PETER

Good afternoon and thank you for joining us for today's webinar.

I'm Peter Durman, Director of Investor Relations.

I am joined by Alison Cooper, Chief Executive, Oliver Tant, Chief Financial Officer and Matt Phillips, Chief Development Officer.

This webinar is part of a programme of more regular communications on different aspects of the business that builds on the capital markets day we held in June last year and our regular results reporting. Today's focus is on our strategy and although we are not providing a trading update, we will be issuing a pre-close statement next Thursday, the 30th March.

SLIDE – Disclaimer

I will just draw your attention to the disclaimer on slide 2 before I hand over to Alison…

SLIDE – Delivering our Growth Strategy

ALISON

Good morning everyone.

At our November results I mentioned that as a Board, we had reviewed our strategy during 2016 and this webinar is intended to provide you with some further insight into the review and our conclusions.

We will touch on the progress we have made over the last few years, our assessment process and how we are evolving the strategy.

This was a detailed review which is informing our next decade of growth, resulting in an ever greater focus on the brands, products and markets that matter to deliver more quality growth and shareholder returns.

SLIDE – Progress so Far

So let's start with a brief summary of our progress to date and the foundations we have in place for the next decade of growth.

SLIDE – Our Journey so Far

This is the chart that I used at the capital markets day last June, that tracks our journey to become a consumer and brand focused business.

At the beginning of the journey, we embedded consumer thinking into the business, via the 'consumer needs wheel'.... and this has underpinned our portfolio & product choices and has been central to our understanding and development of new consumer experiences and adjacencies.

A clear portfolio focus then set the platform for simplification and improving the quality of our revenues.

We also evaluated what we needed to excel at to drive sales growth… concluding on four sales growth drivers, portfolio being one... and the others being; innovation, pricing and excise, and customer engagement. These sales growth drivers have been integral to how we execute in market and were again evaluated as part of our review… of which more later.

We also defined the strategic role of markets within our geographic footprint... and made some clear investment choices.

Refocusing the business and optimising our ways of working globally have further supported our strategic agenda and also yielded cost saving opportunities... we have delivered almost £300m savings to date and we announced a further £300m savings target last November to provide investment funds for our strategy.

SLIDE – Our Strategy

You will be familiar with this slide and our four strategic objectives…

We are improving the quality of growth, strengthening our portfolio by focusing on our strongest brand equities, with clear footprint choices, investing behind the markets and brands that matter.

And we continue to focus on cost optimisation through new ways of working, our simplification agenda, lean manufacturing and overhead control.

All of this is within a framework of disciplined capital allocation with a focus on improving cash returns.

We have been making good progress against these four strategic objectives... let me hand over to Oliver to cover the headlines…

OLIVER

SLIDE – Strengthen Portfolio: Growing Quality of Revenue

Our focus on strengthening our portfolio through simplification and investment in our key brand equities has been central to improving our quality of growth. We are continuing to drive a greater proportion of our revenue from our Growth and Specialist Brands – collectively, our Asset Brands - and look to reduce the drag on growth from our other portfolio brands.

This has been driven primarily by migrating consumers into our asset brands, where we continue to achieve very high consumer retention rates… and we are now embarking on a more radical SKU reduction programme which we successfully piloted last year to further improve the quality of our revenue.

SLIDE – Develop Footprint: Investing in the Right Markets

We have a disciplined approach to our investment in markets. Our greater relative exposure to developed markets has been beneficial as they are economically more stable while also being highly profitable and with high levels of consumer affordability.

They tend to experience less currency volatility and lower than average inflation which, as I will demonstrate shortly, is important in terms of delivering growth in real cash.

A key driver of this approach is an evaluation of the revenue and profit opportunity in each market. There is a significant differential in the revenue per stick across our footprint… for example, we generate 19 times the revenue per stick in our highest markets compared to the lowest, driving a significant differential in profitability as well. This emphasises the importance of quality revenue growth.

SLIDE – Develop Footprint: Reported Sales Performance

We continue to prioritise markets that can deliver real revenue growth over the medium term.

The chart on the left shows revenue performance at constant currencies for the major tobacco players… I should point out we've omitted Japan Tobacco as it is hard to get comparable data because of their reporting periods and disclosure.

The key point to draw out here is that while some peers have achieved higher growth at constant currencies as shown on the chart on the left, the relative performance at actual reported exchange rates is very similar… as shown by the chart on the right where we have matched our peers in revenue performance over time.

So what is driving this?

It is partly driven by geographic mix. Our peers have a greater exposure to emerging markets. These typically experience higher than average inflation and currency devaluation, which flatters year-on-year constant currency performance. We focus on markets with strong and stable currencies – which translates to real reported revenues and cash flows.

Our decision to expand in the US has reinforced this exposure – and has helped our 2016 revenue and profit performance. Importantly, our footprint choices not only enable our real cash sales performance but also support strong relative margin performance. Our drive for quality growth in revenue and margin is supported by the choice of markets in which we choose to invest.

We continue to prioritise our investment in the right markets, developed or emerging, that provide the best real long-term returns.

SLIDE – Cost Optimisation: Best in Class Tobacco Margins

Our footprint focus also helps us to achieve industry-leading margins. This is a position we've strengthened over the past few years, despite our lower relative scale, through successfully executing our third strategic objective – cost optimisation.

We have always had a reputation for strong cost control and in recent years, we have additionally increased our margins through further cost initiatives… and optimising globally. We have made great progress but we still see further opportunities driven by our simplification agenda and new ways of working.

These strong margins and the further cost savings opportunities create the headroom for future investment – both in tobacco and consumer adjacencies – to support our revenue performance.

SLIDE – Capital Discipline – Best in Class Cash Conversion

Our fourth strategic objective focuses on how we allocate capital and drive returns. We have worked hard to build a more cash conscious culture across the business. This has delivered consistent improvements in all areas of working capital and achieved industry-leading cash conversion.

The left hand chart shows our improvements over the past few years, while the chart on the right shows our cash conversion compared with selected tobacco peers and across other FMCG business.

In addition, we have enhanced our investment appraisal approach to raise the expected returns from investment and to better align the expected returns against the risks from capital allocation decisions.

SLIDE – Capital Discipline: Strong Absolute Cash Delivery

We have also performed well in delivering absolute cash despite our relative smaller size. Our focus on driving quality revenue, margins and strong capital discipline has supported significant levels of real cash-flow so that in the past three years has either matched or exceeded the absolute cash generation of our peers – despite our smaller size. In each of the last three years, we have generated around a £1 billion of free cash after dividends that we have used to repay debt following the US acquisition and provides flexibility for future investment in our business and in M&A.

SLIDE – Consistent Returns to Shareholders

The overriding objective has continued to be about growing shareholder returns.... through our M&A years and more markedly in recent years as we have been consistently growing returns whilst reshaping the business to focus on consumers & brands and quality sustainable growth.

We have achieved eight years of 10% dividend growth and continue to believe that this is an attractive part of our investment case to which we remain committed over the medium term.

I will now hand back to Alison.

ALISON

SLIDE – Assessing Our Strategy

Thank you Oliver… a consistent focus on growing real returns… successfully delivered… which sets the backdrop to our review in 2016.

As I mentioned, we spent time reviewing our strategy in detail with the board, also involving selective internal & external input, looking out over the next decade.

Let me briefly outline some of the things we considered as part of our review…

SLIDE – Strategy Evaluation

For any business, the strategy needs a clear understanding of core capabilities, and we took time to refresh our understanding … particularly given the changes in the business over the last few years… and important for how we win in market today and also how we evaluate new opportunities.

The review identified several FMCG strengths including M&A, customer relationships, best in-class manufacturing, regulation… with a growing strength in portfolio management.

We also performed detailed modelling on the world’s tobacco profit pools and their outlook for growth over the medium term... a key input to our footprint strategy, which I’ll talk more about shortly.

We evaluated the opportunities for M&A in the sector - a sector that has clearly undergone significant consolidation already, so options are more limited.

And we looked at other growth opportunities - aligned to our core capabilities - including in tobacco, next generation products and other consumer adjacencies.

Our long term value creation ambition was married with a bottom-up evaluation of growth opportunities. This included developing new investment ideas to drive growth and we established an evaluation framework and validated our ambition.

Critical to our assessment of growth opportunities is our ability to realise those opportunities, based on our capability work and market experiences. Building on our Sales Growth Drivers we have now codified a Market Repeatable Model… a consistent "go to market" approach for winning in market that is central to our growth ambitions across our brand and product portfolio both in tobacco and related adjacencies.

SLIDE – Our Strategy

The assessment reaffirmed our strategy but has driven a sharper focus… and we have evolved our "four pillars" strategy slide to pull out some new points of emphasis.

Firstly, tobacco maximisation... next generation products are clearly taking up a lot of investor air time currently but there continue to be many opportunities to further maximise our tobacco business and most of the additional investment we announced in November is focused on our tobacco business and sustainable quality growth.

And we also see exciting new growth opportunities in consumer adjacencies, including in e-vapour... and we will continue to invest to realise future growth.

Both our tobacco max and new growth ambitions require us to get the portfolio and footprint focus right... & given the importance of the Market Repeatable Model to our success, I have included it, as an integral part of our strategy.

Within both our "portfolio" and "footprint" objectives, we are further simplifying and prioritising... sharpening our investment focus. And our cost and capital objectives continue to be important, creating returns and the headroom for further investment.

The overarching objective is clearly unchanged - it's about sustainable returns to shareholders.

So an evolution of our strategy, reinforcing the opportunities we see for this business going forward.

SLIDE – Going Forward

In this next section, I will give you a bit more of a feel for our tobacco maximisation focus and MRM from a tobacco perspective and how that links with our increased investments… and Matt will then outline our thinking around new growth opportunities, particularly next generation products.

SLIDE – Tobacco Maximisation

I will start by looking at tobacco maximisation… and how we are investing in quality growth through a clear focus on the right brands and the right markets... and execution in market.

SLIDE – Footprint Evaluation

Our footprint strategy is about clear choices, as we talked through at our Capital Markets day, it's driven by an assessment of the attractiveness of the market and our ability to win in that market.

The attractiveness of a market is based on a detailed quantitative analysis of market size, profitability, affordability, economic outlook, as well as other qualitative factors including regulation.

In parallel we assess our ability to win… through the strength of our portfolio, customer relationships and our distribution capabilities - all linked to our MRM.

These are medium to long-term assessments, taking into account how the market is likely to evolve over the next five to ten years.

SLIDE – Where to Invest – Market affordability supports future growth

You are also familiar with the messages from this chart which looks at profitability and also future profit potential via an affordability assessment. And just to help you calibrate the profitability axis, Australia, at the top has a revenue per stick nearly 20 times greater than Ukraine.

The attractiveness of the US and Russia are highlighted and we are investing to grow in these markets from a smaller share base. And the UK is also well placed, supporting our investment to defend our share position currently.

In contrast, we have de prioritised Ukraine and Turkey for investment.

Looking through another lens, it's also important to evaluate the profit pools with the greatest growth potential. As I said in June last year, the top five markets set for profit growth over the next five years are the US, Indonesia, Russia, Germany and Saudi Arabia – and we are in four out of these five markets.

As Oliver mentioned, a high proportion of IMB tobacco profit is concentrated in large, growing and relatively affordable markets... and we continue to prioritise these markets for investment.

SLIDE – How to Win? Market Repeatable Model

Choosing the right markets is only one aspect… as I have already mentioned, how we win in market was refined and codified into our MRM over the last year... we looked at our capabilities and experiences, successes and mistakes, and also more broadly across FMCG... it was created with the markets, for the markets and has been rapidly rolled out across the business - to an enthusiastic reception!

It provides a simple and consistent operating framework focusing on the fundamental elements which underpin successful market execution and reinforcing a consistent way of working and language which are designed to promote sharing across the business.

I will come on to the six elements in a moment... they are designed to implemented together to maximise the effectiveness.

SLIDE – MRM – Simple Market-Focused Portfolio

Let's start with the first element… we focus on having a simple market portfolio... with benefits to the whole supply chain.

We began this process some years ago by either delisting, divesting or by migrating brands. There has been a significant migration programme and we've successfully completed 65 to date, achieving an average consumer retention rate of around 95%.

We are now more radically cutting the SKUs in markets, taking out low relevance SKUs to increase the focus on our bestselling SKUs – our optimal portfolio. We have already achieved a 33% net reduction in SKUs since the beginning of 2014 – and we believe we can cut this far more radically and grow the business.

This has significant benefits throughout the supply chain…

- our consumers get what they want on the shelf everywhere
- our retailers and distributors have less complexity to deal with on and off shelf and enjoy lower working capital
- and we generate more, higher quality, sales growth from the widespread distribution of our optimal portfolio and realise efficiency gains throughout the business.

What's not to like? Apart from managing the transition risk.

So as you know we piloted this last year in Russia and France, cutting the number of SKUs by around half and generated an uplift in revenues. And we are now rolling out, ensuring we capture the learnings as we go - in much the same way as our successful migration programme.

SLIDE – MRM – Sustained Brand Investments

Our focus on the optimal brand portfolio in each of our markets, means we are able to more sharply focus our investment on our strongest equities... and we have increased equity investment this year in a number of markets.

Our objective is to continue to build the equity of these brands through a range of initiatives including above-the-line and point of sale advertising to build brand awareness – such as we have done with Gauloises in Germany or Winston in the USA – as well as consumer activations. It also includes new brand launches and new products and packaging to meet changing consumer demands.

This is about consistent and sustained investment, building brand equity and consumer awareness.

SLIDE – MRM – Always on Price Strategy

The third element requires a pricing strategy that is consistently applied. Each of our markets will have a clear brand ladder and price strategy and we will invest in price to ensure we are competitive in markets that matter to us to deliver quality growth. As I indicated in November, an important element of our additional investment is in pricing and mix in markets such as the US and the UK.

SLIDE – MRM – Core Range Everywhere, All the Time

The fourth element is to ensure our optimal portfolio is always available. We know that if brands aren't available then consumers make different choices and if they are everywhere it also reinforces the brand perception.

So we are going for even fuller market coverage in our priority markets and have stepped up investment in our sales teams and increased call frequency and distribution – as shown by these market examples from the UK and Russia.

Optimal portfolio availability becomes even more important in highly regulated environments.... and it's therefore not just about the numbers of sales people and our coverage, but how effective they are. We have invested in technology to optimise call routes and we have equipped them with field-based information systems that enables them to be more knowledgeable and responsive in the retail calls ... and it facilitates learning together, sharing successes and mistakes..

SLIDE – MRM – Tailor Customer Solutions

The fifth element is about relationships... it's about tailored customer solutions to help our retailers win and at the same time enable us to win.

This has consistently been a differentiating capability for Imperial Brands and we need to leverage it more! Our success in retailer relationships has been recognised with many of our key markets, such as UK and Australia, winning best supplier awards outperforming not only the tobacco peers but FMCG companies as well.

We are using technology to interact with our customers and improve our sales-force effectiveness. Customer relationship tools such as 360 connect enable a far greater interaction between our sales teams and retailers, and as we add to our sales force coverage, this makes space for closer partnerships with our retailers.

Partnerships with our key accounts are also critical and we are investing more here too in some markets, increasing the focus on their performance metrics to further support our brands.

SLIDE – MRM – Honest Accurate Learning

The final element of our model is the requirement to learn from what is going well and what's not.

We are enhancing our learning mechanisms to build ongoing improvements into our sales & marketing processes - all looking to support success with our consumers.

The MRM model we have codified also has a disciplined set of KPIs enabling data-driven monitoring of our performance in all elements of the MRM wheel and focus on improvements.

We are building on our winning 'challenger' culture to create a 'growth mind-set'... encouraging our teams to challenge the status quo and to identify new opportunities to win and grow.

SLIDE – Incremental Investment of £300m

As I have referenced earlier our review identified opportunities for additional investment, given the foundations we have put in place in recent years and our refined "go to market" model (MRM).... and I have referred to our additional investment as I have talked through the MRM. They are summarised here… brand and route to market investments prioritised in the tobacco markets that are key to our growth both now and in the future... and not forgetting further investment behind blu which we are about to come onto.

SLIDE – Cost Optimisation

And for completeness, a familiar slide to reinforce our work on cost optimisation to fund our investments and add to our returns potential.

These are driven by product cost efficiencies facilitated by brand simplification and overhead benefits as we align our ways of working and leverage our global scale more effectively.

These savings help to underpin additional investment in top-line growth.

So that's the essence of our tobacco max focus and there's a lot of energy behind it around the business... clear brand and market choices and a clear investment strategy aligned to our refined "go to market" model... and the share response so far is already very encouraging in a number of our markets. We will give further colour on these performances at our half year results.

SLIDE – Investing in Consumer Adjacencies

So from tobacco max to new growth opportunities and I would like to hand over to Matthew Phillips.

MATT

SLIDE – Consumer Adjacencies

As you will recall from previous presentations and from our capital markets day last summer, our consumer adjacency thinking started over 5 years ago.

Tobacco is a unique product and has historically been able to meet a wide range of consumer needs and occasions. However over the past 20-30 years other products and experiences, assisted by rising levels of tobacco regulation, have increasingly competed for these consumer needs and occasions – good examples of such consumer products are coffee and portable energy products.

It was this insight that started our adjacency thinking – i.e. what other consumer products and experiences compete for consumer occasions and discretionary spend? Importantly though, not just the spend of tobacco consumers but actually that of adult consumers more broadly.

As you know this initially led us to look to develop our e-vapour business through Fontem Ventures. A couple of years ago, however, we also started running various other adjacency tests, including with portable energy products under the brand name Reon. We continue to explore consumer adjacencies that we believe have the potential to serve as profitable future growth engines for Imperial.

Today though I would like to spend a few minutes on our e-vapour business.

SLIDE – Investing in consumer adjacencies – EVP: Largest commercial opportunity and broadest choice

We see Next Generation Products as an interesting medium term opportunity. However, with 13% of the traditional global tobacco market, we also see significant opportunities to grow shareholder value through our tobacco max focus. I would like to stress, however, that we still see the ongoing profitable performance of the industry’s traditional tobacco businesses as very important for the foreseeable future.

Whilst e-vapour and heated tobacco products are likely to co-exist, we and others such as BAT, believe that e-vapour will ultimately be the bigger opportunity. Our investment in next generation products has therefore been deliberately and exclusively focused to date on e-vapour. As you would expect, we are monitoring the development of the heated tobacco category.

E-vapour is currently the largest and most developed opportunity within next generation products, representing around 80-85% of all Next Generation Products today with an estimated 27m consumers globally. It has also experienced over 300% growth in the last four years and could potentially grow from a market of c$6bn today to c$30bn by 2025.

It is not only the largest opportunity, but also the one providing the broadest choice to consumers. It has the greatest choice of:

- Devices with a wide range of disposable, rechargeable, closed system and open system options
- Flavours with over 70% consuming non-tobacco flavours
- Nicotine strengths with nearly 2 in 10 consumers consuming non-nicotine variants and a high proportion consuming low nicotine options.

E-vapour technology also offers the opportunity to satisfy some genuinely new & emerging consumer needs and occasions.

E-vapour has the added attraction of being not just “smoke free” but “tobacco-free”, which we believe will ultimately lead to a better regulatory environment with broader marketing freedoms and more favourable excise treatment than traditional tobacco or heated tobacco products. We also believe that, unlike heated tobacco, it provides a solution for all of the major drivers for those consumers looking to move away from traditional tobacco products.

SLIDE – Investing in consumer adjacencies – Strong e-vapour technology and brand credentials

We have created a strong e-vapour offering through a deliberate investment strategy over several years. It has been a deliberate choice to pursue an asset-light and flexible approach in this fast growing category. Our investments include the key intellectual property rights or the first generation of e-vapour products & we have successfully enforced our rights against multiple industry players. This has already more than covered the acquisition cost of Dragonite and will continue to make a contribution in the future.

SLIDE – Investing in consumer adjacencies – Focus on winning

We believe the best technology will ultimately drive the best consumer experience. So far we have invested over £350m with our ongoing capital discipline providing us with the future headroom to invest more heavily at the right time.

We have the best brand in the industry with blu, and have strong positions in the USA and UK – the world’s two largest e-vapour markets. In the USA our business is already profitable.

We have continued to build the equity in the blu brand whilst maintaining its premium price positioning and avoiding the heavy discounting being undertaken by others. Last year, we launched a new print, TV and cinema campaign to continue to raise awareness and build equity in blu. It has been a great success with our brand tracking scores improving across our key metrics.

Our third generation offer, blu MAX, offering a unique responsive draw, is currently in testing and will be released during 2017.

I’d now like to hand back to Alison.

ALISON

SLIDE – The Growth ‘Algorithm’

Thank you Matt…

We have some exciting growth opportunities in next generation products through our investment in technology and in our blu brand.

Pulling all this together… we are confirming our medium-term guidance is unchanged.

Our expected range over the medium term is 1-4% for revenue and 4-8% for EPS.

The objective of the additional £300m of investment we announced in November is to continue to improve the quality of growth and deliver more of that growth so that we deliver more consistently towards the upper end of these ranges over the medium term.

This means that more of our earnings growth comes from revenue and therefore reinforces the sustainability of returns to shareholders… particularly our 10% dividend growth commitment over the medium term.

SLIDE – Our Strategy

So to conclude…

We’ve made great progress with our strategy over the last few years whilst continuing to deliver growing returns to our shareholders. We have a stronger business with a better quality of growth being delivered...

We have reviewed where we are... affirmed our strategy, learned from our journey so far and refined our approach, building on the foundations we have laid.

And as I said last June it's about more...

More portfolio simplification

More prioritisation within our geographic footprint

More cost optimisation

More capital discipline...

And more investment – both behind our tobacco max ambitions and our new growth opportunities.

And with our MRM – our Market Repeatable Model – we have refined and codified how we win in market... it focuses our investment and it reinforces our confidence in how we grow returns both in tobacco and adjacent categories… both now and over the next decade... building a balanced portfolio of assets to drive long-term shareholder value creation.

PETER

Thank you Alison. That concludes the formal presentation. We will be looking to do more of these seminars on different areas of the business in the future building on the material we have presented today. I would now like to open the call to Q&A.