



Strengthening our Portfolio

More quality revenue growth

June 2017



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Alison Cooper
Chief Executive



Our Strategy

More focus, more quality revenue growth



Maximise sustainable shareholder returns



Quality Growth from Tobacco Maximisation and Consumer Adjacencies

Strengthen Portfolio right brands

- Radically simplify
- Invest in Asset Brands
- Develop blu & e-vapour technologies
- New adjacencies



Develop Footprint right markets

- Prioritise growth opportunities
- Quality share focus
- Sustain investment

Drive Cost Optimisation

- Simplify operating model
- Lean manufacturing
- Control of overheads

Embed Capital Discipline

- Maximise cash conversion
- Robust capital allocation
 - Investment
 - Dividend
 - Debt repayment

Market Repeatable Model

Simple, effective, consistent



Strengthening our Portfolio

Key messages



- Delivers stronger quality growth
- Supports prioritisation of growth investment
- Cost savings fund increased investment
- Supports revenue growth objective

Our Portfolio Opportunity



Amal Pramanik

Divisional Director Growth Division



Multiple Complexity Drivers

Historic context to 2010



M&A Activity



From 25 Brands to 250+

Decentralisation



All brands, all markets

Launch Focus



350+ New launches p.a.

Opportunity to Focus

Complexity dilutes growth & increases costs



Too Many Brands per Market

Diluted Investment in Brands

Diluted Presence at Retail Level

Complex Trade Engagement



Lost Productivity

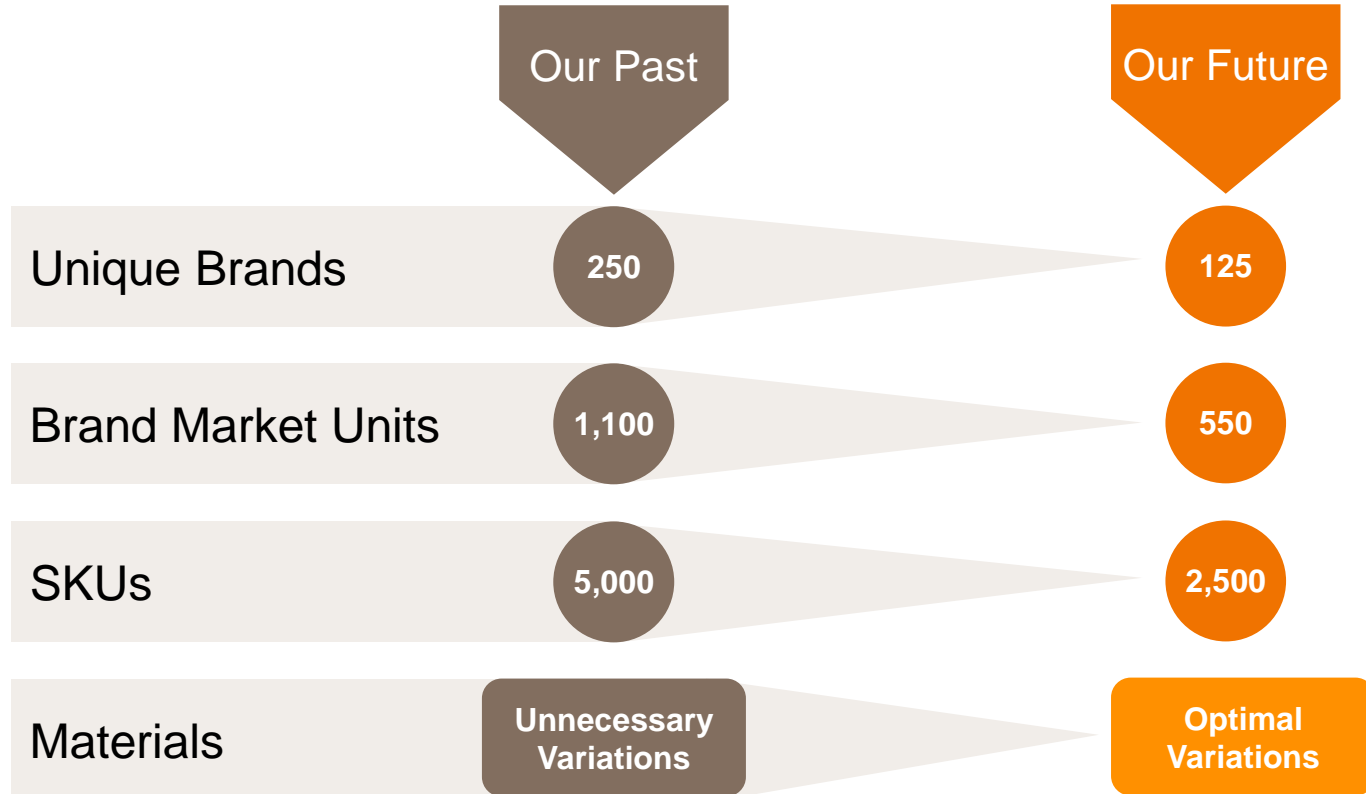
Lower Machine Efficiency

Higher Manufacturing Costs

Reduced Economies of Scale

Portfolio Transformation

Removing portfolio complexity

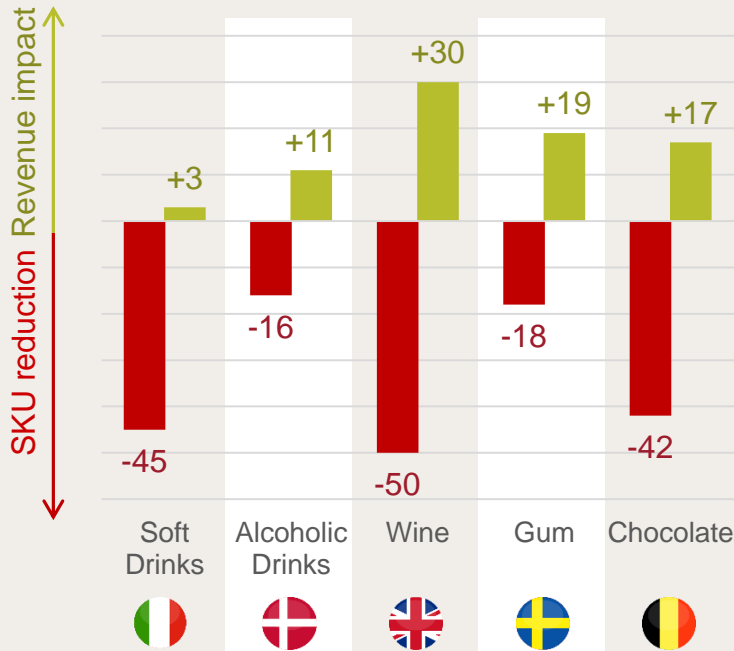


Proven Approach for Growth Potential

Simplification enables revenue growth & cost savings



Revenue Growth Opportunity



Cost Optimisation Opportunity



Economies of Scale

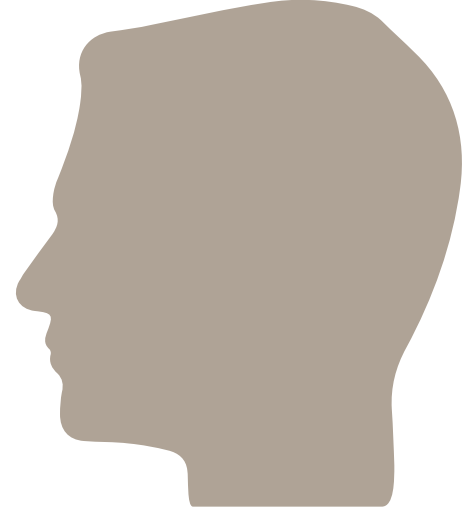
Procurement benefits

Machine efficiencies

Reduced cost to manufacture



Peter Durman
Director of Investor Relations



Marcus Diemer
Portfolio Strategy Director



**“ How have we approached
simplification? ”**

Portfolio Transformation Journey

Clear steps to simplify portfolio and drive quality growth



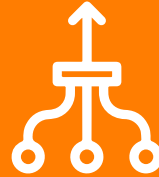
Our 3 Principle Steps Approach

Applied globally, actioned locally



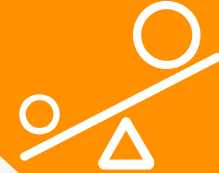
Prioritise

- Growth Brands
- Market by Market



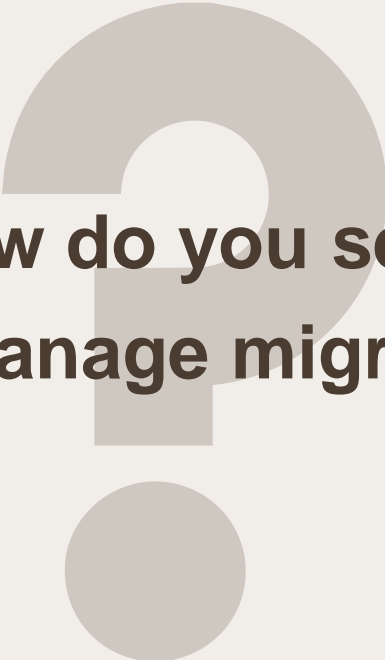
Simplify

- Migrate Overlaps
- Optimise Cash
- Divest, Delist Others



Leverage

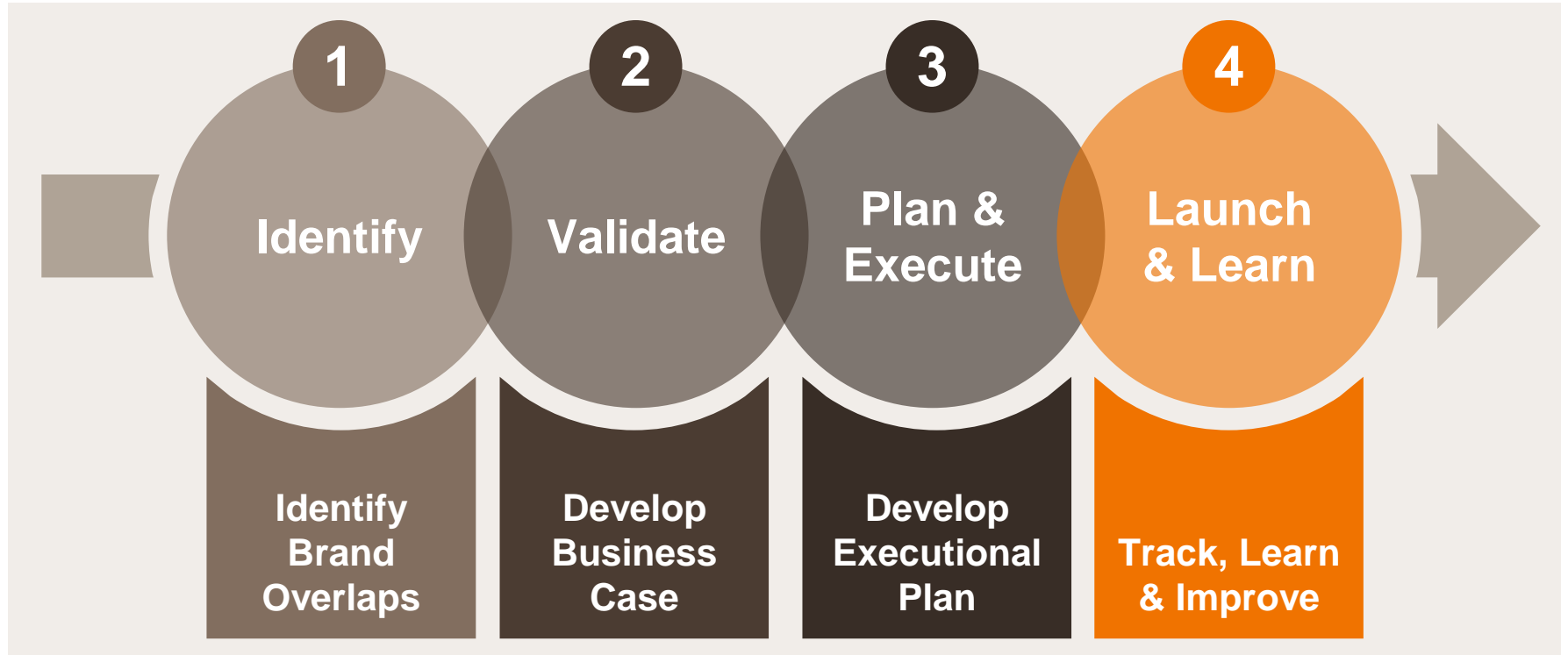
Our Codified
**Market Repeatable
Model**



**“ How do you select
and manage migrations? ”**

Systematic Approach to Migration Success

'Tried & Tested' selection to implementation process



Tailored for building Asset Scale

3 migration types



Create National Scale



e.g. France: Fortuna to News
From #6 to #3 brand

Local to International



e.g. Spain: Brooklyn to West
Combined share up 90bps

Portfolio Clean Up

Removed: 4 brands, 22 SKUs



e.g. Poland: Multiple to P&S
P&S now 9% share

**“ How do you execute
and track migration results? ”**

Robust Repeatable Model

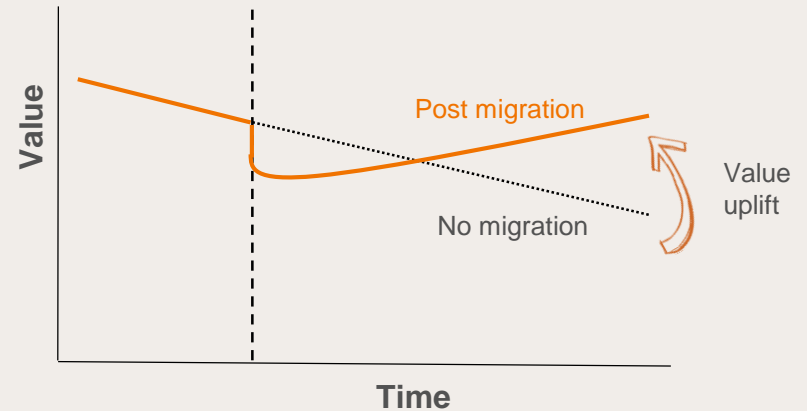
Detailed business validation



Consumer Assessment

WHO	Target Consumer Group
WHY	Consumer Buy Motivations
HOW	Brand Awareness/Opportunities
WHAT	Product Blend/Formats
	Price per Pack

Commercial Rationale



Smooth Consumer Transition

Mitigates risk: Classic to P&S – Ukraine Cluster: Moldova



Brand Migration Identified

Source



Price & blend alignment

Phase 1



Source brand design change

Phase 2



Further design alignment

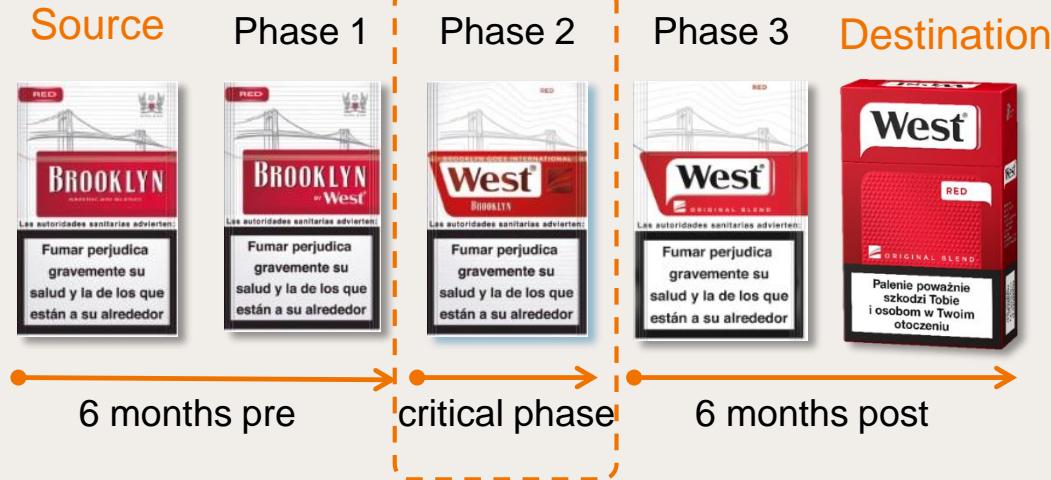
Destination



Final destination reached

Robust Success Tracking

Assessment & KPIs



Analysis horizon:

- Comparison 6 months pre endorsement & 6 months post critical phase

Metrics:

- Volume & market share

KPI:

- Business case success rate vs. realised performance

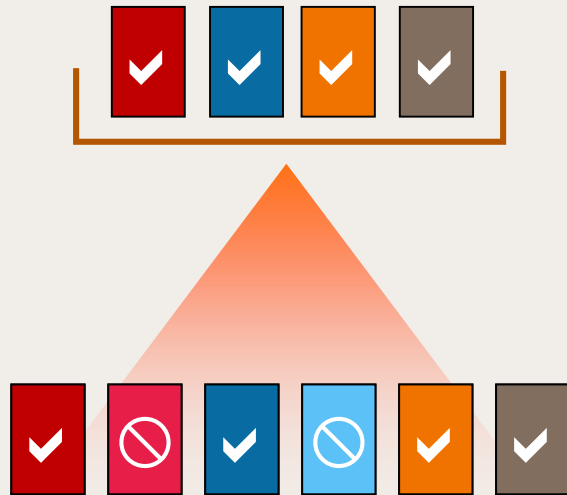
**“ Why more radical SKU reduction;
what is your approach? ”**

Creating the Optimal Assortment

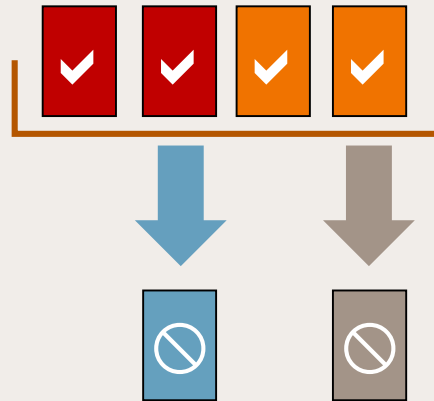
Requires more radical SKU rationalisation



Reality: More SKUs than shelf space



Approach: Low performing SKUs replaced with top performing

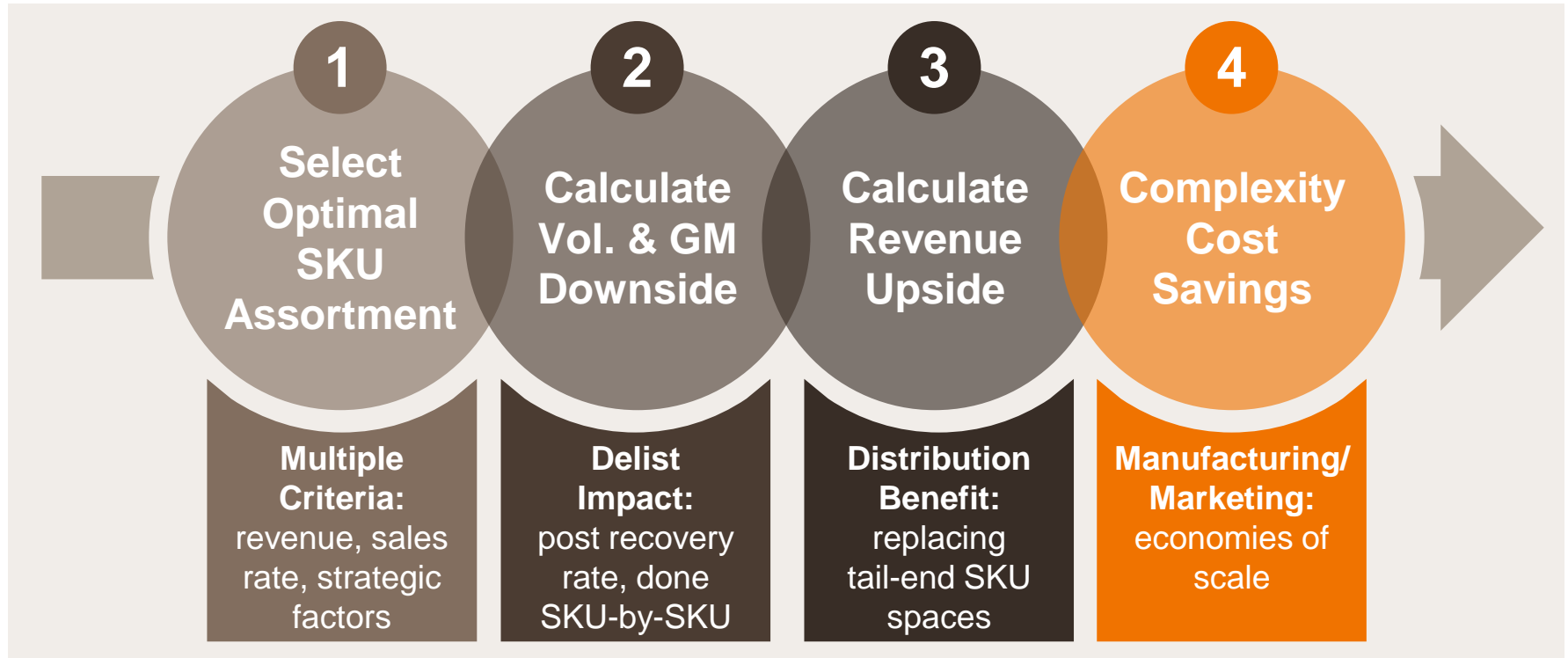


Benefit: Higher sales, lower complexity, trade benefits



Disciplined SKU Rationalisation Approach

Validated through pilots in France & Russia



“ What were the results in
France & Russia? ”



France

Market context



- Profitable market; competitive environment
- Complex and fragmented portfolio
- Increasing regulation; EUTPD & plain packaging in 2016

Requiring decisive action to stabilise and strengthen our business



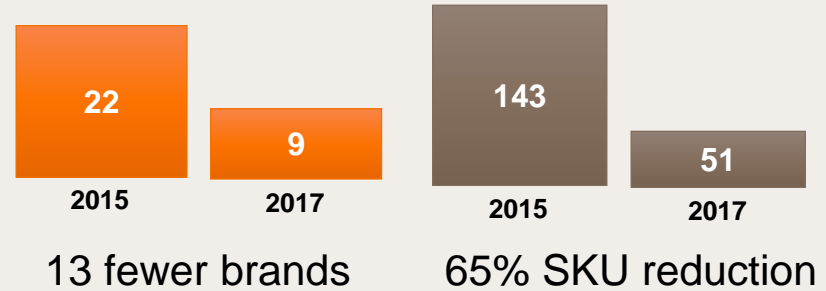


Radical Simplification

To deliver top line growth in FMC and Fine Cut



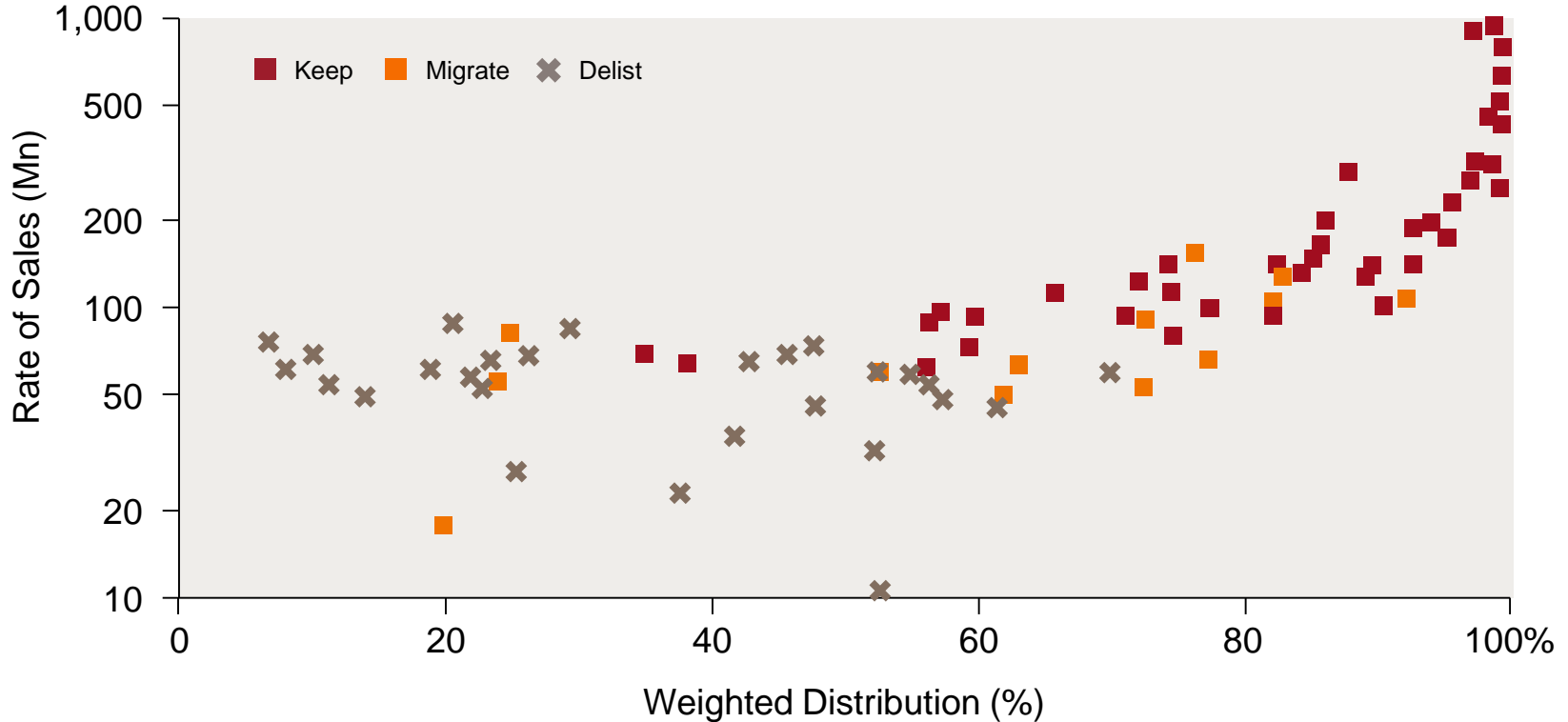
- News & JPS prioritised
- 90% A&P redirected
- Growth Brands outperforming
- 50% increased volume per SKU





Significantly Reducing Tail

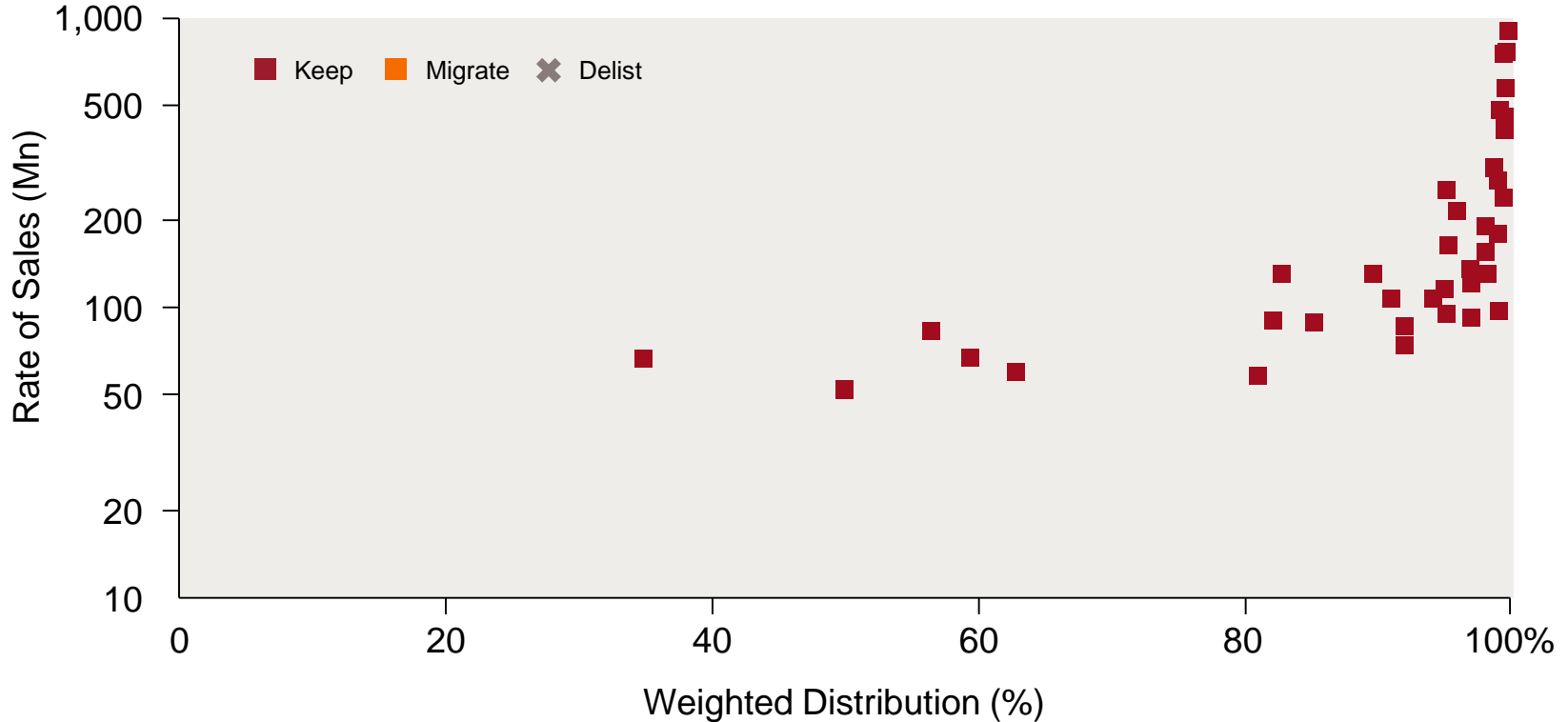
Optimal assortment drives better distribution





Significantly Reducing Tail

Optimal assortment drives better distribution



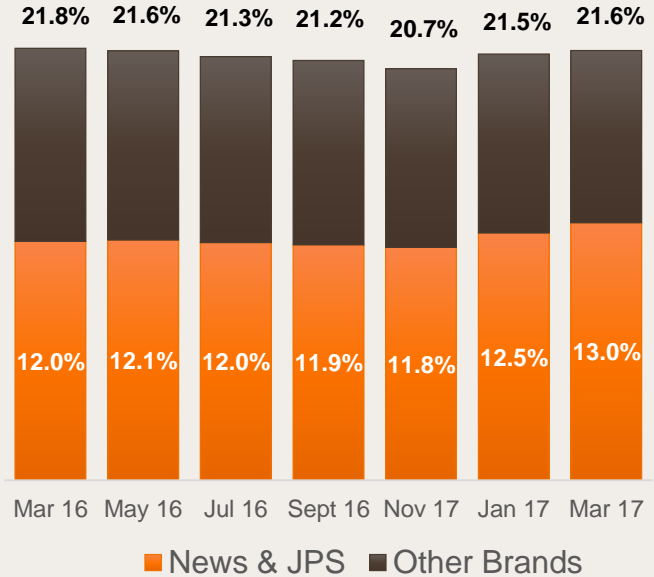


Radical Simplification

Optimal assortment driving better share trajectory



- Creates scale in fragmented portfolio
- Strong national presence
- From #6 to #3 brand with > 9% share



- Stabilising overall share



Russia

Market context



- Large and attractive profit pool
- Economic crisis with slow recovery; increased downtrading
- Growing regulation: POS/displays, big box ban, etc.
- Regional and fragmented brand and SKU portfolio

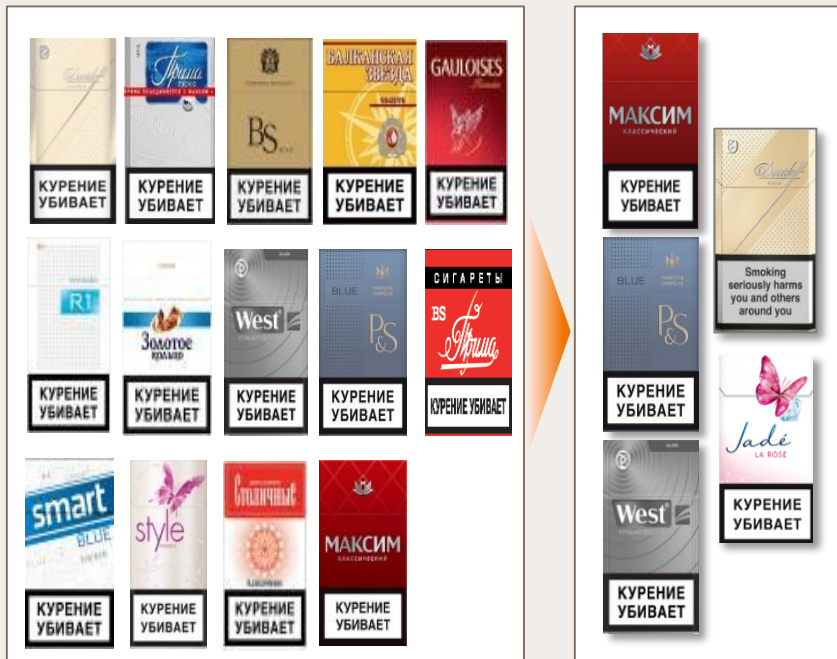
Requiring tough choices to support national distribution



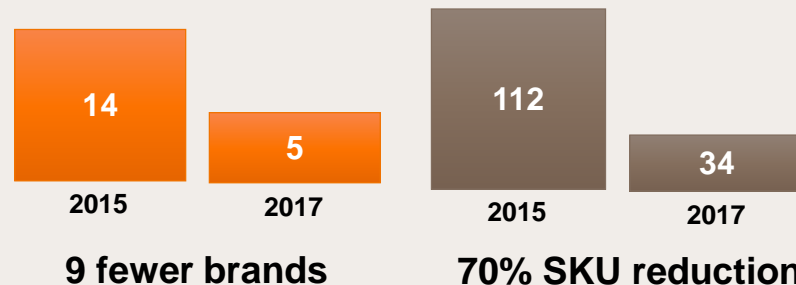


Radical Simplification

Stronger international brand presence



- P&S prioritised – national rollout
- 60% A&P redirected to P&S
- Balkan Star migration c.2bn SE
- 70% increased volume per SKU



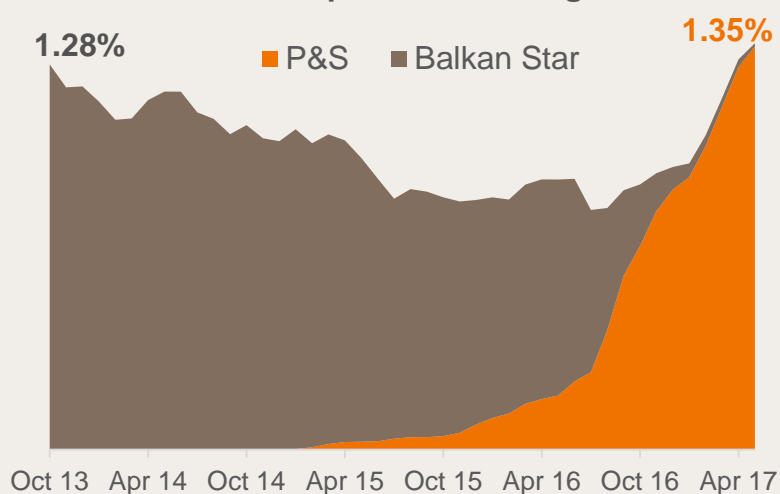


Market Share Stabilised

Parker & Simpson growth supports stronger portfolio

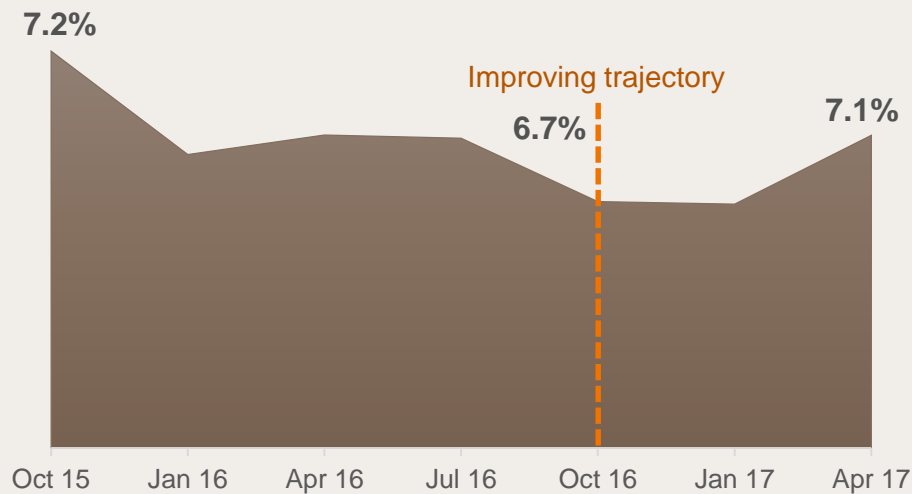


Parker & Simpson Share Progression



- 50bps growth over 18 months
- Driven by organic growth & BS migration

Russian Market Share Progression



- Share stabilising during FY17

Extending Simplification Across Markets

Bespoke market approach to opportunity



Spain

Brand count ▼ 17%

- Local to International migration
- Shelf space less constrained
- Marginal optimisation gains
- Improving share in YTD '17



Germany

Brand count ▼ 31%

- Portfolio Clean Up
- Bespoke distribution model
- Marginal optimisation gains
- Share growing YTD '17



Italy

Brand count ▼ 42%

- All 3 migration types
- 40 SKU removals since FY13
- Distribution expansion
- Share growing YTD '17

Rollout underway in 20 Markets

**“ Can you provide evidence of the benefits
this has driven for the business? ”**

Migrations Providing Asset Brand Scale

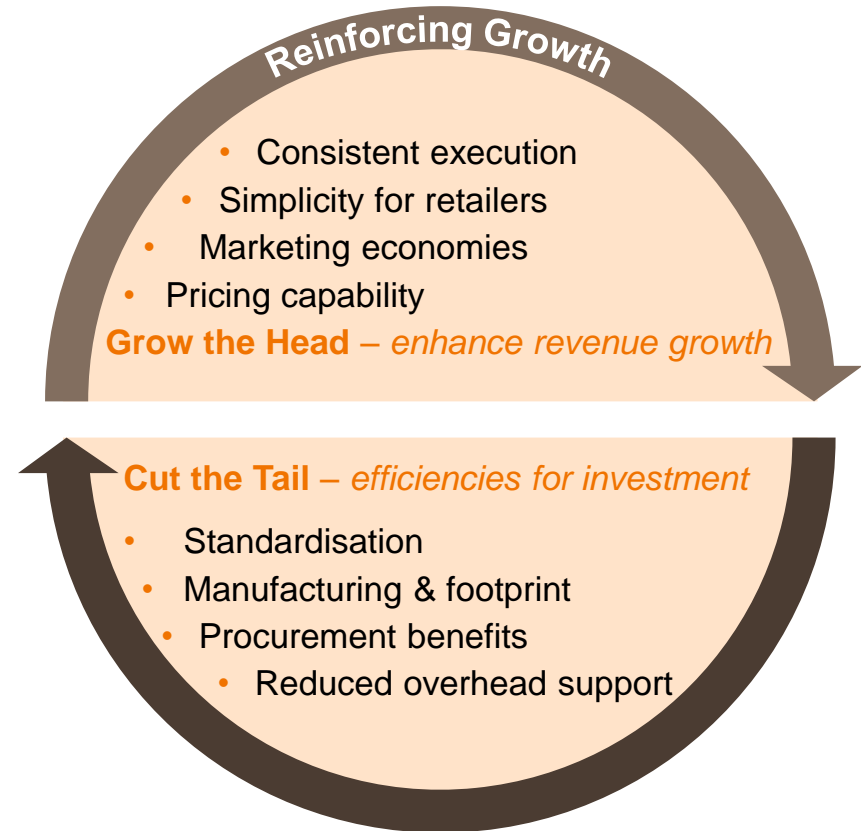
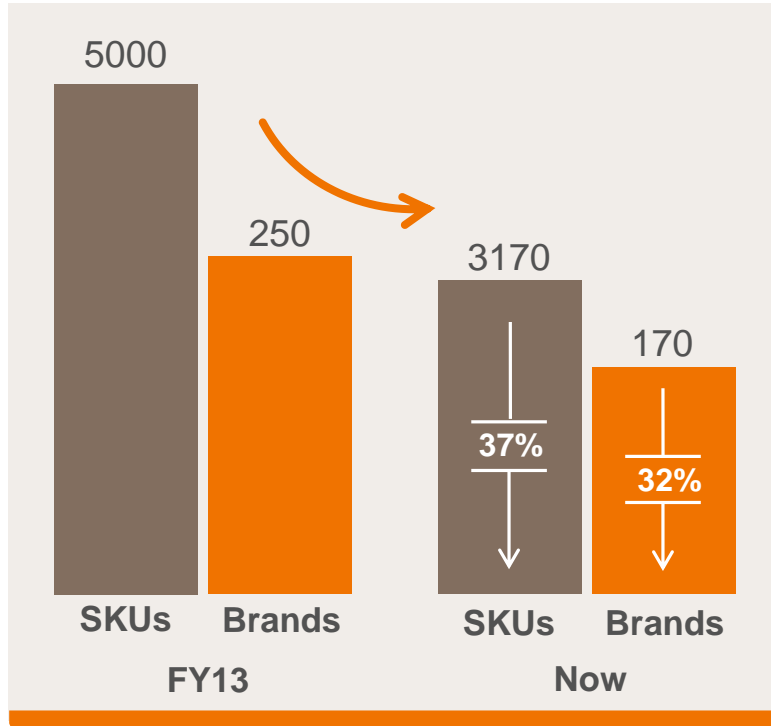
Enabling portfolio simplification



... 65 migrations complete at 95% success rate

Significant Portfolio Transformation

Fewer, bigger, stronger brands

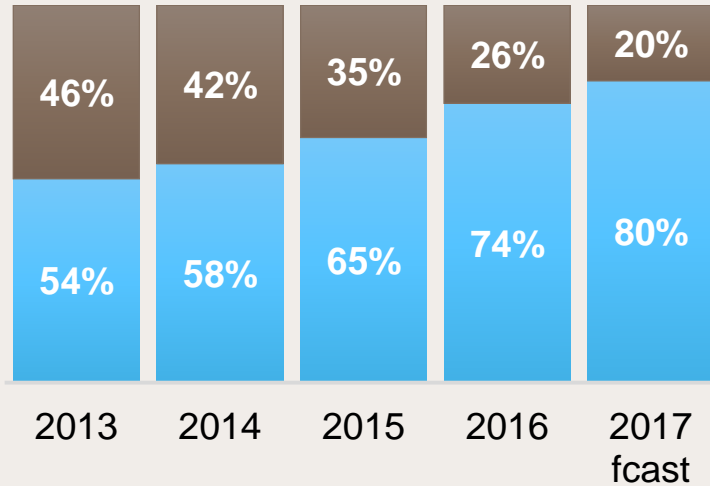


Grow the Head: Strengthening our Portfolio

Investment focused on Asset Brands



A&P Portfolio Split



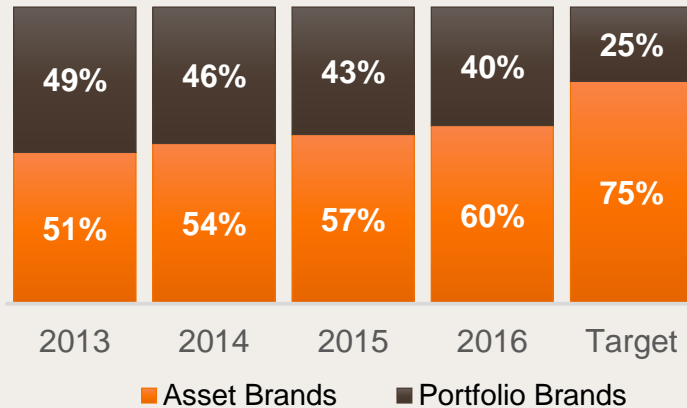
- Significant increase in A&P
- Spend 80% on strongest equities
- Growth Brands 80% of new launches
- Marketing economies of scale
- Future pricing capability

Grow the Head: Strengthening our Portfolio

Increasing quality of revenue growth

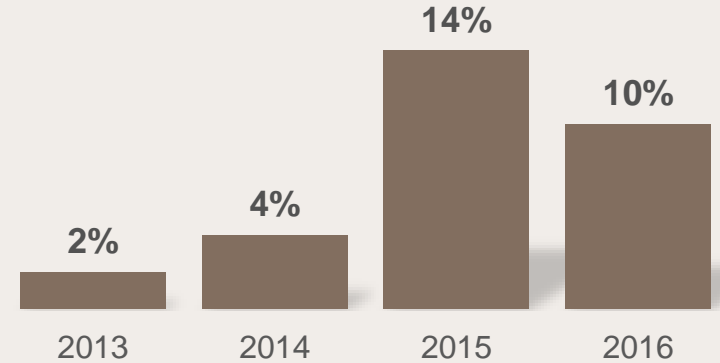


Asset Brands % of Revenue



- Growing revenue % from strongest brands

Growth Brand Revenue



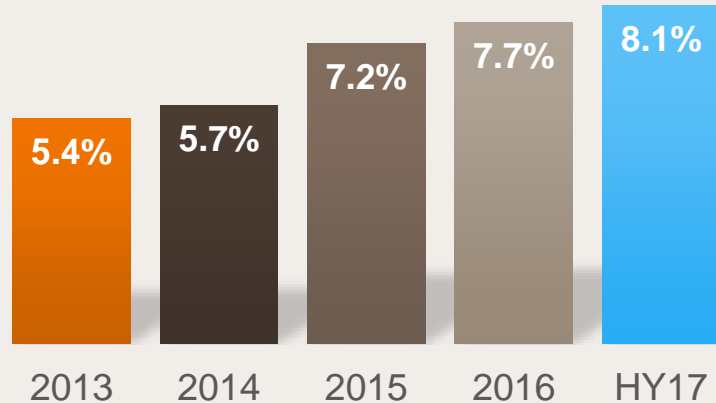
- Average annual growth c.8% since 2013

Grow the Head: Strengthening our Portfolio

Increasing share in strongest equities



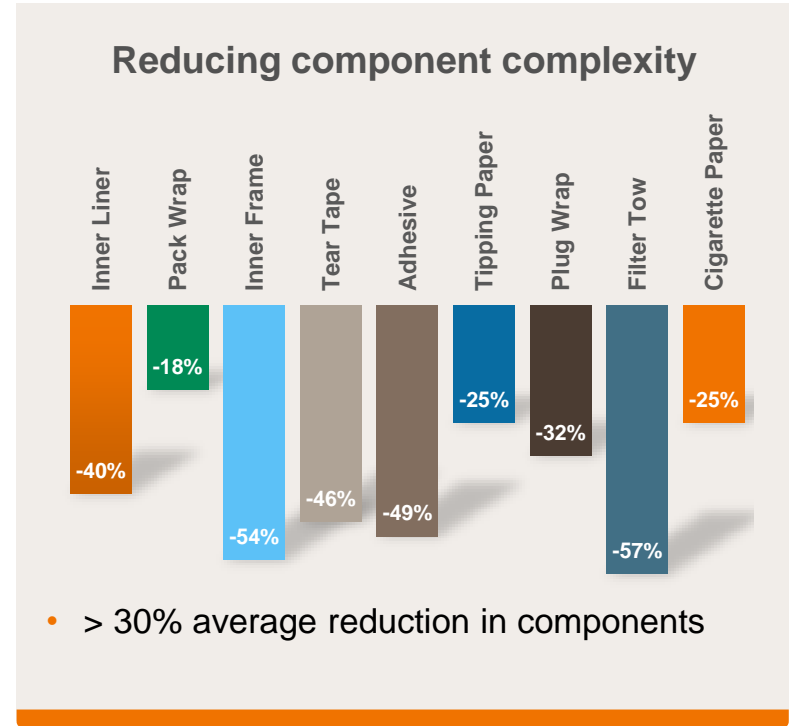
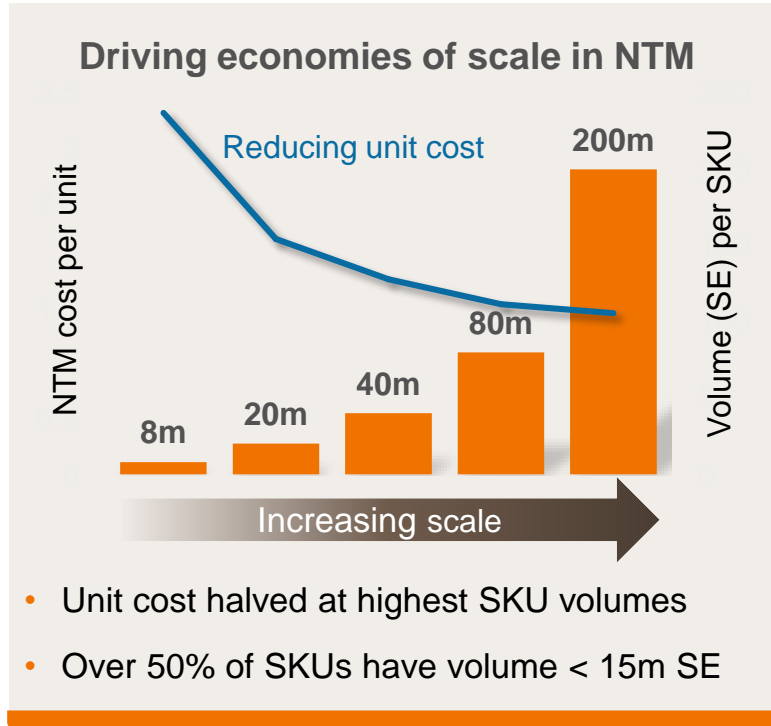
Growth Brand Share %



- Growing share of strongest equities
- +270bps since 2013
- Share growing excluding migrations

Cut the Tail: Complexity Reduction

Economies of scale from a simplified portfolio

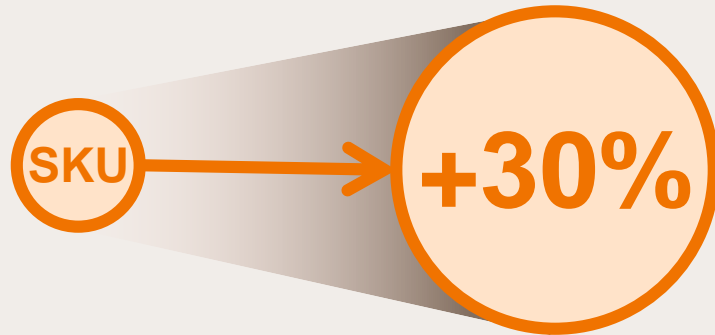


Cut the Tail: Complexity Reduction

Economies of scale support procurement savings



Increasing scale per SKU

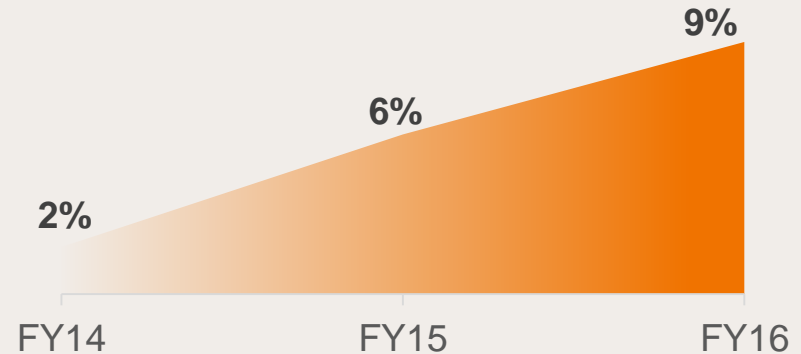


volume per SKU

Data between 2013 and 2016

- Simplification supports greater avg. volume

Real savings in NTM



- Cumulative NTM cost c.9% below inflation

Cut the Tail: Complexity Reduction

Higher production volumes per SKU enhance efficiency



Machine efficiency +10%

Improved productivity +5%

Plant utilisation +15% pts

Conversion cost leadership

Conversion costs £ per '000



Supports £600m savings by 2020

Strengthening our Portfolio

Key messages



- Delivers stronger quality growth
- Supports prioritisation of growth investment
- Cost savings fund increased investment
- Supports revenue growth objective



IMPERIAL
BRANDS