**Imperial Brands PLC**
**September 06, 2018**

Gaurav Jain: I'm Gaurav Jain, Barclays' global tobacco and UK consumer analyst. Today we have Imperial Brands here with us. Oliver Tant has been the CFO of Imperial Brands since 2013. Before Imperial, Oliver held a number of senior positions in a 32-year career at KPMG, including global managing director, financial advisory and private equity division, and head of UK audit. He was also a member of both the UK and German boards of KPMG.

Welcome, Oliver. Thank you for being here.

Oliver Tant: Thank you, Gaurav. Good to be here. Good afternoon, everybody.

Gaurav Jain: Imperial stock has had a very interesting year. It is now almost flat year to date, but in-between it significantly weakened at one point of time. What do you think investors have been missing about Imperial Brands?

Oliver Tant: I think the first thing to say is that, yes, the Imperial share price has had an interesting time. But actually, within a tobacco context, it's performed relatively well over the course of the last eight or nine months. And I think we need to be cognizant that a large part of the challenge from a share price perspective has been driven by sentiment around tobacco. As a proxy, interest rate movements have obviously had an effect; attitudes towards defensive stocks; the attitude towards the tobacco model; and the challenges around which particular format of NGP is likely to be successful in the future I think have all weighed on sentiment around the sector.

I think the misunderstandings about our stock are twofold. One, in relation to our tobacco business there's been a bit of a sense that scale is a critical element of our likely relative success against our tobacco peers. And I think we've tried to explain that there is actually a massive diversity of opportunity within the tobacco space.

There's a couple of statistics worth just reflecting upon. The net revenue per stick that we gain across our markets varies by a factor of 20 times, whereas the cost of producing a stick is, broadly speaking, the same for each market. If you can get 20 times the revenue in market A and the cost of the stick is the same that you can get in market B, the profitability varies widely. And it's not so much therefore a scale game, it's about choices and it's about being successful in the markets that matter and we, very much through our strategy, are focused on winning where it matters.

And when it comes to NGP, we've clearly been on the wrong side of sentiment for quite a while around the focus on e-vapour. Now, the events of the last six months or so have probably led people to recalibrate in that particular area. But I'm not sure that the broader sentiment around the space has really landed in terms of the delivery of an upside in terms of equity value to perceived potential winners, and we've got to demonstrate our success in that space. And I think over the next six months or so we hope to be able to demonstrate much, much more of the reasons why our judgments in that space were the right judgments.

Gaurav Jain: Sure. So you have touched on a number of topics here and we will go through them through our questions. Now, Imperial has been perceived to be a share loser in the industry historically. The organic revenue growth has been negative for the last two years. We expect that Imperial will grow their revenues at low single digit going forward. Is that a reasonable expectation?

Oliver Tant: Yes, it is a reasonable expectation. That's very clearly what we guided at the half year, that we were going to achieve within our guidance range of 1% to 4% net revenue growth. About the latter part of 2016, we reviewed our strategic plans and, during the course of that review, we reinforced what's the principal driver of the way in which we are focusing both our tobacco and NGP businesses. And ‘focus’ is the key word here. We focused an additional GBP300 million of investment behind those markets that really matter and those brands that really matter in terms of the performance of Imperial.

And we announced at the half year that, for now 18 months, our Growth Brands – that's our focus cigarette brands within our portfolio that constitute about 65% of our business – were actually growing organically. They weren't just outperforming the market, they were outperforming the market by 7.3% at the half year and were growing organically. And in the markets that matter, we have 10 markets which, broadly speaking, account for 80% of our profitability. In seven of those we were growing market share. We were outperforming our competitor base in seven of those markets. Now, those are the markets that matter to our profitability, and therefore absolutely those are the ones that will drive both net revenue performance and profitability.

We had experienced a relatively tough pricing environment through '17 and the early part of '18, but we had real confidence that, actually that pricing environment was easing. We'd seen a whole series of price increases that had been accepted through the markets in the latter part of the first half and were therefore embedded. And really, the only risk around our second half related in the context of our core tobacco business to the potential for product mix issues was a result of the competitive environment. But we had a strong reason to believe that that was not likely to be a major factor and that's indeed what's transpired through most of the second half to date.

And also, we were rolling out our NGP business. We've made significant investments in our NGP business. And the revenue contribution from the NGP business is due to tick up significantly, and has done so, in the second half, contributing to … I think the guidance at the time was, broadly speaking, 8% price mix benefit in the second half.

Gaurav Jain: Sure. So the revenue growth acceleration that we are expecting, it is driven more by price mix rather than volume? Is that the right way to think about it?

Oliver Tant: It is. There's definitely an element of volume because we're improving our market share position in the markets that drive a substantial proportion of our revenue. But it's also being reinforced by a much better price mix environment than we experienced in FY17.

Gaurav Jain: And is the revenue acceleration broad based across your geographic footprint or are there some markets which are leading the revenue acceleration?

Oliver Tant: We've had good pricing across a large number of our markets. It's not as though it's concentrated on one, to be honest with you. So we've seen improvements in the U.S., we've seen it in Russia, we've seen it in the UK. We've seen some alleviation of some of the challenges in places like France. It's been a broad-based improvement.

Gaurav Jain: Now coming to the U.S., your U.S. performance has been pretty strong over the last 18 months. And within that, your U.S. mass market cigar (MMC) business has been doing exceptionally well. Can you help us understand what is driving those trends and how long can they continue?

Oliver Tant: The U.S. acquisition, from our perspective, and I think most people would acknowledge this, was an excellent acquisition. At the time that we bought it, we bought the assets relatively cheaply. And as we sit here today they generate, broadly speaking, GBP1 billion worth of profit and they cost us, broadly speaking, GBP5 billion. So they actually were producing a ROIC of in excess of 10% within 12 months of purchase.

And the plan, very simplistically, was to focus the business from an FMC perspective, from a cigarette perspective, on two of the brands that we bought from Reynolds, Winston and Kool, much, much more heavily. Now those brands were more premium than the portfolio as an average. Their contribution to profit was therefore stronger than the market share of the plethora of smaller brands that we owned at the time.

And what we've been doing steadily since acquisition is increasing the scale of those two brands in the U.S. market at the expense, it has to be said, of investment in some of the tail brands. But that's contributed richly both to the revenue mix, a price mix across our volume portfolio that we have, and the market share we have in the U.S. But also, the simplification by reducing the number of critical SKUs has enabled us to make cost savings across the business to fund the investment that's been necessary to grow those brands. So net/net, we've had both a revenue increase in our combustible tobacco business, in our FMC business, and we've had cost savings with increased profitability.

The MMC business has been a real star; an outstanding performer over the last 24 months. And what we've looked to do is reinvigorate the brand equity in a number of the key equities we have in that space, in particular Backwoods and

Dutch. And we've gone back to the heritage of those brands. We've used strong online marketing and digital marketing campaigns to support the increased interest in those brands across the U.S. And as you can see from the statistics, they've been growing market share. In fact, I'd go as far as to say that we have some capacity constraints on raw material supply into some of those brands as things stand today. So we very much hope that we'll see a continued positive development; not just because of the strengthening brand equity, but also because we'll have more supply available.

Gaurav Jain: Sure. Now, U.S. cigarette industry volumes have been weak so far in 2018. How do you explain that industry volume weakness?

Oliver Tant: Well, it's actually relatively easy to explain. We've had a number of specific events. Obviously the Californian excise has been a factor. We broadly look at the market size decline as being of the order of 4%; I think the last time we publicly commented it was about 4.4%. And you can almost entirely explain the deterioration from the historic norm of between 2% and 3% by both Californian excise and the impact that had in that market, and the impact of gas prices, which during the course of '16 and '17 had actually created a dynamic where the U.S. market, in volume terms, had spent it. And certain quarters had been growing because gas prices had been falling and that had influenced pocket spend, particularly in gas station retail, whereas we saw an increase in prices and we saw that feed through to demand through those outlets during the course of the earlier part of this year.

I think that pretty much entirely explains what's going on. There have, I know, been market comments about 'has e-vapour, and in particular Juul, had an effect on combustible cigarette volumes', and I think it's very difficult if you root through the data – and certainly the data that the manufacturers have on supply into market – to come to the conclusion that it could have had any material impact at all. If it did, there's some unknown factor that's contributed very positively to volumes in the market. And I don't think any of us have identified anything that would contribute positively in that way.

Gaurav Jain: Sure. So let's now move to the next-generation product strategy. So can you just talk a little bit more about your next-generation product strategy and is it focused more on vaping rather than on heat-not-burn?

Oliver Tant: Yes. We, as many of you will be aware, have been very heavily focused on e-vape over the course of the last two or three years. And there's some very clear strategic reasons why the organization has made that commitment as part of its strategy, and that's largely to do with our footprint and the recognition that our footprint has a natural bias towards vaping. The nature of the consumer experience that the consumer's looking for has a natural bias towards the vaping product category. It's not because we have any philosophical issues with any other format types; it's purely driven by where we see the most obvious commercial advantages for us in those markets where we have the strongest capability to execute. And we've therefore spent a lot of money in terms of developing product propositions.

Our focus is around our blu brand and we believe that the strength of the brand will be enormously important in securing success in that space. And as many of you will be aware, we've launched in a number of markets a pod format product which is tailored in its design to appeal to the smoker. And I think it's very important to understand that, as a tobacco company with tobacco heritage, we are very focused on deriving a product proposition that provides something better for the smoker. That's where our focus is – the design, the distribution, the marketing emphasis is all focused around providing a better experience for the smoker; a healthier and better option than the combustible tobacco option.

Gaurav Jain: Sure. How has the *my*blu roll out been so far? There have been some new data points which says that it has been slowing down and that leads to some investor concern.

Oliver Tant: It's very much on track. We clearly had plans in place in the context of what we were looking to achieve, and if I was to show you the graphs you'd see very clearly that it's very much in line. I think, if I'm honest, we probably had more of an appetite in certain markets for the product than we were initially anticipating and we have, as a consequence, had some capacity constraints.

Now, it may seem odd that one would end up with capacity constraints, but we also have quite a rapid program of roll out of innovation on the *my*blu platform, and a number of those innovations are fundamental to the longer-term commercial success of the proposition. So we've talked – when we've talked about our NGP approach to profitability – to a different and improved format that substantially improves COGS. We want to roll that out as soon as we possibly can and we don't want to commit to too much short-term capacity on a platform that we intend to innovate and replace.

So I think the organization at the moment is really very happy with the progress that we've made. We'll see an uptick, and a strong uptick, in performance in the first quarter of next year. And we're very much in line with the plans that we set and the expectations that we set at the beginning of this year.

Gaurav Jain: Sure. There have been a lot of concerns around e-cigarettes, and especially Juul, reaching the youth. How do you ensure that your product *my*blu is not reaching the youth? This is clearly a key point of regulatory scrutiny right now.

Oliver Tant: You can imagine, as a tobacco organization, the level of sensitivity to anything that results in our products being in the hands of inappropriate consumer groups is of critical importance to us. And we've run across our business a whole series of codes of conduct, from our attitude towards marketing, retail and distribution, as well as compliance systems that ensure that we can control that distribution process, we can control the level of appetite to ensure that it's focused on the right demographies.

We have absolutely no interest in soliciting demand from inappropriate groups. And whether it's code of conduct around marketing to ensure that the descriptors that we use or the level of visibility that we provide around the health-related risks associated with a product are clear enough to ensure that it doesn't appeal to the wrong groups. When we use fruit flavors we don't have any association with products that might have been experienced by potential consumer groups and their use. We have very clear health warnings on everything. We have compliance processes to ensure that our distributors, and our retailers, are not selling to groups where it is inappropriate to do so.

And we, as I said earlier on, are very focused on creating momentum which ensures that the U.S. and general smoking population across our footprint have the opportunity to move onto a platform, an e-vapour platform, that provides them with a better solution to the existing combustible cigarette and not to solicit under-age groups.

Gaurav Jain: There are a lot of other e-cigarette manufacturers; not only Juul, but there are a lot of other Chinese manufacturers. They have been growing pretty fast in the market right now. So do you think they're not playing by the same regulatory rules around marketing or the pre-market tobacco applications that are required to launch products in the market?

Oliver Tant: I think it's very difficult when you're a new entrant into this space to necessarily accumulate all the experiences that some of the big tobacco players have had in managing the distribution of your products. And I think it probably has inevitably been not out of intent – and I'll give the benefit of the doubt on that – but rather out of inexperience that some of the strategies deployed have got them into the situation where they're the subject of inquiry by regulators.

I think importantly for us, product design, for example, is massively important. If you're designing a product that you want to have appeal to the smoker, it needs to replicate the experience of the smoker. The average nicotine consumption in the U.S. market, despite the fact there are no limits to the level of nicotine in cigarettes, is about 1.5 milligrams per cigarette. If you're looking to provide a vaping experience that matches what the smoking experience is, then you would look to provide something that provides that comparability, absorbed in a way which is consistent in terms of the pattern. But you're not immediately going to be looking for a very high nicotine content product because that's not the choice that the smoker's naturally made in an environment where they would have had the option to make those choices.

Gaurav Jain: Do you have any views on flavours in e-cigarettes? Because there is anecdotal evidence that most of the sales of e-cigarettes are in flavours which are not tobacco augmental, which are the traditional cigarette flavours.

Oliver Tant: Well, I think we do need to bifurcate the markets in vaping. So if we're looking at the marketplace and the attractiveness of flavours to smokers and former smokers, there's no doubt that the initial draw into e-vapour is enabled by tobacco menthol flavours. But our ambition isn't just to have them trial. It's to have them stay on those platforms. And I think the FDA and others recognize that flavours have a role in retaining and ensuring consistent repeat buy amongst consumers and ex-smokers and current 'duallists' – and I use that expression in the context of people who smoke *and* vape rather than those people who use the Juul product – that actually, flavours play a role in ensuring that transition from combustible product to a vaping experience.

I think we do have to be careful with flavours, because obviously the younger palette, for example, is drawn to the sweeter taste and they therefore need to be used in a way which matches and applies to the consumer group that we're targeting.

Gaurav Jain: Are you not concerned that your next-generation product business will result in a lower margin and a less cash-generative business?

Oliver Tant: No, quite the contrary. We haven't been planning to have an e-vape business for the sake of glory and volume and revenue and make a loss. There's been a very clear path to profitability which has been planned, largely enabled by some very simple levers. So clearly we have with e-vape the opportunity to change the distribution mechanism. And an omnichannel strategy provides the potential for direct supply and, therefore, the opportunity for us to retain a higher proportion of the net revenue.

We have a COGS initiative dramatically improving the level of gross margin obtained from, in particular, the consumable component of these products. Scale has a massive role to play in terms of overhead absorption, a variety of different overheads from marketing support to aspects of the innovation costs that we're incurring in maintaining a pioneering position in terms of the development of the product. All of these things, we believe, will enable us to drive to profit margins of 40% to 45% on this product group.

We have absolutely every intention of remaining pioneers in this space with products at the leading edge that satisfy the consumer group that we're targeting: the smoker. And I think in delivering that, together with regulation, together with the challenge of getting that product in front of consumers, there will be significant barriers to entry that will enable us to sustain that profit position.

Gaurav Jain: Sure. You recently made an investment in a UK-based medicinal cannabis research company. What is the rationale?

Oliver Tant: There are probably three factors that I'd draw people's attention to, but when we were looking at our strategy back in 2016, we employed a large strategy company to work with us on the review. And one of the things that they brought to our attention was the proximity of the cannabis category to a number of aspects of tobacco. And actually, as you look at it, and we've learned rather more about it, you can see that the whole process … the agricultural element has some similarity; the whole track-and-trace process around maintaining very clear data on origin and flow through of that product has similarity; the sensitivity around its distribution into markets has comparability. And that actually, the skills and capabilities that we have as a tobacco company could equally apply in environments where cannabis had become an acceptable either medicinal or recreational product.

We were also conscious of what was going on in this market. And whenever we visited investors on the West Coast we were asked a lot of questions about our appetite for cannabis. And also we keep an eye on it because, to some degree, some of the things that we do are influenced by it. Some of our products on occasion is used as accessories. So we have an interest and we've been monitoring it for a number of years.

The reality, from our perspective, is that we're very much in a learn phase on what's going on in this space. We have made no commitments in the context of our longer-term expectation. But as an organization, it's important that we understand what's going on and we're in a position to capitalize if that's appropriate to create shareholder value.

Now the investment in OCT, Oxford Cannabinoid Technologies, is an investment in a Home Office-approved research organization in the UK linked to Oxford University, undertaking research for medicinal purposes in pain relief, inflammatory and neurological applications of cannabis to ease patient health issues. And we believe that that is an investment that will help us continue to understand what's going on in the space, particularly from a health perspective, and will support a continued opportunity on our part to monitor what's going on and determine where opportunities may be over the course of time for the benefit of our shareholder group.

Gaurav Jain: Is there any risk of cannibalization for cigarettes from cannabis?

Oliver Tant: We've not seen any material risk. I think, in contrast maybe to where some of the alcohol companies are, for us the sector represents opportunity rather than risk.

Gaurav Jain: Sure. Now you have delivered about GBP370 million of cost savings from a total program of GBP600 million of cost savings. Where are these cost savings coming from and can we expect more beyond the GBP600 million?

Oliver Tant: Well, we've announced two programs of cost optimization; two at GBP300 million. The first we announced back in 2012-2013, and we've largely delivered that GBP300 million program; and we're now into the second phase, another GBP300 million which we said we'd deliver between '17 and financially at '20. To date we've achieved GBP70 million and there has been a guidance towards at least another GBP100 million being realized this year.

It's really being derived through three broad areas of focus, the first of which is simplification of the portfolio. The whole migration activity that we've been undertaking simplifies our route-to-market cost. If we're selling in fewer brands, selling in fewer SKUs, our A&P costs diminish’ our sales costs essentially end up being more easily managed because we have less complexity at resale and distribution.

Then that has a knock-on effect in our manufacturing footprint. We've been able to substantially restructure and take out capacity to make our manufacturing footprint significantly more efficient. The larger the runs, the more efficient the plants are utilized. And therefore, the whole operational cost of fulfillment, of supply chain, of manufacture, and delivering product into the sales channel has been consequently reduced.

And then we've also been working on ways of working. We've looked at aspects of the way in which we organize ourselves; consolidated into clusters from a management perspective; reduced the complexity of our divisional organization in our head office; introduced increasingly the use of shared service centres for non-sales-critical activities. And all of this is driving costs out. And this goes on top of a ruthless focus on cost as a business on an ongoing operational basis, which will deliver through to that GBP600 million. And we'll continue to monitor, as the business develops and we focus on opportunities for further cost savings. I'm sure there will be many because the business has a continuous improvement philosophy and this is one area where actually tireless endeavor usually reaps and harvests significant reward.

Gaurav Jain: Sure. Now you announced GBP2 billion of asset disposals over the next 24 months. Can you update us on the progress?

Oliver Tant: Well, we've sold a number of things which I hope many of you will be aware of already. We sold another tobacco products business in the first half. We, just before the summer break, sold a further 10% of our interest in Logista, bringing our holding down to just over 50%. And we've also sold our head office building. And in keeping with the statements that we made at the half year, when we announced this program, the focus is on brands, markets, and other assets; that we can realize that we are, as a consequence of our focus, deprioritizing and believe that by selling we can deploy the assets and resources more effectively to greater benefit for the business as a whole.

I'm not going to say anything about the assets that we are currently reviewing. We've spent quite a bit of time preparing parts of our organization for disposal and we've a number of processes ongoing. We’ve probably achieved about GBP400 million of value in terms of sales to date by the time you take OTP, the head office building, and the 10% Logista sale process in play.  But there will be more news on this in due course as those processes continue and reach the stage where it's appropriate to announce them.

Gaurav Jain: Could any of your cigarette markets be non-core, or will there be other assets within IMB, like what you've already mentioned?

Oliver Tant: Well, we said at the half year that it could be brands, it could be markets, or it could be assets. So, in answer to your question, yes, it could be. We'll wait and see what choices we make.

Gaurav Jain: Sure. Now, with your margin improvement program which we were just discussing earlier, will they be impacted by the investment requirements for your next-generation products?

Oliver Tant: All of those have been factored into our plans. We have purposefully adopted an asset-light strategy for NGP. When you are innovating your product quickly, and that's part of the way in which you intend to reinforce the brand and ensure the consumer experience is evolving in a way which puts it at the front end of a consumer appetite, there's an inevitable development of technology to produce those products that would render our investing heavily in capital and equipment, a high-risk strategy that we could find ourselves in a position where that equipment was not longer required. So we've adopted, from a capital perspective, a capital-light strategy.

But the investment is going into supporting the brand. It is going into ensuring that we obtain significant awareness, trial and conversion, and that has a P&L impact because that has a cost associated with it. I think we gave some numbers out at the beginning of this year in terms of the impact on our P&L account, and I'm not really expecting a major change over the next couple of years at the level of impact on our net profitability. But the business, our NGP business, will continue to be invested in and, in practice, is unlikely to achieve overall profitability until 2020 and beyond.

Gaurav Jain: What is the right target leverage for Imperial and when do you expect to reach that?

Oliver Tant: I remember our Chairman, Mark, saying at one stage to me, Oliver, you will never have the right level of leverage. You'll either have too much or too little, but the journey is one of targeting milestones and then, once you reach those milestones, moving on.

We are, broadly speaking, currently targeting to achieve a multiple of about 2.5 times. That's broadly speaking where we're trying to get to. The cash flow that we're generating through our operational activity … as many of you will know, we've generated GBP900 million plus of surplus cash flow in each of the last four years. We continue to expect to generate significant surplus cash flow from our operational activities, including that disposal realization program you referred to earlier on. The capital allocation program will also generate cash which can be used for this purpose. We are targeting somewhere around the 2.5 times mark. That will give us some headroom if we want to invest further behind NGP with some acquisition activity, or extend our categories beyond those that we currently have. But that's the ambition.

Gaurav Jain: And what would you do once the leverage target is reached?

Oliver Tant: Well, to some extent, I guess I've given you a bit of a hint. I think we will have a look at that stage at what it is most sensible for the business to do with surplus cash flow. We have three options. We could either further delever if that's what we felt was appropriate. That in a way is building capacity to invest. We could directly invest in other things that would support the growth of our operating profit line and our EPS. Or alternatively, we could look to some further return to shareholders. We'll make those judgments when we get closer to that point in time, recognizing the opportunities that might be available to us when we get there.

Gaurav Jain: Let's open it up for Q&A.

Audience Member: In terms of the *my*blu, the nicotine salts pod that's coming out, my understanding was that's been something that's been still in development and you're out to scale up some capacity for it. How does that work out with the deeming regs where you had have the product present in the market prior to August 16?

Oliver Tant: Well firstly, it's launched so it's already in the U.S. market. It's in other markets around the world.

Audience Member: This is the nicotine salts version?

Oliver Tant: This is the nicotine salts version.

Audience Member: Okay.

Oliver Tant: So it's already launched. The liquids themselves were in the market prior to the shutdown period. So in essence, we don't need to seek any approval to use those liquids in our products.

Audience Member: Okay. And then one other quick question. Well, maybe not quick. I was just curious if you have any update or updated view on the whole nicotine standards that the FDA has discussed, and whether or not 'biologically not active' is functionally equivalent to zero and if that violates sort of the spirit of the statute, if that matters.

Oliver Tant: Well, I think our general view corporately would be that, as we've experienced in a number of other geographies, that the concern is around absolute levels of nicotine and consumption patterns across the U.S. And to some degree, I guess some of the demographic experiences that we've witnessed over the last 12 months in the U.S. marketplace might encourage this view, that actually you'd want some limit on the proportion of nicotine in any one individual experience. That's what's happened elsewhere in the world. I think rather than see ultimately the abolition of nicotine in products, it's much more likely we'll see some sort of legislation that limits the content. But who knows where the FDA will take this. We'll wait and see.

Gaurav Jain: Any other questions?

Audience Member: Whilst the industry's generally welcomed the FDA move and the regulatory framework based on risk continuum, it seems that … it's moving pretty slowly. So firstly, can you expand on the pros and cons of that? And the other point I then wanted to raise was actually … you talked about your own compliance, do you think the enforcement of industry compliance is effective at the moment?

Oliver Tant: Well, I have to be honest with you, when the risk continuum statements were made by the FDA, there was a wry smile in our organization because we could have written that for them. That's exactly the approach that we adopt when we look at the products that we sell and the approach to the sale of those products. We have a risk continuum philosophy in house. We have very clear guidelines that affect the way in which we interact with the regulator which are based on those types of analysis of the impact of product.

In the U.S. regulation is always relatively slow, but it is very thorough. And as an industry participant that experiences in other markets regulation that's often emotional and not fact based or not based on appropriate and rigorous analysis, it's quite refreshing to see a marketplace where there is much greater rigor around the basis upon which judgments are made. And we respond very positively to the overall general framework around some of these issues. Obviously sometimes on execution we'll have issues with the way that things are approached and the specifics of certain circumstances. But as a general rule, the regulatory environment here is one which, by comparison with the way in which regulation is instituted in some other geographies, is on the plus side.

Gaurav Jain: Any other questions? I think we have time for a couple more. So one criticism of Imperial has been the quality of earnings. Restructuring charges have been a constant feature. Will they reduce going forward?

Oliver Tant: Restructuring charges are a feature of an organization that's going through such a transformation exercise. If you go back to when we started Alison's journey in terms of her strategic vision, the business was a very amorphous business. It was a collection of international but largely previously state-owned tobacco companies that had a plethora of different brands, a plethora of different organizational structures, a plethora of different manufacturing locations. And part of the journey we've been on is around focus, it's around consolidation, it's around simplification, it's about building agility. And all of the activity that we've been undertaking, fundamentally, is associated with that.

Now, accounting standards don't enable us just to do a one-off adjustment and say ‘this is what that whole program's going to cost’. We're actually only able, really, to recognize it when we announce the specific activity and we're committed to that activity. Now for investors, if we were popping charges into our earnings without creating the visibility around the impact of these things as and when they occur, it would be almost an enormous, a massive, lack of transparency around what the impact of that journey was having. So we opt voluntarily to take it out of our adjusted earnings to give you that visibility.

In terms of our ongoing position, we've announced two cost operating programs – the bulk of the rest of the expenditure associated with that second program occurs in FY19 – and beyond that, the program then has largely completed and the costs begin to gradually dissipate downwards so we'll see far less volatility as a result of those adjustments.

Gaurav Jain: Sure. Thanks a lot for your time.

Oliver Tant: My pleasure.

Gaurav Jain: We'll go to the breakout session now. Thank you.

Oliver Tant: Thank you, everybody.