Tobacco Maximisation – Webinar Script – 2 July 2018

PETER

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

I'm Peter Durman, Director of Investor Relations.

Welcome to another of our IR webinar series. We use these webinars as a way of providing a deeper insight into different aspects of the business.

Today's session will examine our tobacco maximisation strategy and how our increased focus and prioritisation of investment has strengthened the business, creating a foundation for growth. We will be focusing on tobacco today and we are planning a separate event on 25 September to update you on our growing next generation products business.

This event is being recorded and the slides and transcripts will be available on our website.

We will not be providing a trading update or commenting on performance today beyond the update we provided for our half year results.

[SLIDE 2 – Disclaimer]

I will just draw your attention to the disclaimer on slide 2 before I hand over to Alison to introduce today's webinar…

ALISON

[SLIDE 3 – Our Strategy]

Good afternoon everyone.

The objective for today's session is to provide greater insights into our tobacco maximisation strategy and to demonstrate how this is driving better share performances in our priority markets and underpinning the performance of the Group as a whole.

Here's a brief reminder of our strategy… You'll be familiar with this slide and our four strategic objectives…

In essence, we have made clear choices for growth…

[SLIDE 4 – Strategic Focus; Informed Choices]

…and these choices… and this focus is even more critical in an evolving consumer environment…

BUILD

Our strategy is about making clear choices about the brands and markets to invest behind and… just as importantly, choices about those we should not invest behind.

BUILD

It is about the right focus to deliver top-line growth.

For our footprint, it's about winning in the right markets – we've invested in the profit pools where we are well placed to win and that have good affordability to underpin margin growth.

From a brand perspective we've focused our investment behind our strongest brands, prioritised the right SKUs, and targeted investment in new formats to meet key demand shifts.

We have a clear, codified route to market in our successful Market Repeatable Model with a differentiated focus on distributor and retailer engagement. We're also making the right choices with a lean operating model and a relentless focus on costs and cash and the whole business is focused on supporting our top line growth agenda… with lean ways of working and a daily focus on prioritising spend that drives sales. Capital allocation is also critical in ensuring we have the right assets aligned to driving quality sales growth. This could include M&A to strengthen our next generation assets and capabilities as well as divestments or exits to enhance our focus on growth opportunities.

BUILD

So what are the outputs of these choices? High margin growth and strong cash flows…

BUILD

…maximising shareholder returns from tobacco while also providing funds to invest in additive growth opportunities in next generation products.

[SLIDE 5 – Informed Choices Delivering…]

What are these strategic choices delivering…

Our focus on the right markets with targeted investment is delivering improved share trends in most of our priority markets – supporting improved Group performance.

The right brands, or Growth Brands, are outperforming – including absolute organic volume growth – which is also driving a greater portion of our revenues from our strongest equities. Our Asset Brands now represent almost two thirds of our revenues – up from a half since 2013.

We've also built a great NGP platform with the blu franchise and a growing pipeline of exciting innovations.

Our operating model, not only improves ways of working, but also consistently delivers cost efficiencies. The consequence of our footprint focus and this cost efficiency enables us to deliver industry-leading margins, creating the headroom for increased investment.

And, our ongoing focus on cash conversion enables us to generate consistently strong cash flows.

And as we focus on the right assets for future growth – we've also highlighted opportunities to sell assets that are not central to our strategy, to further simplify the business and redeploy capital more effectively.

[SLIDE 6 – Agenda]

Today's presentations will again affirm our thinking behind our strategic choices and our investment priorities – as well as how we have actively reshaped our operating model and cost base to support these priorities…

Amal Pramanik will set out the industry context and current dynamics, as well as how we choose where to play – and which markets to invest behind.

Dominic Brisby will outline how we prioritise our resources across our footprint and how our MRM has successfully provided an investment framework, driving outperformances in our priority brands and markets.

We will give some real market examples with Dan Carr for the USA; Michael Kaib for Germany and Melvin Ruigrok for the UK – who will talk about how the clear choices we've made in these markets have enhanced performance.

Oliver will then outline how our portfolio and market focus has shaped our operating model and manufacturing footprint, all supporting delivery of high margin growth and strong cash flows.

So first… Amal…

AMAL

[SLIDE 7 – Tobacco Value Creation Model Intact]

Thanks Alison.

The tobacco value creation model has been remarkably resilient over the years with some year-to-year variation caused by regulation and excise – and at times by competitive activity. However, it has been fairly consistent when viewed over the medium to long term.

Across our footprint over recent years, we have typically observed annual volume declines of around 3-4% with positive price/mix gains of around 5-6%.

There has been more variation in these trends recently, both positively and negatively… In 2016, the volume trends were better than the recent average – driven by a range of factors in different markets. In some markets, such as the US and France, they even moved into positive volume growth for a brief period.

We believe the relatively lower volumes and pricing seen in 2017 were driven by a greater incidence of regulatory intervention – such as the EU Tobacco Products Directive – and a higher level of excise shocks in certain markets – particularly, France, Saudi, Taiwan and certain US states. It was also a period of greater competitor activity in certain markets… for example, in Russia we saw more value-oriented product launches which had an adverse impact on product mix. We saw a carry-over of some of these into the early part of 2018 – but we're now lapping many of these headwinds.

So the key question is whether 2017 is the new 'norm' for tobacco? We don't believe so – it was just a tougher than normal year – and, as we said in our half year results, we have already achieved price increases in several of our key profit pools. And looking ahead, we are making the right investment choices to deliver growth in the right markets, supporting our drive for high margins and strong cash flows.

[SLIDE 8 – Industry Context]

As we evaluate markets, we take into account a number of factors in our investment choices…

Evolving regulation and excise is an ongoing feature of the industry, with an impact that ebbs and flows from year to year. In some cases, regulation can create investment opportunities and we have demonstrated we are well placed to manage these changes in markets such as Australia and the UK.

Many consumers are seeking value-oriented products and downtrading is common in many markets and informs how we decide to prioritise and position our brands. Our portfolio is generally well placed to manage the downtrading dynamic.

There are other prevalent demand shifts within tobacco such as new filter formats, crushball and so on, that also influence our investment decisions, which Dominic will come onto in a moment.

And we're prioritising our investment into the right route to market… as the retailer landscape continues to evolve, we are adapting our investment to ensure we are aligned to the right channels. For example, key accounts in many markets are often the fastest growing channel and so we've directed our investment to enhance our key account capabilities.

Some have also asked if the weaker performance of tobacco can be directly related to the growth of NGP… we think there are a limited number of markets where there has been disruption, such as Japan. However, looking across most of our major markets, the transition appears to be more gradual. We also see NGP as a significant additive opportunity for Imperial… we are the number four in tobacco globally, with about 14% market share and so we have 86% of the market to go after with our new products… and we will provide more colour on our progress here in September.

[SLIDE 9 – Right Markets: Market Prioritisation]

One of the most important factors determining future value creation is affordability… we have shown you this sort of chart before. It is based on the minutes worked at local average wages to buy a packet of 20 cigarettes at average local prices. The shorter the bar, the more affordable the market is and vice versa. So you can see that cigarettes are still highly affordable in markets such as the USA, Germany and Japan, while the taller the bar the less affordable a market is… so cigarettes are relatively expensive vs local wages in India, Morocco and Indonesia.

The markets highlighted in orange are markets where we have a reasonable presence and see future growth – and these are predominantly markets with good affordability.

[SLIDE 10 – Right Markets: Profit Pool Analysis]

This chart overlays this affordability data with market profitability… markets on the right are most affordable vs local wages and those in the upper half are the most profitable. The size of the bubble is a measure of the market size by volume.

You can see that our ten priority markets are largely focused on the top right – significant high margin profit pools that are relatively affordable with potential for future pricing and therefore – further value creation. To give you some idea of the difference in relative value… the net revenue per stick in Australia at the top of this chart is more than 15 times higher than Ukraine at the bottom.

Or course, this is looking at the tobacco market at a point in time – and we regularly reassess the market dynamics with a view to reprioritising over time to deprioritise or to tap into new opportunities.

[SLIDE 11 – Right Brands: Strongest Equities, Broadest Appeal]

And of course… just as we've made choices to invest in the right markets, we've made clear choices to invest behind the right brands… our Growth Brands, which have become the biggest contributor to our top line.

The brand simplification process we began five years ago has been a great success, enabling us to focus A&P and our sales teams on the brands consumers want.

Growth Brands are now consistently growing ahead of the market on an organic basis, excluding the benefit of brand migrations.

I will now hand over to Dominic to talk a little more about how we manage our markets and prioritise our investment and resources.

Dominic…

DOMINIC

[SLIDE 12 – Right Markets: Prioritisation]

Thank you Amal.

As part of the review of our strategy in 2016… we concluded that an increased focus and market prioritisation would support enhanced performance – just as it has done with our brand portfolio. We operate across 160 markets… and so we have introduced a market prioritisation which differentiates how we invest our resources and support our markets.

You'll be aware of our ten priority markets, which account for around 50% of our volume and 70% of our operating profit. This is where we are directing the majority of our investment.

We then divide the rest of the markets into 23 'key markets' and over 100 'partner markets'.

In aggregate these are still material to our business and as Amal mentioned earlier, are potential future profit pools and they also provide volumes that generate scale and support cost efficiencies.

[SLIDE 13 – Right Markets: Prioritisation]

We have a clear approach to how we manage these different tiers of markets so we can allocate resources most effectively.

The ten priority markets receive the lion’s share of the investment and resources behind tailored initiatives. This is augmented by additional central and divisional support. These are large and high margin markets with good affordability where we either have strong presence today such as the UK or Germany or where we see an opportunity to build a bigger presence over time, such as the USA, Russia or Italy.

In our key markets, our investment is highly prioritised behind the best opportunities, while there is some divisional support but on a more limited basis. These markets can still be relatively large profit pools or represent future growth opportunities but over a longer time scale.

The partner markets are optimised even further so we tailor our approach to the opportunity. Here we may use a distributor to minimise overhead costs and to leverage local expertise. For example, Serbia is an existing market where we introduced a new mutually aligned partner model which has allowed both parties to benefit and turn around market share performance.

[SLIDE 14 – Right Route to Market: Market Repeatable Model]

Making the right market choices is only one aspect… our Market Repeatable Model has provided a robust framework to best allocate our investment in the key brands and SKUs, and in the right retail channels.

It is a simple and consistent operating framework focusing on the fundamental elements which have delivered successful market execution while reinforcing a consistent way of working and language so that the learnings can be shared across the business.

There are six elements that all work together… and I will cover some market examples to bring it to life…

[SLIDE 15 – Market Repeatable Model in Practice]

Starting with simple market-focused portfolio in the orange segment… we have simplified and focused our Polish portfolio from 14 brands to five – with a successful migration behind P&S, achieving a 200 basis point improvement in share over the past two years. We are seeing that a simplified portfolio aligned to the market has been a key foundation to our approach across our footprint.

We have then stepped up our investment behind these brands – represented by the second segment. For example, our sustained brand investment in JPS in Germany has driven a better connection with consumers and delivered share gains.

Just as we are focusing behind the right brands… there are also some important demand shifts happening in tobacco at the moment that we are capitalising on.

For example, modern formats such as queen size are the fastest growing in markets such as Eastern Europe and Russia and there are similar positive trends with crushball, particularly in North Asia and Eastern Europe.

Our investment in both queen size and crushball formats of Parker & Simpson in Russia has supported overall share gains there.

Consumers are also favouring lighter tobacco blends and new filter formats - and we'll cover some market examples shortly.

[Slide 16 - Market Repeatable Model in Practice]

One of the components of the wheel that is often misunderstood is our "always on price strategy"… this is not about adjusting price for short term share gain – or 'renting share'.

"Always on price" is about price parity. In each market we have a clear view of how the equity of our brands compares with the brands of our competitors and what price point that equity will sustain. We can represent these as price ladders – where each brand will be placed within a benchmark on the ladder based on its positioning as a premium brand or discount brand, and so on. In each case, we are seeking to maintain a consistent pricing position based on the brand equity – with absolute price growth over time subject to market dynamics.

"Core range everywhere, all the time" is all about maximising the distribution of our strongest equities through our customer networks. We have invested in expanding our sales forces and in new technology to optimise their efficiency and increase our call rates.

In conjunction with this enhanced distribution we have also invested in "tailored customer solutions". There are a couple of examples here… the Ignite programme in the UK rewards retailers for their interaction against 3 key pillars – Stock IT, Price IT and Sell IT. It has also been an effective tool to support retailers through legislative and other market changes. In Russia, where the route to market has modernised and evolved significantly over the past few years, a focus on 'key accounts' has been a key driver of increased share.

The final part of the MRM supports all the others as we take learnings from our experiences in different markets and share them across the Group as an all-important feedback loop.

[SLIDE 17 – Leveraging the Market Repeatable Model]

Bringing all of this together… the combination of our prioritised approach to managing our brands and markets, together with targeted investment is delivering quality share growth where it matters.

This is evident in the consistent, progressive share growth in our Growth Brands and the improving share in our priority markets… as you can see here.

We are now going to hear some more examples of how this works in practice from our market managers of three of our priority markets.

First… our biggest investment choice in recent years was our decision to expand our US business and Dan Carr who runs ITG Brands will give you an update…

DAN

[SLIDE 18 – USA: Exceeding Acquisition Expectations]

Thanks Dominic…

Our acquisition in 2015 transformed our US business. It gave us national coverage with a portfolio of much stronger brands carrying much stronger weight with our retailers and consumers. With blu we acquired not only a strong brand in the US, but also a platform for innovation and international growth in NGP. And beyond the tangible assets, we acquired an experienced management team, solid infrastructure, and strong retail influence and capabilities to execute in the market place to gain additional visibility for our brands.

We set out a clear strategy to focus our investment and drive profitable, sustainable share with our <u>asset brands</u> Winston and Kool, and we focused on turning around our mass market cigar business, while delivering financial returns.

We have delivered on our strategic goals… our cigarette asset brands have grown share by 50 bps. The turnaround of the cigar business has been a huge success with share growing 150 bps over the same period.   And……we achieved a double digit post-tax return on capital in the first year and have consistently delivered strong revenue and profit growth.

[Slide 19 – USA Positive Growth Outlook]

The US market remains highly attractive. It's the world's largest revenue pool after China and accounts for about a quarter of the global tobacco profit annually. Although volumes are declining in the market, the rate is generally steady and predictable.

There has been a slightly higher rate of decline over the past year, which we attribute to the state excise increase in California and rising gasoline prices, leaving less money in our consumers' pockets. The US profit pool has grown consistently over many years and we expect this to continue. In addition, as Amal said earlier, cigarettes are highly affordable in comparison to other developed countries, which bodes well for future price leverage.

The regulatory environment is also reasonably predictable with a greater reliance on science and evidence-based regulation than some other markets. We welcome the FDA's recognition of a risk continuum and the role that reduced risk products such as e-vapour can play in converting consumers from combustible products. We've been continuously preparing our organisation, with our significant investments in regulatory science, and the industry has shown it will hold the FDA to its mandate as according to the Tobacco Control Act.

We are well-placed to win with a strong portfolio of assets focused on the key product categories – all supported by an experienced sales team that understands consumers and has great relationships with our retailer network.

[SLIDE 20 – USA Cigarette: Focused Portfolio Strategy]

We made some clear portfolio choices to prioritise resources behind Winston and Kool with meaningful investments behind equity building and consumer activations – and with a focus on Maverick and USA Gold in the discount segment while deprioritising investment in our tail. New positioning work has enabled more modern imagery – building on the foundations of our brand heritage. We are currently launching Winston Black, a bold and robust non-menthol cigarette in a premium, contemporary and stylish pack. This enables adult smokers to discover, or rediscover, the Winston brand while enhancing Winston's premium, non-menthol positioning. These have been key building blocks and have driven sequential brand growth and increased shares in both the Real Flavor and Menthol. The discount segment has been more challenging as it has become squeezed between the premium and deep discount segments, although we have achieved a better recent share performance from Maverick. In deep discount, we have recently repositioned two of our non-strategic brands, Montclair and Sonoma, to capitalise on this growing consumer segment. And we continue to support and grow our distribution network with over 180,000 retail stores on contract, building shelf presence with our brands enabling us to gain broad awareness, visibility, and range for our portfolio.

[SLIDE 21 – USA MMC: Strong Portfolio and Business Model]

The US acquisition has also enabled us to restructure our Mass-Market Cigar business, where we've made great strides in rationalising our portfolio while driving phenomenal growth in a dynamic category, out-pacing the industry. In a category that skews "pre-priced", our portfolio is uniquely positioned as we own super- premium with Backwoods and premium with Dutch Masters without everyday pre-priced offerings, while participating with Dutch and Phillies in the highly contested 2 for 99 cents segment.

We've also chosen to invest in the natural leaf segment which has been growing over 2.5 times the category rate over the last 3½ years, moving from 20% to 30% of total category. This has been our fastest growing and most profitable segment, and we are the share leaders.

For our range, we are focused on core variants and formats that meet consumer demand with an eye on the regulatory horizon. We continue to compete for space, and have leveraged our much larger sales force across a much broader store base delivering the largest distribution gains across all manufacturers. We see opportunities both in range and new outlets for additional placements of our brands.

[SLIDE 22 – USA: Share Growth in Asset Brands]

In summary, our investment and strategic choices has grown share in our focus Asset Brands… with Winston up 30 bps since acquisition, Kool up 22 bps and Backwoods up 350 bps. We are also improving the quality of our growth with Asset Brand net revenue up +490 bps in the first half to 48%. We are taking advantage of key growth segments by either repositioning or leveraging our portfolio strengths to enhance the growth dynamics. Our decision to invest in the US market has also delivered strong revenue and profit growth – in a market with significant potential for tobacco and NGP.

Thanks very much… let me hand over to Michael Kaib who manages Germany…

MICHAEL

[SLIDE 23 – Germany: Consistent & Growing Profit Pool]

Good afternoon everybody.

Germany continues to be an important contributor to revenue and profit as one of our priority markets.

A consistent record of both political and macroeconomic stability provides a strong foundation, with economic growth supported by rising employment and relatively high disposable incomes.

A consistent regulatory framework and reliable excise structure supports a positive pricing environment and a growing profit pool, as well as a clear planning horizon.

Relative marketing freedoms provide flexibility around how we invest in our brands. Similar in many ways to the US, the German market is one in which a broad range of marketing options enables us to invest in traditional above and below the line marketing activities in order to build brand equity.

Volume decline in the market has been pretty stable at around 1 to 2% over recent years. Although in 2017, there was a temporary acceleration in volume decline following EUTPD 2 implementation and the introduction of pictorial health warnings. The industry volume declines have now returned to the historic trend.

Market revenue over the same time frame has grown by over 3% supported by a positive pricing environment.

We expect this broad trend to continue going forward with ongoing growth in the profit pool.

Our strong market position, together with our focused portfolio of cigarette and FCT brands, is a sound platform for us to win in Germany – particularly as we invest behind our Market Repeatable Model.

[SLIDE 24 – Germany – Investment in Brand Equity & Distribution]

In Germany, we've made some clear portfolio choices to focus on our Growth Brands and to invest in SKUs to capitalise on key demand shifts. For example, to meet the growing demand for larger value-oriented formats in both cigarettes & FCT, we have recently launched new larger FMC formats for Gauloises West and JPS... While we're also investing behind lower nicotine variants with Gauloises L'Autre and JPS Blue Stream with an innovative filter technology to meet consumer demand.

This relatively 'bright' market gives us the opportunity to sustainably invest behind our brands through the line. A good example is the product and pack upgrade on Gauloises, which is being supported by a full above and below the line equity campaign.

We've improved the distribution and availability of our core range by increasing our distribution points by more than 10% within the last two years.

A combination of our own sales force, merchandising support partners and our outbound call centre have enabled us to have more conversations with more retailers with over 340k calls a year, which is an outstanding number of contacts with our customers.

We have increased investment in long term contracts with key accounts, which are based on a higher proportion of distribution and shelf space, optimal brand positioning and exclusive digital communication.

This key account partnerships approach is generating positive returns with market shares consistently above our national share in key retailers such as Germany's biggest hypermarket chain, the most important tobacconist group and one of the biggest petrol station chains.

[SLIDE 25 – Germany: Targeted Consumer Messaging]

This is an example of our digital point of sale communication platform. We've now installed around 20,000 new digital screens in over 5,000 outlets. The digital point of sale allows us to communicate in a more targeted, flexible and efficient way – coupled with strong shelf visibility that leads to higher consumer awareness.

[SLIDE 26 – Germany: Asset Brands Driving Performance]

Over the past couple of years our focus on Asset Brands has grown Asset Brand market share by 90 basis points,,,, so our strongest brands now account for over 80% of our revenue. We've made excellent progress, by focusing on demand shifts particularly with bigger formats for fine cut and we're now focused on delivering a better performance in FMC.

This has supported an improvement in our overall share position as we benefit from the additional market investments made in 2017.

I'd now like to invite Melvin to talk about the UK…

MELVIN

[SLIDE 27 – UK: Leading in a Challenging Environment]

Thanks Michael, and good afternoon.

The UK market is characterised by a large profit pool and a strong market position for Imperial with over 40% share in both FMC and FCT.

While there is some political uncertainty, the overall economic indicators are positive with high disposable income, low unemployment and relatively good affordability for cigarettes, which has supported price increases.

It has been a more challenging market over recent years, with some aggressive competitor discounting at the bottom end of the market and the implementation of EUTPD and standardised packaging. However, we successfully navigated these challenges and we are positive on the outlook for future profit pool development for both tobacco and next generation products.

We are well-placed to win in the UK with a market-leading position and a strong track record of effective customer engagement together with our broad distribution network.

[SLIDE 28 – UK: Targeted Investment]

Against this challenging environment, and ahead of the EUTPD changes, we used a 'wargame' style approach to model a number of different scenarios for the UK market. This informed our choices and identified the opportunity to increase our investment to drive market share gains and create a better platform for future revenue and profit growth.

In the UK we've focused on three key areas: a simple market-focused portfolio in both FMC and fine cut aligned to current demand shifts as well as key account management and improving distribution.

To capitalise on the strong growth in the capsule or crushball segment, we launched new crushball variants in JPS and Players.

Innovation in modern fine cut formats is supporting significant share growth with FCT share up around 300bps over past 18 months.

Key accounts are important in the UK and we have further invested in building these relationships… In some of partner accounts, we have achieved about 600 basis points higher share than our average. We've also increased coverage through improving our call rate.

Core to our ways of working is to learn and improve. A good example in the UK is our choice to leverage our strongest equity brands in different price segments. We recognised the opportunity to have a strong equity presence in the sub-economy segment. The launch of JPS Players accelerated our share of sub-economy as the brand quickly overtook the role of Carlton in that segment, reflecting Players stronger brand equity.

[SLIDE 29 – UK: Achieving Share Gains]

Overall we have made great progress in strengthening our brands and have grown our market share to 41.9%, driven by excellent performances from JPS Players and Goldleaf. Our asset brands now represent an even greater proportion of our revenues at 74% of total tobacco revenue.

We remain positive about the future of tobacco in the UK and our ability to maintain market share momentum whilst driving growth in revenue.

Let me hand over to Oliver…

OLIVER

[SLIDE 30 – Right Operating Model]

Thanks Melvin and good afternoon everyone.

We are also making very clear choices through a relentless focus on cost optimisation and capital discipline… or in other words, it is about the right operating model and right assets.

Our portfolio simplification and the prioritisation of the right markets and brands has created opportunities to also reduce our cost of goods and simplify our operating model.

We've implemented a lean operating model that allocates our overhead resources where they are needed – and closer to front-line sales roles. We have simplified our back office functions and optimised our manufacturing footprint and supply chain. We have deployed shared service centres to leverage our scale for our support functions including Finance and HR.

[SLIDE 31 – Right Cost of Goods]

Our brand and SKU simplification has not only driven better top-line growth but has also delivered cost benefits. Product costs are split evenly between leaf, non-tobacco materials, such as packaging, filters, and paper and the conversion costs, which are the labour and overhead costs of running our factories.

Leaf complexity reduction has lowered leaf stocks and procurement costs. Our outsourced model means we only buy the tobacco we need in the locations that make sense for us rather than being locked into buying the whole crop in specific origins – so we can source leaf at almost a 20% discount to the market.

Brand and SKU complexity reduction as well as careful supplier management helps drive down our NTM unit costs. In this case, economies of scale are important as order sizes are a key driver of costs as printed item costs are highly volume dependent.

Similarly, conversion costs are the costs of our factory network and we have substantially reduced our footprint over recent years.

This cost discipline has delivered a 4% reduction in cost of goods over the last few years – more than offsetting inflation and volume declines… and reinforcing our manufacturing goal of being best in class with "cost leadership at competitive quality". We are also leveraging our manufacturing expertise to support our growing NGP business.

[SLIDE 32 – Right Operating Model]

Our lean operating model has made us more responsive and agile at a lower overall cost to the business.

We have progressively simplified our business and cost structure… as this slide demonstrates. We operate across 160 markets but we now manage these as 13 clusters with a simplified management structure and overhead base. Similarly we have moved from five divisions to two – supported by a simplified manufacturing and supply base.

We have also reshaped our costs from a high fixed cost structure to variable – with an increasing proportion of the costs in sales-facing roles.

This is all supported by a lean set of group functions that leverage scale through shared services and centralised procurement. We have undertaken a significant restructuring, which has delivered real benefits, and there is still more to go for.

[SLIDE 33 – Strong Cash Delivery]

We've applied the same ruthless focus to our capital base.

The simplification agenda has reduced our bill of materials and in turn the inventories, in both raw materials and finished goods. We've also aligned debtor and creditor payment terms more consistently.

Our focus on driving quality revenue in high margin markets, coupled with this capital discipline, has delivered industry-leading operating cash conversion that has consistently been above 90 per cent over recent years.

In the three years to FY17 we have generated £2.6bn of free cash after dividends that we have used to repay debt following our US acquisition and this allows flexibility for future investment in our business and in M&A.

[SLIDE 34 – Right Capital Allocation]

As we focus the business and make the right investment choices, we naturally de-prioritise other assets that are less core to our growth strategy.

We've already been reducing our stake in Logista and recently disposed of our US OTP brands

As we announced at our results given our focus on the "right assets", we are looking to realise up to £2bn of divestment proceeds within the next 12-24 months

There are clear strategic benefits for the business... it drives an even sharper execution focus and facilitates further simplification and agility.

It also delivers efficiencies in costs and cash, unlocking capital to redeploy in order to maximise value for shareholders.

I will hand you back to Alison….

[SLIDE 35 – Strategic Focus; Informed Choices]

Thank you Oliver and to the rest of the team for their presentations…

We believe the tobacco value creation model remains resilient – and for us, next generation products are a positive additive opportunity beyond our tobacco growth agenda – and we'll give more details on this at our NGP event in September.

Our tobacco max strategy is about focus and about choices… with our investment and resources prioritised behind the right markets, brands and route to market to deliver success. This is underpinned by a clear operating model and capital allocation focus… resulting in high margins and strong cash flows… generating tobacco returns and funds to invest in new growth opportunities.

Thank you.

[SLIDE 36 – LOGO]

PETER

Thank you Alison… That concludes the presentation.

We would now like to open the call to Q&A and I will hand the call back to the operator – who will explain how you can ask questions…

END