5 November 2019

FY19 PRELIMINARY RESULTS PRESENTATION AND Q&A FULL TRANSCRIPT

1. SCRIPTED PRESENTATION

Prelim Results 2019

Good morning and welcome to our prelim results presentation.

Disclaimer

I'm joined by Oliver Tant, Chief Financial Officer and Matthew Phillips, our Chief Development Officer. In the front row we have Dominic Brisby, Director for the Americas, Africa, Asia and Australasia and Joerg Biebernick, Director for Europe.

Positioning Imperial for Continued Success

There's no doubt this has been a challenging year. Results have clearly been mixed; we've performed well in places but underperformed in others and that is disappointing.

However, I think it's important to step back and consider 2019 in context.

Our tobacco business has grown revenue by just over 1% and profits by around 2%, driven by a strong US performance and resilience in Europe. This is in spite of a tough trading environment for our AAA division, and a difficult year, from a share perspective, in two of our most profitable markets, Germany and the UK.

Our tobacco value creation model is very much intact. Tobacco continues to produce high margin sales growth and we're well-placed to deliver sustainable profit growth and strong cash returns in the years ahead.

Our vapour investment has not yielded the returns we expected. The environment hasn't helped the sector, with a high degree of regulatory uncertainty and volatility surrounding the category particularly in the US, which slowed markedly in the fourth quarter. We also saw slower second half category development in Europe, although we have established and maintained leading share positions across multiple markets.

It's also clear that there are areas where we need to improve. We got some things wrong and there are clear learnings coming out of 2019 which are helping us adapt our approach and reshape our investment in 2020 to drive a stronger performance.

We have driven trial and created the category in some markets, but loyalty is lacking and this is the priority to address in 2020……together with a focus on the category and market combinations that offer the greatest opportunities for sustainable, profitable growth.

Evolving our NGP Approach

The outcome in 2019 for NGP demonstrates the need for an agile approach in a fast-moving environment. We laid out bold ambitions, galvanising our teams around the significant growth opportunity of NGP.

In hindsight we set the initial ambition too high, but while the journey and speed of travel may change the destination doesn't. The evolution of the global nicotine market is inevitable; NGP remains a significant growth opportunity and one which I believe we are well placed to benefit from.

We have reset our investment plans…….still investing in trial but increasing our focus on providing a differentiated consumer experience to grow brand loyalty.

We will continue to leverage our strong retail positions, while also developing closer relationships with consumers online and we will be introducing an enhanced product and brand refresh ahead of blu 2.0 later in 2020.

And given the current high-profile health concerns, we are also focused on promoting the right regulatory framework for vapour; one that raises product standards, providing assurance to smokers and better visibility for us on returns.

Beyond vapour we are continuing to strengthen our multi-category approach and will extend our presence in heated tobacco and modern oral nicotine in more markets during the year.

I'll come back to talk through our approach in 2020 after Oliver has taken you through the key drivers of performance in 2019. Oliver.

Oliver Tant

Thanks Alison and good morning everyone.

Summary Financials

While 2019 has been a challenging year we have seen a good underlying performance in tobacco which was offset by challenges in NGP, where vapour has been growing at a slower rate than expected.

Tobacco net revenue was up 1.1% benefiting from strong pricing, despite tougher trading conditions in our triple A division.

This supported good growth in tobacco operating profit, although this was more than offset by higher investment in NGP, resulting in a 2.4% decline in Group adjusted operating profit.

EPS benefited from a lower interest charge and lower tax rate driven by a more favourable mix of profits.

Cash conversion of 95% was slightly higher than initially guided due to the timing of working capital flows, mainly in Logista.

FY19 Earnings – Explaining movements post trading update

Let me start by explaining the key factors which drove a different EPS outturn from our trading update.

This was predominantly due to NGP related costs. Principally, the crystallisation of the supply chain contract termination costs we referred to in our trading update, as well as a related and slightly higher provision for slow-moving stock.

In addition, the contribution from other income was lower than we guided to in September, with a more prudent valuation of our investment in Auxly.

These factors were partially offset by the slightly lower effective tax rate.

FY19 Net Revenue

Tobacco volumes declined 4.4% with second half volumes benefiting from shipment timings in the US, a recovery of Middle East volumes and the resolution of distributor disruption in South East Asia.

The tobacco value creation model continues to deliver, and price rises in higher value markets supported price/mix gains ahead of the volume declines.

We grew tobacco net revenue by 1.1%; this includes a benefit from US trade pull ahead of an expected MPI, which we subsequently saw in October, but lower revenues than expected in Australia with an upside rephased into 2020.

NGP net revenue grew by 48% overall with trading revenue up 137% adjusting for last year's IP income of £70m.

Overall at constant currency, revenue grew by 2.2% and 3.9% at actual rates including a 1.7% benefit from FX.

FY19 Adjusted Operating Profit

Adjusted operating profit last year benefited from £80m of other gains driven by the sale of our head office and our OTP brands in the US. For 2019 other gains of £10 million arise from a gain on the value of our investment in Auxly. We therefore have a drag of £70 million to profit and earnings.

Underlying tobacco operating profit grew by £145 million, or 4%, supported by positive price/mix and savings from our cost optimisation programme.

Profit in the triple A division was impacted by tough trading conditions. We saw lower price/mix and increased investment in Australia, combined with pressure from growing cross border duty free volumes in Saudi and key account price discounting in Russia.

Profit on last year's IP income was £62 million; adjusting for this, losses in our NGP business were higher by around £110 million.

Let me now turn to providing some more detail on the factors that have influenced this movement.

NGP Incremental Investment

We had clear ambitions to drive significant growth from NGP and we invested in A&P to build brand awareness and in overheads.

The higher investment delivered an additional £54m of gross margin, which fell short of our expectations. Some of this investment was effective, supporting good performances in some European markets and Japan, however some of it did not drive the desired outcome.

We have learned a great deal from what works and what doesn't, and this is informing our investment reset for the coming year, which Alison and the team will cover later.

Another consequence was that we put in place a supply chain that was geared for a much higher level of growth. We have re-evaluated our European supply chain, resulting in contract termination costs and a higher provision for slow moving inventory.

The net impact was an additional £112m loss.

In the first half of 2020 we will be continuing to invest behind consumer offtake. However, as we reduce levels of trade inventory, this will impact the level of sell-in, such that spend will represent a higher proportion of net revenue in the first half.

Operating Profit – Reconciliation of reported to adjusted

I also wanted to highlight some of the key adjustments between adjusted and reported operating profit in 2019.

The amortisation of acquired intangibles is lower than last year, as the charge associated with the Altadis acquisition has now rolled off. This was more than offset by a goodwill impairment and disposal costs of £525m on the Premium Cigar assets.

The main reason for the impairment are differences in holding the business for sale versus on an ongoing basis. The impairment also reflects tax and other transaction costs, as well as a revised expectation about the timing of US trade embargoes being lifted.

Post impairment the value of net assets held for sale is £1.1 billion.

We expect that the impairment will be significantly offset on completion by the recognition of cumulative FX gains of between three to four hundred million pounds.

Both are non-cash items.

We incurred a P&L charge of £144m for restructuring costs.

We also recognised a fair value adjustment of the acquisition consideration for Von Erl as we settled outstanding contractual terms with the vendor. This is the final payment as part of the Von Erl acquisition.

Finally, in Russia new legislation was introduced in 2017, retrospectively limiting the amount of production that could take place in respect of new excise tax increases without being subject to the higher rate. This has been applied across the industry in Russia and a number of other manufacturers have already made announcements in this regard. We have made a provision for a claim for £139m before possible corporation tax recoveries.

Proposed Changes to Disclosure

We have listened to feedback around our adjusted performance measures and are changing our approach.

We have already sought to give better visibility on our ‘other income’, where we recognise the benefit of profits from the sale of assets, including brands and property. However, we are now removing significant items, focusing adjusted profit measures on underlying business performance.

Going forward we will continue to pursue similar opportunities as part of our effective management of the asset base, particularly where we're able to generate additional cash for shareholders.

We have also carefully considered the treatment of restructuring costs and have concluded that we will continue to exclude them from adjusted measures for just one more year, until the current programme has concluded in 2020. Thereafter, we will reconsider the treatment of any future restructuring activities.

Non-cash amortisation of goodwill and intangibles and movements on derivatives will continue to be excluded from adjusted profits.

FY19 Net Cash Flow

We had another good year of cash delivery, with cash conversion at 95%, slightly higher than our original guidance, driven predominantly by working capital flows in Logista.

Net capex was around £100 million higher, with the majority driven by NGP spend related to increased capacity for heated tobacco and implementation of track and trace in Europe.

Cash restructuring costs decreased year on year due to the first cost optimisation programme ending in 2018.

Management of the debt portfolio enabled continued reduction in net finance costs which were around £40 million lower, while our effective adjusted tax rate was 19.1 per cent, the slight reduction due to a more favourable mix of profits.

We generated around £400 million of post dividend cash flow which enabled investment in Auxly, the ongoing share buyback and around £300 million of debt reduction at constant currencies.

Cash and Tax for FY20

Looking ahead we expect post dividend cash flow to be lower in 2020 excluding any assumed proceeds from divestments. This is primarily due to the cash outflow around Von Erl and expected settlement of the Russian tax provision both of which I referred to earlier.

Both of these are one-off and we therefore expect a stronger underlying cash performance in 2021.

We also have around £90 million of the existing share buyback which we expect to materially complete before the end of the calendar year.

The slight reduction in the effective adjusted tax rate this year was due to a more favourable profit mix. The adjusted tax rate was lower than the reported rate due to a number of adjusting items having no or limited associated tax.

We expect our effective adjusted tax rate for this financial year will be around 21%. This is due to legislative reforms in a number of jurisdictions and the expiry of certain tax arrangements.

The effective tax rate for the Group is sensitive to the geographic mix of profits and reflects a combination of higher rates in markets such as the USA and lower rates in others such as the UK.

The rate is obviously also influenced by future legislative changes. As ever, we will seek to mitigate the impact of any changes but do ultimately anticipate a degree of upward pressure on the adjusted and reported rate over the medium term.

Thank you. I will now hand back to Alison…

Alison

Tobacco Maximisation

Our tobacco business remains resilient as we continue to focus on Asset Brand performances in our priority markets.

Good results in the Americas and Europe more than offset tough trading in triple A and we achieved share gains in six of our ten priority markets, including the US.

As Oliver explained, triple A had a difficult year from a financial perspective, driven largely by volumes in the Middle East and the timing of the excise windfall in Australia. We expect a stronger performance in triple A in 2020.

The tobacco business overall continues to achieve high margin sales growth and is well-placed to deliver sustainable profit growth and cash returns in the years ahead.

Next Generation Products

Although revenue from vapour was lower than anticipated we have made good progress in a number of areas.

Our current iteration of *my*blu is now available in 16 markets and is the market leading pod device in Germany, Spain Italy and Japan.

And in the US, our second half activity helped to reverse share declines, although expected returns were diluted due to the volatile environment and category slowdown.

2019 also saw us successfully launch modern oral products in Europe and test launch Pulze in Japan. All of this provides a strengthened platform for growth from which to develop in 2020.

How we Differentiate in Evolving Environment

The vapour environment has changed significantly in the last year, particularly in the US, and is evolving globally.

And we are evolving as we learn from 2019 and focus on four key areas in order to build a successful NGP business.

First, from a consumer perspective, growing offtake in the US and leading retail shares in Europe and Japan demonstrates that *my*blu is competitive. However, the product and brand experiences aren't sufficiently differentiated and hence the space is characterised by high consumer churn. Loyalty is a broader category issue and it's a clear opportunity for us to to transition away from this dynamic.

We will be improving the blu experience in 2020. This includes a device enhancement, combined with a brand refresh and investment increasingly focused on building brand loyalty to establish a differentiated and premium vaping experience.

In terms of markets and channels, we expected more from existing large vape markets and initially focused on leveraging our tobacco distribution capabilities.

However, there has been slow consumer adoption of closed-system products in markets such as the UK and France where open-systems dominate. The current proposition isn't compelling enough to transition vapers away from open systems.

In 2020 we are choosing to focus on markets where pod-based systems are more likely to grow and grow more profitably.

And we are reducing our level of investment in retail, increasing our emphasis on online, and building brand loyalty via more personalised relationships with consumers.

From a category perspective, we have successfully expanded our nicotine offer with heated tobacco and modern oral, which we'll build on this year as we grow our understanding of the increasing preference for smokers to use a repertoire of nicotine products.

And we are also stepping up our regulatory engagement activities to encourage higher product and marketing standards, which are critical for creating a more stable and orderly market.

Over the past year regulatory ambiguity in the US has clearly contributed to a volatile and uncertain market for vaping. We need to be able to freely communicate the potential benefits of vapour products and address any misconceptions among consumers. And we must also want differentiation between the responsible and irresponsible players in the industry.

A clearer regulatory environment is critical to restoring consumer, retailer and investor confidence and underpins a better return on investment as we evolve our portfolio to build an additive and profitable NGP revenue stream.

Heated Tobacco & Modern Oral Nicotine

As I mentioned, we now have a broader NGP portfolio and are selectively investing for growth in 2020.

Pulze has performed well in trial, with positive feedback from consumers who have expressed high intentions to continue using it.

We are now extending distribution nationally in two of Japan’s major convenience chains and are also considering our options for future rollout into other markets

Although starting from a low base, the growth of modern oral nicotine has been encouraging. New Skruf white variants have been launched across northern Europe in Germany, Denmark, Austria and Switzerland and we have plans to expand further in 2020.

Dominic and Joerg will now run through a divisional overview before we take your questions.

Dominic…

Americas: Strong Tobacco Performance

The Americas delivered a further strong tobacco performance with cigarette share growing by 10bps to 8.8%. We delivered share gains in our value brands such as Sonoma, and a solid performance from Kool and Maverick. This more than offset Winston, which was slightly down, though by less than the rate of market decline for the premium discount segment. In mass market cigars we also delivered increased share with Backwoods and Dutch Masters supporting overall growth of 50 basis points.

Second half volumes benefited from shipment timings with additional volume of around 700 million stick equivalents ahead of the recently announced price increase. Excluding this, we still performed better than the market with volumes down 5.3% versus a sector decline of 5.5%.

Tobacco net revenue grew by 6.8% on a constant currency basis, reflecting strong pricing and a mix benefit from mass market cigars, where revenue was up 17%.

The NGP market has been highly competitive characterised by widespread device discounting and a high rate of churn. Our increased investment supported growing consumer offtake with *my*blu weekly pod sales now 80% greater than they were at the start of the year with strong growth in Q4.

Reported NGP revenue for the year was down 30%. Excluding last year's IP income of £51 million, revenue increased by 5%, impacted by the general category slowdown, lower sales of our disposable products and increased competition.

Adjusted operating profit was 2.6% lower, with strong growth in tobacco profits offset by losses in NGP, the prior year benefit of IP income and the sale of our OTP business. Excluding the benefits in the prior year, operating profit was up 6.7%.

NGP US – reshaping investment

Given regulatory uncertainties we have reduced our existing investment, whilst at the same time focusing our efforts on continuing to refine the brand proposition, aligning it with smoker insights.

In July we launched a new media campaign centred around smoker satisfaction, which allied to more targeted customer engagement, specifically in key accounts, helped improve our share trajectory. We will have a measured and scalable approach in 2020, focusing on investments that are proven to deliver.

The high degree of churn we've seen demonstrates the need to adopt a more sophisticated and consumer centric approach to investment which focuses increasingly on building loyalty post purchase. We are currently re-platforming our e-commerce facility, which will facilitate a more personalised experience for blu consumers.

From a retail perspective, NGP is a key focus of the ITG Brands salesforce and we're engaging earlier with retailers to secure better visibility and more impact in store.

We're also evolving consumer promotions which encourage greater engagement with the brand.

As Alison mentioned earlier, higher regulatory benchmarks around product and marketing standards are fundamental to creating a more stable and orderly market. We will continue to work closely with the FDA to promote the responsible behaviours critical to ensuring the right environment for vapour and will finalise our PMTA for blu, which will be submitted before the May 2020 deadline.

AAA: Tough FY19 trading environment

Full year tobacco volumes were 5.0 per cent lower with ameliorating declines in the Middle East and South East Asia contributing to a stronger second half performance. We grew our share position in all our priority markets.

Australian share growth was driven by P&S which achieved around 6% of the market in its first year. Investment behind the brand and a mix headwind from the overall growth of sub-economy, meant that revenue was down for the year.

We grew share in Russia by +7bps supported by Davidoff Reach. However financial performance was impacted by increased competitor price discounting in key accounts.

In Saudi Arabia our performance was affected by an increase in lower priced duty-free volumes from other GCC markets. Despite this challenge, the launch of Davidoff Evolve, which achieved 2.9% share in 6 months and the rejuvenation of West with a fresh seal pack supported share growth.

In Japan our performance was more positive, with share growth of 25 bps in tobacco as well as strong revenue growth coming from zero-nicotine *my*blu . We have also begun to build distribution of Pulze.

Thank you… I will now hand over to Joerg.

Europe: Resilient Tobacco and additive NGP growth

In Europe we are balancing financial returns with optimising share positions in priority markets, ensuring continued revenue growth in the right markets, with the right brands.

Our performance demonstrates the resilience of our tobacco business with financials driven by strong pricing and cost efficiency savings. Tobacco net revenue was up just under 1% and profit just over 3%.

Share continues to grow in Italy and now also in the Spanish Blonde segment but was down in the UK and Germany impacted by the timing of our price increases.

In the UK we're addressing this through further brand development and a regional focus to leverage the success of our new fine-cut brand Riverstone, launched during the year.

In Germany we are looking at options to ensure that our superior value for money position is more transparent to consumers. We will also be making portfolio changes to Gauloises and West, while introducing new campaigns for Davidoff and JPS, celebrating its 50th anniversary this year.

In NGP we grew net revenue by around 300% to £131 million. We've consolidated our leading share positions, particularly in Germany, Spain and Italy, following the build out of *my*blu in the first half.

We have also had successful launches of our modern oral nicotine formats in Germany, Austria and Scandinavia and a city trial in the UK.

NGP Learnings: Europe

Alison alluded earlier to the relatively slow adoption of closed-system products in well-developed vaping markets.

Adult vaping use is relatively high in the UK and France which are two of the largest markets outside of the US.

However, the popularity of open systems and their obvious value advantage means demand for closed systems hasn't been as strong as we'd expected. In the UK therefore, although the blu brand is well established, with strong consumer awareness, *my*blu has around 6% share of the vape market compared to around 18% for the brand in total.

By comparison in markets where the open systems are less developed, we have been successful in establishing the closed system category, achieving leading market positions with greater growth potential in the short term.

NGP Europe – reshaping investment focus

So what does this mean for 2020?

Similar to the US we are increasing spend on post-acquisition engagement and brand loyalty as well as activities that support availability and trial.

From a market perspective we are focused on growth in Germany, Spain and Italy while strengthening returns in France and the UK.

We will continue to grow our presence in modern oral, building on the growth achieved in Germany, Austria and Scandinavia.

From a corporate affairs perspective we are increasing our engagement with government, advocating for the introduction of strict but sensible regulatory guidelines to ensure the orderly development of the category.

Thank you - now back to Alison

FY20 Outlook

Thank you Joerg.

Looking into the coming year, tobacco will continue to be resilient, delivering modest revenue growth, high margins and strong cash flows.

Given the increased uncertainties in vapour, we have moderated our near-term growth expectations, resetting and reprioritising investment behind the markets and categories with the best prospects for sustainable, profitable growth.

We remain focused on managing the operational and regulatory challenges associated with a rapidly evolving category, including actively petitioning for the enforcement of higher product and marketing standards for vapour.

We are taking a more cautious approach to our outlook for 2020, with revenue and earnings per share expected to grow by low-single digits, excluding the impact from any divestments.

Our new capital allocation framework adopts a balanced approach between further investment in growth opportunities, ongoing balance sheet deleverage and a progressive dividend.

We are focused on driving stronger performance in 2020, optimising the profit and cash generation from tobacco and improving growth in NGP with greater discipline and a more tightly focused business model that will create long-term value for shareholders.

Thank you. We will now take any questions that you have.

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2. Q&A

Nico von Stackelberg (Liberum): Hi, good morning. Can I please have an update on the premium cigar sale? there was some disclosure in the report today, I was wondering if you could clarify the rough size and time frame and what you were thinking. And on that front, there's notes and stars regarding further asset disposals. Could you give some more colour on what you and the board are thinking around potential future disposals? Thank you.

Alison Cooper: So, first of all on PCD, clearly we're at an advanced stage otherwise we wouldn't have reclassified the asset as held for resale within the accounts, but it's a complex deal as you'll be aware, with various government bodies involved as well as trying to deal with the finalisation of the deal. So, it is at an advanced stage and we hope we're going to be concluding it shortly, but I can't give you a specific timescale. But we're very actively working to get it concluded.

In terms of the other asset disposals, I think at this point this is the end of the programme for now, once we've done PCD. But we will keep opportunities under review.

Alicia Forry (Investec): Hi, good morning. Three questions, please. One on the cigar impairment. It is a pretty large number and a significant change versus the previous carrying value so I'm just wondering if you could explain a bit more the specific criteria behind that and is there a risk that other tobacco assets might be written down as well? And then secondly, NGP margins, in the past you've said over time shouldn't dilute the group. In light of the increased competition that we're seeing in vapour now, I'm curious if this has changed your outlook for longer term profitability of these products and presumably in the near term, gross margins have been affected. Any colour you can give on that is helpful.

And then finally, modern oral. It's an area that several companies are getting into right now. Just curious your early learnings about that. The types of consumers who are using it, where might it be taking share from and what retail channels does it sell best in. Any detail you could give us at this stage would be very interesting. Thank you.

Alison Cooper: Thank you. So, Oliver, if you pick up on the impairment.

Oliver Tant: It is obviously a large number. I think the first thing I would say is that with the vagaries of accounting, actually the cumulative foreign exchange gains that we've made on an asset that's essentially a dollar-denominated asset, aren't reflected in that impairment number. But we've drawn attention to the fact that there's £300-400 million of gain that will arise on completion of the transaction based on our current estimates and therefore the true underlying impact to our net assets is significantly lower than the number that's reflected in these accounts. That's just the way the accounting standards work.

What's driving the impairment? Well, firstly I think probably worth highlighting three things. The first of which, when we look at carrying values from an impairment test perspective internally, we obviously do it on the basis of the cash flow value to us and the businesses implicit within a much larger tobacco group. When we're selling with various purchasers, they may well be buying that asset on a standalone basis and as a result they will encounter additional costs in order to own that asset that we wouldn't bear, because we absorb them synergistically within our existing cost structure. Secondly, we obviously have to make a provision for the tax associated with its disposal and the associated cost, thirdly, with the transaction. So they would in large part account for the rest of the difference.

We, obviously, as a board, look at impairment across the rest of our assets on a regular basis and we have done that again this year. That is subject to audit through the audit process as well and we remain comfortable that, on the basis of the cash flows that our existing business drives, that we have significant headroom against our CGUs.

Matthew Phillips: On oral nicotine …generically, the consumer is 18 to 30, skews male, urban, relatively digitally savvy and uses the product on an 'occasion' basis. If I look at the broad trends within European markets or within Scandinavian markets, you see traditional snus products tending to be in slight decline. The category as a whole, of oral nicotine, in growth but that growth being driven by the modern format. So we've grown well in Norway, in Sweden, Germany is going really well, Austria we basically created the category, we've done test markets in the UK. So, we're excited about the potential of the category.

Alison Cooper: We've got one more question from previously, which is the NGP margin development. As I mentioned earlier, the development in NGP is coming at a different pace to our original anticipation, so yes we do see margins improving over time but that's pushing out a bit further now in terms of the timescale we're looking at. But a lot of what we're doing in 2020 is looking at really solving for the shape of that profitability. If I look at some markets around retail margins, we've been working on those through '19 but they're still too high in a number of markets and therefore we're going back in on that in 2020 to really try and get those retail margins lower in terms of those discussions. Because it's still an important channel. That's where smokers go and that's where you can interact with them in terms of vaping products and NGP products in particular.

So that's one aspect we're looking at on the profitability, and then secondly it's around how do we rebalance the investment behind trial while generating loyalty? Because it's all very well generating trial but if you're getting too high a churn rate behind that trial, clearly you're not getting the 'sticky' consumers that we need. And therefore that's what we're looking to rebalance through 2020 to really focus on how we get loyal consumers, particularly with blu. And that's where the investment is being refocused. And both Dominic and Joerg talked about the post-purchase experience, which is a key element of it, but what we found is that what smokers need is for us to work with them in terms of helping them with the transition to vape and that's what we're focusing on now and through 2020, which again will improve profitability as we improve that loyalty over time. So those are really the key focus areas. Environment shaping clearly will help too, as I've mentioned. That has to help consumers but it also helps the ROI.

Gaurav Jain (Barclays): Hi, good morning. I have three questions. So, first is on the US cigarette market and the trends over the last month. Are you noticing any difference in the states where e-cigarettes have been banned, like Massachusetts, versus the rest? And I appreciate that there has been a pricing increase in the last month so it might still not be visible but is there any way for you to figure out the underlying trends?
The second thing is the impairment charges on NGP on the inventory write down. Now, we will get FDA flavoured e-cigarette ban sometime, this week or next week. So, is that all accounted for or you might have some further inventory write down?
And the third thing is on these new disclosures, the way you will do that. So now, today you disclosed that IP revenue and EBIT was £70 million revenue and £62 million EBIT in FY18, which did not recur in FY19, but in the disclosures that you will have going forward, it still seems it will be part of the core operating or adjusted operating EBIT. So is there a plan to remove that also on a go-forward basis? Thank you.

Alison Cooper: Okay. I'll ask Oliver to pick up on the stock, the slow-moving stock and the IP shortly, but Dominic, do you want to talk about the US market development and the implications of EVP bans and how we're seeing it?
Dominic Brisby: So, as you know, last financial year, the US market declined by about 5.6%. It's worth perhaps spending a bit of time just talking through the different elements of that 5.6% and what caused that decline. So there was about 2.6% of structural decline. We've seen about 2.6% structural decline every year for the past few years and we'd anticipate that would be the same next year as well, more or less. About 1.3% of that 5.6% was cross-category switching, so people moving largely to vapour but also to other nicotine categories. Macroeconomic decline accounted for about 0.2% and FMC price

changes as well as state excise tax increases we estimate about 1.5%, so in total about 5.6%.

Now, we've seen a great deal of volatility over the past couple of months in terms of e-vapour market size and particularly – naturally in some of the states that have banned it or that have banned flavours. But actually overall across the market it's been far more volatile than we're used to and far more volatile than we'd predicted.

So looking forward in terms of what we'd expect for this financial year, for FY20, most of those elements we expect to be broadly similar to what occurred last year. So in terms of the structural decline of 2.6%, the macroeconomic impact and the state excise tax and pricing impact. The question is around the 1.3% of switching to vapour. And I think at the moment, right now, it's too early to call, given that where vaping flavours, where vaping has been banned, quite often within a fairly short period of time it's come back to where it was before as consumers have found ways to buy from other states or ways to get their product in other ways. Therefore we still think that our assumption of an FMC market decline of between 5% and 6%, probably slightly closer to 6% than 5%, still remains correct. But within that 1.3% which vapour has accounted for in the past year, that's where there's a higher degree of volatility, therefore that would mean more risk associated with that number than with all of the others.

Alison Cooper: Just one further point on that as well. I think it's also worth emphasising, and Dominic did mention it when he was speaking as well, that there may well be some volatility and short term pain in the US around the environment but actually, once the FDA start to get to grips here, once we start getting through and into the PMTA process, that is going to change. And we have better visibility to a stronger regulatory environment in the US than we do in other markets currently, so it will improve over time for those of us who can really stand behind our products, have the science to back our products, and can really make a business of this in the US within a much more orderly environment. So I think it's an important point to take away. The US is volatile right here, right now. We're navigating that I think particularly well in terms of the regulatory aspects and our conversations with the FDA and it will get better.

Oliver Tant: In relation to your other two points, so on the flavour, the potential for a flavours ban, at the moment the provision doesn't reflect the impact of a flavours ban. Part of the reason for that judgment was the uncertainty around the shape and form that

that would take and therefore the impact that it might have, what impact repurposing of that stock might be able to achieve, whether there would be any contagion effect. And we have no clarity that that is absolutely the action that the FDA is going to take. We're talking about £10s of millions at max, nothing more than that, in terms of an adjustment, depending on the shape of anything that emerges in that regard.

As regards IP disclosures, I think the intention – we're not really expecting any significant IP income stream, certainly in the current year. That doesn't mean that we won't see IP in future years, but I think the approach we would adopt, because it is very clearly part of the exploitation of the assets that we bought at the time, we always intended that to be a core part of our trading activity, but it's just lumpy in nature, that we would draw it out in our disclosures where there was any significant component therefrom.

Adam Spielman (Citibank): A few questions from me. Some of them are very mechanical. You talk about two accounting-ish ones. Let's suppose you sold your – you've given guidance, low single digit. That excludes disposals. Hypothetically, if you disposed of cigars retrospectively at the 1st of the year, so without the whole cigar business – premium cigars – what would that guidance look like? Any sort of quantification of that would be very helpful. Both in terms of growth and I suppose in the dilution effect. So that's the first, hopefully simple, one.

Oliver Tant: At the moment we're not disclosing the details of the shape of our cigars business in aggregate but actually the impact – the scale of that business as a proportion of the totality of our operations is relatively small and therefore any impact in terms of the momentum is relatively limited as well. I think that's all. We'll talk more about when we get to the point in time where we've executed the transaction, if that's alright.

Alison Cooper: And also what we're going to do with the disposal proceeds as well as part of that evaluation.

Adam Spielman: Any thoughts about that?

Alison Cooper: Well, there will clearly be an element of the disposal proceeds that will go to pay down debt. We want to at least maintain where we are in terms of debt metrics but also, we want to move to between a 2 to 2.5 guard rail over time as well. So that will be part of the evaluation. There will be a chunk to debt, we'll evaluate the balance in time as well.

Adam Spielman: So I interpret your answer as low single digit EPS downgrades but the growth rate the same. Without being precise, is that the sort of thing we're talking about?

Oliver Tant: In the context of the guidance we've given, yes.

Adam Spielman: Also, you said you're going to have new accounting on adjusted EBIT and I guess adjusted EPS as well. Any quantification of that? It may all be in appendices, but –

Oliver Tant: We've set out the implications of the revised basis on our historic numbers in the appendices, so you've got those there.

Adam Spielman: I apologise for not getting to them. Thank you. Okay, two questions, perhaps more interesting questions. NGPs. In the past you gave us guidance that it was going to grow really fast. Clearly hasn't. How should we – how do you – think about the potential growth of NGPs now, given everything that we know? Clearly lower than it was a year and a bit ago.

Alison Cooper: As I mentioned when I was speaking, the NGP opportunity is still very significant and, there's some big revenue numbers out there in terms of NGP potential, but our focus has to be more around how we develop that profitably rather than just realising revenue numbers. We invested a lot in 2019, it did not deliver the level of revenue that we anticipated off the back of it, for reasons that I've articulated through this morning around the churn aspects; yes, trial, but not the loyalty, particularly from a vaping perspective, which has been the main feature of '19 as we anticipated. So NGP growth, absolutely, additive growth, absolutely. We still see a very robust tobacco business for Imperial and therefore this is still very much around that dynamic that we talked about before. But clearly this is coming later than we anticipated and not to the degree, in the short term, that we anticipated. But I do think the focus that we're taking the business to, to look more closely at the profit opportunities, the growth pockets where we can create a sustainable business, will create a much more robust framework for growing this going forward. And that's what we've learned through '19, that's what we're executing through 2020.

Adam Spielman: In 2020 will it even be positive growth?

Alison Cooper: What, for revenue?

Adam Spielman: Yes.

Alison Cooper: Yes, yes it will still be positive growth. It will be second-half loaded, we believe, because we've got some stocks we're working through ahead of the enhanced 2.0 launches, but even so, we should be seeing revenue growth in 2020. And also now we're not just focusing on blu, we're very much looking at the OND opportunities, which we've had some good initial experiences with and that's a very profitable category, as I'm sure you're aware. But also HT now. And we've got some things in Japan that we're rolling out, we've got launches planned in other markets as well during the year. Now, that will just be beginning to build during 2020 but it will start to contribute as well.

Adam Spielman: And then finally, would this business work if you didn't have NGPs? I mean, I know you're going to tell me we can do both, but let's just think about tobacco. Let's suppose that, I don't know, in a year's time the board of Imperial says, we just can't be bothered. It's going to be cash negative for years on end, we're just going to do tobacco. Could you maintain the sort of 1% revenue growth and a little bit of margin growth and just return to a much more predictable, dare I say it boring, but stable, business, that arguably would be worth much more than six times PE?

Alison Cooper: As I think we've probably said too many times this morning, we see a very resilient tobacco model and therefore, modest growth from that resilient model I think is very achievable for us over a number of years. I think for NGP the challenge is for it to stop being a drag and to start contributing more and therefore what I was talking about just now in terms of that management of the revenue growth but looking to therefore manage what that means from the bottom-line perspective and take that into more positive territory over the next couple of years, means it will be additive to both top and bottom line over that period of time. But for now we're going to pace down the growth while we reset that investment model.

Nico von Stackelberg (Liberum): On slide 13 you talk about free cash flow post-dividend expected to be lower than FY19, I was just wondering – the guidance has been quite soft in general for earnings, and that's, salute to that because it's good to set the bar low and overachieve but I can't tell what that is and what that roughly means, so if you can give me just a ballpark or a low hurdle to clear from there so we can be sure the dividend's covered by the free cash flow, it would be useful. I know that you're doing it talking about free cash flow post-dividend but that's my main concern. Do you want to just do one at a time, is that easier? I have two more questions.

Alison Cooper: Let's do that one. Yes, great.

Oliver Tant: The cash flow will cover the dividend obligation in the context of FY20. The cash generation is slightly lower I guess for a number of reasons: one, some of the one-offs that I referred to will actually pay out in terms of cash outflow in FY20 so the Russian tax item payment will be in 2020 and the Von Erl payment is in 2020 as well. So if you add those back, we have a more substantive net position. We also had some – an excise duty regime in Australia which gave us some inflow benefit and we talked about outperformance in Logista in the context of this year, so those are affecting aspects of our cash flow as well, which will unwind in 2020. By the time we get to 2021 and 2022, we're expecting it to rise significantly again. And we will be looking at a series of initiatives to improve the shorter-term cash flow because we do believe we've got some opportunities that we have yet to exploit in terms of our working capital management.

Nico von Stackelberg: Excellent. The next one is on Von Erl within the adjusted operating profit. I just want to be completely clear because when I looked at the disclosure I think it said derivatives would still be included in adjusted operating profit? But just to be clear, Von Erl goes into a separate, below the adjusted operating profit line, to separately break that out? Those type of charges, correct?

Oliver Tant: Yes.

Nico von Stackelberg: Okay. Just want to be 100% clear. Good, easy one. And the final one. So, a lot of the vapour growth in the US market has been incremental, it hasn't been necessarily taking from the tobacco market, and I guess what I want to know is, given that the vapour market is going to be less vibrant, we all know that tobacco flavoured vapes don't taste as nice as some of the flavours, I guess the question is, what is the migratory path of the incremental vape users? Where do you see them going? Is there a substantial opportunity to win these customers into some profitable markets – profitable segments such as mass market cigars, maybe Kool? I'm not sure if you're doing any specific activations in order to capture the people switching from vapour into tobacco, which is likely to happen, to be completely frank.

Alison Cooper: It's a natural alternative, yes. We've actually got a piece of work going on in the US at the moment specifically on this – to really look at this whole repertoire point with smokers in the US. And with the evolving environment, yes, we've got a cigarette business that's working well for us, our mass market cigar business still delivers amazing growth for us and you may know we've had some constraints on Backwoods supply because of the sheer growth in the natural wrapper segment there, which are coming off in 2020, so that's very positive for the growth there as well. Vaping, I think, is going to reshape as regulation kicks in, but also I think the FDA are still open to putting flavoured products through the FDA process so that's still one that needs to evolve and see how that plays out as well. And you've now got heated tobacco being tested, you've got oral nicotine as well. So there's a real repertoire here of tobacco products that we're doing a very specific piece of work on to decide how we want to prioritise that going forward.

Nico von Stackelberg: Okay. I guess the final follow-up question on that is, can you give us an update on is the entire portfolio ready for PMTA or will it definitely be there in time for the deadline? And also, is there a modern oral opportunity for you in the US and is that prepared, as well?

Matthew Phillips: We are ready. We're going to be submitting PMTA by the deadline, by May. We've got a variety of products that we're going to be putting through, including freebase offerings, nic salts, a variety of strengths, and flavours and tobacco and menthol as well. OND, absolutely, there is an opportunity, which we're exploring with the FDA right now and we hope to be able to submit an application on that in the same sort of timeframe, and also heated tobacco. So we've got a variety of irons in the fire.

I'll just come back to your previous question briefly. If you look at the experience of Juul in particular when they withdrew their flavours and the migration that took place to tobacco, menthol and mint, I'm not convinced that the move away from vaping of existing consumers is going to be as dramatic maybe as some people are thinking. But there are going to be fewer players and therefore the ones that have their products through a PMTA process are going to be able to benefit from the dynamics going forward.

Sanath Sudarsan, Morgan Stanley: Thank you, good morning. Two questions from me. First one on guidance. You had previously indicated in September that there was a gain you were expecting in Australia because of the timing effect, very much in 2020. So your guidance, does that include this number from Australia? If so, how material it is or what could it be without Australia flag again?

And the second one, on slide 22 you had the market share positioning for blu. In some of the markets like Germany, Italy, Spain, it looks very strong. Can you just walk us through why you've been very successful there? Is it because you're the first mover or – what's been different in those markets versus other markets? Thanks.

Alison Cooper: I think Joerg will love that question, won't you?! In terms of the Australia gain, absolutely. It's factored into our numbers for 2020, but I think you'll also have logged the fact that we had quite an uplift in the US as well, given the trade pull at the back end of the year. So there's going to be some offsetting factors around that, as well. But all of that's factored into our guidance, which is more cautious guidance for 2020. Joerg, would you like to talk about blu in Europe?

Joerg Biebernick: So first of all, we are successful in Germany, Italy, Spain and also in the UK and France. It's not because there's a lack of competition. In fact, by now Vype, Juul and JTI with their offer, with Logic, have been very aggressive as well. Nonetheless, our exit share in fiscal year 2019 was 27%, 28%, which is about twice the size of the next best competitors. So we're still larger than those combined. And I think the reason is, number one we have extremely good executional capabilities in the European markets that I've mentioned, so we've been very good in activating, not just building distribution but activating the brand at the point of sale, where smokers go. The second thing, we very early have used the learnings that we generated already in fiscal year ‘18 that it’s important to build a brand, not just focus on trialling product. So we’ve been investing heavily in the mass advertising, especially in big metropolitan area in a tiered approach, and that is now paying dividends because we have built leadership awareness and trial rates through that.

I think the product experience is competitive. I think Alison mentioned that already. Yes, it’s probably not yet sufficient to make it ‘sticky’. I think that’s going to be the potential for 2020, where we’re going to focus a whole lot more on repeat loyalty. But we’ve essentially built a leadership brand through our efforts in the last year.

Robert Rampton (UBS): Two questions from me. In terms of next year, you’ve said you expect it to be weighted towards 2H, can you help us understand the shape of NGP investment? You’ve already flagged pipeline fill for the next generation. And then my next question is, given you’ve got 3D flavours and nics and so on in the pipeline, it strikes me that perhaps part of the reason for the churn could be the product. Is there an argument to be made for waiting on the NGP investment until you’ve got maybe more competitive products on the market?

Alison Cooper: So first of all – actually, just to comment on the product, the point Joerg was making there as well around our European shares and the 27% he was highlighting is effectively European share across the five major markets in Europe and is a significantly leading share ahead of the competition. So we have a competitive product. We’re not happy with that though, we want to have a much more differentiated product and that is the focus in 2020, to get that launched into market. So we look at the consumer experience, it’s not just about the product though. It’s about the whole engagement with the product, the branding of the product, all those aspects.

There’s a brand refresh coming through, we have an enhanced device that we’ll be pulling through as well in 2020, but all of that is then focusing on ultimately from an experience perspective the launch of 2.0, which will be a very significant step change in the experience and will incorporate a number of those innovation workstreams that you’ve seen and that we’ve talked about over the last year or so. So, yes, we do want to get the product more differentiated but it’s not just about the product. It’s got to be about the whole brand experience. And also, how we take smokers with us on the journey to start using blu and then to continue using blu and making it part of their lifestyle as they make that transition.

In terms of the weighting between H1 and H2, we are reducing our investment as part of the reset behind NGP in 2020. It is fairly evenly split half-on-half though because we are still going to be focussing on driving that consumer off take and consumer loyalty throughout the year. But as we de-stock some of the current *my*blu ahead of the launch of the newer products later on in the year the sales will be not proportional to that, effectively, which is what is going to impact the H1/H2 phasing.

Adam Spielman (Citibank): You've said a couple of times you are going to enhance the brand and enhance the product. Can you give a sneak preview as to what that really – I mean it's easy to say but I imagine quite hard to do? And what does it really mean to enhance the brand?

Alison Cooper: Effectively it is refreshing the brand proposition. So there has been extensive work now, in-depth consumer work, over an extended period of time, to really position blu in a way that we really think will work from a smoker proposition perspective. Actually, is it worth either one of you just commenting on some of that work, and what we've been doing because I think it's good to really get under the skin of it?

Joerg Biebernick: Yeah, I think maybe the easiest analogy I can give you is we realised very quickly that when you are a smoker trying out blu, it's not just trying out a new product as if you were switching from Pepsi to Coke or so; but it is really more analogous to joining Weight Watchers or a gym. It is changing a habit, and an ingrained habit for many, many years in some cases. So what we learned is that the brand shouldn't stop there at this very moment, at the first moment of truth, but actually that is when the brand journey is starting.

So essentially we want to take consumers/smokers by the hand and not only remove problems because all of a sudden there are choices to be made; the right nic strength, they never had to choose that; the right flavour, that the battery is working, that the pods are working.

But also reward them positively and replace frankly some of the dopamine hits that smoking gives you during the day. I.e. when you get a fitness watch it just tells you congratulations you ran your first mile under six minutes; you have been three days exercising in a row, etc etc... So we are thinking really about a comprehensive way to bring the brand alive post purchase; that is significant.

Adam Spielman: And how is the product going to be better?

Matthew Phillips: I'll give you some examples. So this would apply to heated tobacco as much as it would to blu; so once you get a product out with consumers you get feedback very rapidly in terms of what are the likes and the dislikes. So from a blu perspective, a *my*blu perspective, one of the frustrations is the battery life and the speed of charging of the battery. Or it might be the haptics of the product; the touch and the feel of the product, so rather than the actual engineering of the product itself. And that gives us the ability to be able to upgrade the product.

Now from a blu perspective, we've got upgrades that are going to be coming during the course of next year. But then we've got a bigger innovation, which I'm not going to talk about, which will come later in 2020.

If I take it to the heated tobacco platform, we have been in the market six months and we are already identifying the upgrades that we want to be bringing through, which will be done very rapidly. But then we've got two bigger upgrades that we will be bringing through later in the course of 2020.

So there are smaller and then there are bigger ones that we look to bring through. And the smaller ones you can sort of drip through a bit more easily; the bigger ones take a bigger reset.

Alison Cooper: But from a US perspective, the focus has to be much more on the brand and the experience we are building with the brand, because clearly we have limitations as to how quickly we can bring innovations of the product, as everybody has, onto the US market.

Chris Wickham (Equity Development): I was just wondering if you could remind us of what the actual spend is of people when they are purchasing pods; what is the average weekly spend on products just in your key markets?

And then secondly, if you have a sort of richly imagined future but maybe only sort of five years out, where do you see that we would be in terms of the regulator, the acceptability, what markets? Are we then – within five years, are we going to be going forwards again rather than backwards?

Alison Cooper: Okay. I'm just trying to think what best to do from a market perspective. Do you want to comment briefly on Europe in terms of spend?

Joerg Biebernick: That's about four pods a week and it's about £12.

Alison Cooper: And it is pretty similar in the US, as well, around the four-pod level, it's that sort of quantum.

Joerg Biebernick: Yeah, the average consumer is spending about £12 a week right now.

Alison Cooper: So that's part of the opportunity here in terms of – it's back the repertoire point. What we've found is that smokers still smoke quite a few cigarettes and this is maybe satisfying more an 'occasion' moment when they can't smoke during the day. As we build out the experience and loyalty that is where you can see the opportunity also to increase that lifetime value, which is low at the moment. Sorry, your second one, the regulatory environment. Do you want to comment on that?

Matthew Phillips: Just – how we see it developing? Does it get better?

Chris Wickham: Well I think – where you have venues where you can start to vape and where you might not be able to vape but actually start to be able to vape?

Matthew Phillips: There are a number of countries where vaping is allowed. To give Japan as an example; it is no nicotine, but they have specifically called out vaping as not sitting within their public places ban that they are bringing through.
As you look at the bigger regulatory environment, I think there are two or three things coming down the tracks, which are going to set the agenda for NGP more broadly. You have obviously got, in the US, you've got the flavours guidance enforcement that we are expecting any time soon and is already late. I think that is going to provide some stability to the US market; particularly to retailers so that they know what they can and can't order.

And then you've got the PMTA process in the US, which currently is still set at May 2020, but because it is America is being legally challenged by all sorts of people. So – hopefully it stays at May 2020. So that will do a lot to stabilise the US marketplace and remove a lot of the players that are not able to meet the standards that are required.

On a global level you've got the WHO is looking at regulating the whole of NGP through its concert of parties session, which is in 2020 and that is going to be very influential for the whole macro regulation of NGP. So we are heavily engaging already in terms of what we would like that to look like. We want the standards lifted very, very significantly.

On vapour in particular we think that the science and the eco-system of a closed device is greatly preferential to the open systems and that that is therefore something that regulators should be very mindful of. Also taking note of some of the pulmonary illnesses that have been emerging in the US and actually using that as a vehicle for regulators to be able to understand why closed systems are different.

So I think it will be less than five years before we get some stability but it will be noisy in the short term.

Alison Cooper: But I think from a context perspective as well, where we have gone into some governments who have previously banned vaping, with our science, with some recommendations of how they should think about it, the important opportunity this is for smokers, we've had some success. And I think Saudi, New Zealand, we have actually had the bans overturned and those markets are now open for vaping products. blu is now in New Zealand and we are looking at a launch in Saudi as well.

Gaurav Jain: A couple of follow ups; so one is on the US cigar side and the regulation change, which is happening. So can you talk about what part of your portfolio is flavoured cigars, sweet cigars and tobacco cigars and what part already has marketing orders and how many – what part of your portfolio doesn't have marketing orders today?

And second, can you talk briefly about your investment in Auxly and how should we think about it? Thank you.

Alison Cooper: Do you want to talk about the mass market cigar portfolio and the work we've done on it?

Dominic Brisby: Yeah, so a significant amount of our mass market cigar portfolio has flavours, although bear in mind a number of these flavours are grandfathered; so we have old specifications for them.

I think the interesting point around mass market cigars is we've done quite a lot of consumer work, both qualitative and quantitative, in terms of what consumers would do if their current choice of flavour were not available? So, for example, if hypothetically, if you smoke Russian Cream flavour Backwoods, if that was, which is a very popular SKU, if that were not available one day what would you do?

The answer is in almost every case you'd smoke another variant of Backwoods. So actually, even if certain flavours are not possible to continue, the smokers are far more committed to the brand than they are to the flavour, therefore we think we are in reasonably good shape going into any change that may occur.

Matthew Phillips: And in terms of Auxly, we put some very strong guard rails around the kind of companies that we would be interested in partnering with in the cannabis space; and that included a great management team. It included not being involved in combustible cannabis products. It involved a very high duty of care and focus on science. So a similar mindset to the way we considered the requisites for handling tobacco.

So they are very focussed on derivative cannabis products rather than '1.0', as it is called; the combustible type. Their products will be on market in the next month and as soon as legalisation is – the gate is passed. Their execution has been fantastic to date. They've got all the required licences from Health Canada. They are one of the first to actually get those licences. They have a great distribution partner in the Canadian market and they have international aspirations, so they're a fantastic partner as we sit here today.

Conversation has already started with Nerudia, our innovation arm, in terms of how we can develop products together for the future. So it is very exciting but for us the duty of care and focus on the science is of absolute prerequisite importance and it's exciting – but it's early stages.

Gaurav Jain (Barclays): Are there any IP revenues associated with Auxly that accrue to Imperial?

Matthew Phillips: We have granted them a licence to use our global vaping technology.

Alison Cooper: There's nothing substantial.

Matthew Phillips: The royalties are minimal.

John Fell (Ash Park): Just a quick one for Oliver, I know this is moving around a lot, but if you had to give us a little bit of help on where the tax rate might get to in the next, say five years, how should we be thinking about that?

Oliver Tant: Well I think the answer to that is that the pressure is clearly upwards; so if you actually look at the reason why we've seen the rate move between '19 and our forecast for '20, it partially reflects some legislative change occurring in countries. So, for example, we are disadvantaged by the transfer-pricing regime in Ireland, which is causing a step up for us. And I think we are clearly facing an onslaught as large corporates of these type of localised and indeed even on occasions concerted decisions by taxing authorities across geographies to tax the corporate sector more heavily.
Now there are responses in the context of the way in which we organise ourselves and conduct our business that can mitigate those; and looking to the long term it is quite difficult to be specific in terms of a number, but that pressure is definitely upwards. So I think over a sort of five-year horizon, I would expect percentage points, but probably not beyond that.

Unidentified speaker, (JP Morgan): I've got a few questions on heated tobacco; could you share what is your share of heated tobacco; if you look at Fukuoka, what is your share with Pulze? And then we have seen one competitor expanding in the UK and cutting the price of a pack; have you seen an impact of more UK smokers switching to a competitor product in heated tobacco? Then last question, if you want to build the relevant platform, a big platform in heated tobacco, what is the investment required?

Alison Cooper: Let's pick up on UK.

Joerg Biebernick: Most recently one of the competitors has changed their pricing strategy in the UK, and albeit that they are still at a very small level of penetration and trial we have seen the last four to five weeks a doubling of offtake, which is quite noticeable. And actually we look at that as also from a positive point of view.

Because I think I alluded earlier to it; right now what is really making NGP in general difficult in the market like the UK are open systems in vape, which are offering an extremely low price per nicotine usage. So seeing that, some other players can move the needle is actually encouraging for the broader market.

Alison Cooper: And in terms of Japan and Fukuoka, it is a very small share currently. We are just building out from that at the moment so it is not something we've highlighted because it's early days. In terms of the overall HT investment it is not something I can put a number on right here, right now. We're doing a piece of work that is looking at the opportunity as we look out over the next five years in terms of heated tobacco and therefore we will evaluate what we think is needed behind that.
We have already got a chunk of investment behind heated; that is part of the uplift you saw in 2019, which takes us to the capacity that we need for the foreseeable future over the next year or so but any decision beyond that has not been made at this point in time and will depend on the evaluation of the opportunity, with a keen eye to profitability, not just about generating revenues in that space.

Eddie Hargreaves (Investec Wealth): Just moving on to slightly more sensitive ground probably; you announced a new chairperson this morning. It has ended up being someone who has essentially been sitting in the chair there or in a chair at Imps for some time now, so we can sort of read various things into that as to why that might have taken so long. Is there anything – and bearing in mind you are obviously very difficult to replace Alison, and I am sure everyone is sorry to see you go, but can you give any reassurance that the process for finding your replacement will not take as long as it has to find a new chairperson?

Alison Cooper: I think that is a pretty tricky one for me to comment on I suppose.

Eddie Hargreaves: Or anyone else –

Alison Cooper: It is not quite my responsibility to find my replacement! But I think Mark can comment briefly, Eddie. I think the context of the chair replacement – it is a complex market to try and recruit chairs at the moment given this significant churn around the nineyear cut off. And that has been influential quite clearly also; not everybody wants to be a tobacco chair as well, so that that's been pertinent there. But Mark?

Mark Williamson: I think Alison has covered a good few of the points. Therese has led a very thorough process, a real global search for a replacement for me. We have interviewed – well not me personally, I'm obviously not involved in the process directly – but the nominations committee interviewed a number of people and we did get down to one candidate that we thought was absolutely excellent but there were some contractual difficulties getting that across the line; that was proving to be difficult.

And then, both a combination of shareholders that Therese was engaging with, and also the board then turned to Therese and said, well hang about, looking at all the candidates we've looked at we think you're probably a better candidate, do you fancy taking it on? She was slightly hesitant initially; so it wasn't her first choice. But Therese is going to make an excellent chairman and I am absolutely delighted that she is going to follow on from me.

Moving on to the CEO search; we think it is going to be different. We think it is going to be slightly easier in terms of time. When you are looking at a chairman role I think you are looking at people getting towards the end of their career. I think we had a lot drop out because of tobacco.

I think in terms of a CEO this is a great, exciting company making a fabulous transition into NGP. I think it would be a super challenge for a CEO to take on. So we've some way to go until we've got to a landing there but I am hopeful that it will be a faster process than the chairman search has been. Thanks.

Alison Cooper: And on that note, I don't think there are any more questions. So thank you everyone and have a good rest of the day.