local brands. So I think it is a great growth opportunity for us outside of our top five markets. We do believe there is a good opportunity for Africa overtime to make a bigger growth contribution to Imperial. Focused, again the word focus very important, on the markets that we are present in with strong positions.

What would you look to do if it turned out the current blu product or Pulze product is not good enough to take fair share?

The important thing, we have always said with the new strategy, is we will only make major investments in markets, once we are sure that we have the right product, the right marketing programme and the right route to market. The question is right to ask, we will have to be satisfied that the product, one of these three components, whether it is on blu or on Pulze, is actually attractive to a subgroup of consumers, I want to be very clear, that our ambition at Imperial is not to be the market leader, but to have identified sub-sections of vapour or heated tobacco consumers, where our product is more attractive than the other offers on the market place. We will work very hard to get there, but we will not make any major investments until we are satisfied, and not just what we believe, but actually what the consumer data in the market tells us that we are there.

How do you differentiate marketing spend between traditional promotions at retailers verses promotions on retailers online sites?

Number one I think the most important thing is again to use the consumer lens. Personally I do not think we will differentiate very strongly about a physical promotion at a retailer site or an online site in the markets where this is legal. I want to be very clear in our regulated industry, there is a more limited set of marketing. The reality it is all about the consumer. One of the important things for us, as we appoint a Chief Consumer Officer for the first time in four years at Imperial, to really understand what is the best way to get our messages about our brands to our consumers, in partnership with our retailer partners. We are a very firm believer, as a challenger company, we are typically the number two or number three in a market. As I went around the business, it became very clear that our retail partners are very interested in a strong Imperial, because they clearly see this as a key element of competitive tension in the market place. We play that role online and also in a physical outlet.

Have you been surprised by the share price reaction since you set out your revised strategy? Did you engage with investors whilst formulating the strategy? Does the share price reaction inform your thinking as to how the strategy may evolve?

No I was not surprised because I think, number one I have been too long a CEO, you need to do what is the right thing for the company, the reality is that shareholders will follow you on this one. Just a couple of facts, as many of you will be aware, ahead of our capital markets event, our share price ran well ahead of any other player in our industry. So to a certain extent there was an expectation about a certain correction, because as many of you will know, some investors, especially investors who had bought into the share very recently, were expecting the announcement of a share buyback, which I think at the capital markets event we explained very well why that was not possible at this point in time.

On the question about engagement with shareholders, absolutely. In my first week, with Peter, I spoke with virtually all our top ten shareholders, just to get early on their point of view on the company. Also after the capital markets event we have spoken with quite the majority of our shareholders and I think we got some very positive feedback about the general direction of our overall strategy. At the same time, given our history, I think it is important that we as a management team, actually now deliver on the promises we have made and you have the full commitment from our side and the entire management team to deliver that, based on what we think is a plan that is deeply rooted in the strengths of this company.

Can you explain how Imperial will deal with local needs? Do you believe this nimbleness will set you apart from other tobacco companies?

I hope so. Let me explain what I mean by that. I think one of the uniqueness of our industry, and as you will know I've worked across a number of consumer goods companies. Given the regulated environment of our industry and the often very significant differences in that regulatory environment between countries, understanding the local market needs of consumers, regulators and customers is super important. We at Imperial have a wide range of markets. So I do believe, we should have a competitive advantage around it. Clearly the focus on the top five markets, I do not need to understand twenty markets to actually deliver the number for Imperial. We as the leadership team, if we get it right in these top five markets,

that can make a real difference in our numbers. I'm a big believer, our smaller size, our localness, also supported by local jewel brands, will actually over time put us in a position to be faster and more agile than some of our competitors, that is the ambition of this plan and it's also clearer that is not baked into our share price.

Why are you choosing to focus on heated tobacco in Europe? Other competitors with more developed products have demonstrated limited progress in Europe?

Behind this strategy we started off with the consumer. When we look at the data, it is important to put this in context, we are seeing a slow conversion to NGP products across the majority of markets, and that includes Europe, but the conversion is there. When we looked out at the next five years we see in a number of European markets that are relevant to us, a stronger acceleration of more growth on the heated tobacco side than we would see for other product forms. We over-laid that, also to be clear with our route to market, one thing that is probably not fully appreciated, because heated tobacco is a tobacco product in a number of European markets, that means it has to go through the tobacco channel which typically, given our very strong route to market operations in a number of European markets, plays to Imperial's strengths. What we want to make sure, is that as this market continues to grow, we as a company have developed our proposition in this space. We have started from very humble beginnings. We have a product that we will test now, in selected European trial markets, to see how well it scores with European consumers. Our off the market data with European consumers, is actually quite promising, but we want to see that data replicated in a real market environment before we make any major decisions on investments here.

Does the size of your company, restrict your ability to deal with unforeseen governmental regulations and applications for new products?

No it doesn't, whilst we are proud of being more agile, hopefully as a challenger company, we are a very sizeable player in our industry. We should also remind ourselves that the impact of regulation is a one country by one country operation. Our level of knowledge on the corporate affairs side, developed over many years in our core markets, I think is one of the strengths of the company. I come back to the top five market focus, we have looked at with a lot of depth about the regulatory agenda in the past and in the future of these top five markets, and feel very comfortable that we do understand what regulators want to do in these markets and be in a constant collaboration with them, we see that as our role as a responsible player in our industry.

As NGP products improve and NGP growth accelerates, what gives you the confidence that cigarette volumes declines will not accelerate to such an extent that offsetting the impact with price will not be possible?

I think if we look at the data, and sometimes coming fresh to an industry gives you a fresh pair of eyes. It's fascinating that the industry has overall most of the time overestimated the growth of NGP, not underestimated the growth. To be clear we as a company have paid a lot of money in the past for actually overestimating the size of the opportunity as well. So I think what is important, we will very closely follow the development of the growth and if I look at the five year time dimension, we need to look at this primarily through the lens of our top five markets. We believe our strategic plan, the next five years, when we look through our

footprint the opportunities are absolutely there to offset any volume declines in the core combustible business with price increases and the trends do not indicate that there will be a very material change to that. At the same time we are protecting ourselves by clearly having a portfolio of NGP across all three different product ranges.

What needs to change within the business to improve the culture?

Great to hear that question because I think one of the biggest upsides of the business from self-help from a culture perspective is to get to a better place. One of the key components I would call out is to be more consumer centric. Not having a Head of Marketing and Consumer in a company of our scale for the last four years is definitely something we are going to address. We will become a more consumer centric and I can tell you from my engagement with the company they were craving for it, so there is an open embrace to become more consumer centric as an organisation. The other thing is about a change in culture to become more agile and more performance driven, we've already put a couple of things in to place like monthly performance reviews with the top five markets with the entire top management team of the company. I can tell you that is already landing very well, but it is real change happening throughout the company. The final thing is about the recognition that we are duplicating certain things we are doing within the company too many times, that gives us also a cost opportunity but actually will make us a faster organisation. So I feel very strongly and all the work we have done with the management team and into the organisation gives me the confidence that we will get the culture in the right place to support this and people are very excited about it. I had today a town hall meeting with the entire supply chain and they are embracing, they want to see that change, they want to drive faster, they want to see this business succeed.

You talked about operational excellence in your presentation. Can you give us some examples of what you will do differently?

Absolutely, I'll just select a few. Operational excellence is just about looking every month, at our market share numbers, SKU by SKU, brand by brand, sales region by sales region. It's a very simple thing with traffic light systems, where we are verses competition and then immediately engaging with what corrective steps do we need to take when something switches over to yellow or red on the traffic light system, that is very simple.

Operational excellence also means looking at the sales force deployment seeing are we going to the right outlets, are we having the right conversations. It's the basics, there is a lot of self-help opportunities at Imperial, that gives me the confidence that in the next five years we can deliver better results overall. So that's two examples of targeting consumers when we talk about NGP, just being very clear, at what target consumer we want to hit, what are the right consumers for us, what is the right KPI, how are we going to measure it and what is the level of investment to put behind it. The other element of operational excellence is also recognising where you have failed and stop investing behind something that just will not work.

You comment on the importance of greater flexibility for the balance sheet in future. What opportunities does that create and would M&A be a use of the balance sheet?

I think the biggest use of this flexibility is giving us in our relationship with shareholders, is to reward our shareholders with an attractive combination between a nice dividend and a share

buyback. Our pay-out ratio today as defined by the dividend policy we set last year, is around 54%. That means that after a period of time where we will reduce our debt levels to our target levels there is a very significant chunk of our free cash flow that will be available to us, to actually reward our shareholders with share buybacks and shrink the equity base of the company. So at this point of time, and that's why we did not talk about this at the capital markets day, we do not see M&A and buying other businesses as the best use of our capital and the free cash we have, so that's a reassurance we also wanted to give to our shareholders.

Great thank you, we are out of time, so let me now hand it back to you Stefan for any concluding remarks.

Thank you for all the people that asked questions. I think hopefully what you got across, there is a real opportunity of self-help and driving operational excellence in this company harder, to deliver a better set of results. Hopefully what also came across as well is this focus on the top five markets, which are more than two thirds of Imperial's profitability, where we have lost share in four out of the five markets. Reversing that, getting to a better share position, there is a very significant value creation opportunity for Imperial and at the same time focusing on NGP in a much more rigorous way with clear choices will get us to a better place. Thank you.