Capital Markets Event Transcript – 27 January 2021

Slide – Our Transformation to Unlock Value

Slide – Disclaimer

Slide – Driving Change to Strengthen Performance

Thérèse Esperdy, Chair

Hello and welcome to today's event. I hope you are all keeping safe and well.

I know the team would much prefer to be doing this in person but we are taking our health and safety responsibilities seriously.

We felt it was important to continue with the event, which has meant that all of us are participating remotely from our homes – as I suspect many of you are.

I was appointed Chair of Imperial Brands a year ago and since then, the Board has been taking decisive action to strengthen our leadership capabilities and performance.

We recruited a new CEO, Stefan Bomhard, and made a number of other Executive Committee and Non-Executive Board appointments, providing us with fresh thinking and a leadership team with the broader skills and experience needed to best position Imperial for long-term success.

From a Board perspective, Pierre-Jean, Bob and Alan bring a wealth of new expertise that will be invaluable to Imperial going forward, significantly strengthening our operational and financial, marketing, retail and consumer capabilities

With Stefan at the helm, this new team has been leading a strategic review of the business, assessing all aspects of our strategy, business model, ways of working and culture.

Some elements of the review are ongoing. Our purpose, for instance, is being updated in line with new strategy and will be co-created with employees.

This more inclusive, collaborative approach highlights the way we have already begun to change our ways of working and culture.

Engagement and communication with employees has been open and honest about the strengths and weaknesses of Imperial, and their feedback has helped shape the new strategic direction.

Though some elements of the new strategy are a work in progress, the fundamental building blocks of how we will transform Imperial over the coming years have been clearly established.

Stefan and the team will take you through each of these building blocks today.

Our aim is to create a stronger, more agile, consumer-centric company and we have a clear plan of action for delivering better and more consistent results over time.

The Board is supporting and overseeing the execution of this plan with an acute attention to risk management, performance metrics, our ESG agenda and stakeholder engagement.

We're optimistic about the future and very focused on continuing to make the necessary changes to unlock value for our stakeholders.

Thank you – I'll now handover to Stefan.

STEFAN

Slide – Transforming our Business

Thanks Thérèse and hello, everyone. It's a pleasure to be able to spend the next few hours taking you through our new strategy.

As Thérèse mentioned… all of us are presenting from our homes today via our laptops. This is the right approach… given the current circumstances… and this is an important presentation for Imperial and for our shareholders, which we did not want to delay.

We hope the technology works for us but please bear with us if there are any technical hiccups.

I've been CEO now for seven months and my time with Imperial so far has only reinforced my initial observations about the business.

This is a company with huge potential and I'm excited about the future.

Yes, Imperial has not delivered on its potential in recent years and a number of things need to change. But it also has some clear strengths that we are going to be building on as we embed the new strategy.

This is our agenda for today. We will take you through all aspects of the strategic review: how it was conducted and what it means for our combustible and NGP operations.

We will also explain how new ways of working and a re-shaped culture support the strategy, and will set out how transforming Imperial will strengthen our financial delivery over time.

We will take a ten minute break after the combustibles section.

And there will be plenty of time to put your questions to the Executive Team at the end of the session. If you wish to ask a question, you will need to dial-in on the conference call numbers provided.

Slide – Strengthened Executive Committee

As Thérèse said, we have a rejuvenated Executive Committee and you will hear from all of them today, with the exception of Group Manufacturing and Supply Chain Director Walter Prinz, who is retiring after an outstanding career with the company.

Walter's successor, Javier Huerta, joins us next week from Unilever - where he was Executive Vice President Supply Chain for Foods and Refreshment – and we look forward to welcoming him on board.

Many of you know CFO Oliver Tant and Divisional Directors Dominic Brisby and Joerg Biebernick.

Murray McGowan, Group Strategy and Transformation Director, joined Imperial last July and has a strong background in strategy, having worked as a consultant at McKinsey and held senior strategic and operational roles in companies such as Costa Coffee, Yum! Brands and Cadbury.

Alison Clarke joined four months ago in the newly created role of Chief People and Culture Officer. This is an area that has not previously been represented at Executive Committee level. I worked with Alison at Inchcape, where she was Chief HR Officer; prior to that, she held senior roles at companies such as Whitbread, A.S. Watson and United Utilities.

There will be further changes to the Executive Committee, including the appointment of a new CFO – following Oliver's decision to retire – and the creation of another new role: Chief Consumer Officer, which you will hear more about later.

The steps we're taking to strengthen the Executive leadership team illustrate our focus on ensuring we have the right expertise and capabilities to be able to take Imperial into a new era of growth.

Slide– We are Imperial Brands

This is a snapshot of who we are. Imperial is a global consumer organisation and the fourth largest international tobacco company in the world, operating across 120 markets.

Following the sale of our premium cigar business, we have around 27,000 employees… who continue to do a truly great job in keeping the business going during the challenges of the coronavirus.

My thanks to them all for all their hard work and support.

Despite recent results and the obvious need for change, the fundamental financials of the business are sound, with annual revenues of eight billion pounds, high operating margins and strong cash flows.

And we have strength and breadth in our portfolio, with notable brands in all key tobacco and NGP segments.

So, as I've said many times – Imperial has solid foundations on which we can build with our new strategic approach.

Slide – Transforming Imperial Brands

Over time, our aim is to transform Imperial Brands to unlock value for our shareholders, employees and all other key stakeholders.

The new strategy will have a renewed emphasis on a more focused group of priority tobacco markets and a more disciplined execution in NGP.

Strategic decisions will be informed by consumer data and insights.

Our ways of working and culture are already changing to create a challenger mindset, which will strengthen delivery.

And everything will be underpinned by a clear and compelling capital allocation framework that has been designed to create long-term sustainable value.

This is the essence of the new strategy we will be taking you through today and we are excited about what it will deliver.

Slide – Strategic Review – Approach

Before getting into the detail, let me share some background on our strategy work.

The first point to make is that this strategy has been defined by Imperial for Imperial.

In other words, the approach has been rigorous and internally driven, making the most of the fresh perspectives and expertise I have already mentioned – and only using targeted external specialist support in specific areas.

It's a credit to the team that we've been able to do this while also managing the issues and challenges presented by the ongoing pandemic.

We also consulted extensively with other stakeholders, particularly shareholders, employees and customers, as part of this strategy process.

It has been fact-based, with decisions underpinned by data and consumer insights.

And throughout, we adhered to four clear guiding principles.

First, co-creation - the strategy has been developed with the senior leadership team and reflects feedback from our employees; this is not something that's been purely borne out of Executive Committee thinking.

Second, we have focused on how to leverage our strengths.

Third, acknowledging the mistakes of the past and how we can learn from them and not repeat them.

And finally, we have evaluated ALL options to create value.

Ultimately, this has enabled us to clearly define our future focus, areas where we have a right to win – something we'll talk more about later.

Slide – Strategic Review – Solid Foundations for the Future

I mentioned Imperial's strengths earlier and here you see the business has a number of attractive qualities.

We have a diverse market footprint, with solid share positions in Europe and the US, and strong leadership in some key African territories.

We have some good brands that provide opportunities across multiple categories although historically, investments have been somewhat limited.

Our approach to customer engagement is also a real strength – particularly as customers like to partner with us as our position as number two or three in a market reinforces a beneficial competitive tension on-shelf.

I've previously spoken about our manufacturing and supply chain capabilities – this is an area of real strength for Imperial, which has coped well with the challenges of the global pandemic.

We know that NGP has so far not delivered; nevertheless, we have a promising heated tobacco proposition with Pulze and in blu, we have a vapour offering that has strength in the US and Europe.

Our people have really impressed me from the beginning. There is an energy and passion about them that will help us unlock value: they are ready for change and willing to embrace it.

We briefly touched on the financials earlier: we have high operating margins and the strong cash flows we generate are a longstanding hallmark of the Company.

As much as the strategic review identified these solid business foundations, it also clearly highlights areas for improvement.

Slide – Strategic Review – Areas for Improvement

I won't dwell on this slide too much, as I've touched on these points before and many of them will be familiar to you.

Needless to say, tobacco share performance has been disappointing for a number of years, with a lack of focus on our most valuable markets.

NGP has also disappointed: the vapour business expanded too quickly and too broadly, with little consumer validation and poor investment decisions. There was also insufficient focus on heated tobacco.

Performance management was limited, which led to a lack of agility and responsiveness to market dynamics. Also, data and consumer insights were not fully leveraged.

Unsurprisingly, this created a weakness in the company's capabilities and culture, and our ability to deliver.

There's also been little focus on the consumer… and central marketing expertise is underinvested. And again, I have not observed in my first months in the business a consistency in utilising data and insights to underpin decisions.

So, some very clear areas to target as part of our drive to transform Imperial. As you will appreciate, given some of the issues identified, this will take time but we have developed a compelling five year plan, centred around three strategic pillars…

Slide – 5-year plan: compelling plan with three strategic pillars

….first, a focus on priority combustible markets, second, driving value from our broader market portfolio and, third, building a targeted NGP business.

We'll take you through the detail shortly but let me first make some headline comments.

For our priority combustible markets we will increase investment in our most appealing profit pools, with a focus on clearly defined strategic levers to unlock value.

For the broader portfolio, we will manage markets more efficiently, implementing global processes and sharing best practice.

Through this approach, we will identify markets that offer the best growth potential and selectively rationalise those that offer limited value.

In NGP, we will be taking a different approach: more targeted and disciplined driven by local consumer preferences.

We will focus investment on heated tobacco in Europe and on vapour in the US.

Slide – 5-year plan: new ways of working

In order to deliver this plan, we are changing our ways of working and culture.

We will become a truly consumer-centric company, putting the consumer at the centre of all our decisions - and to achieve this we will need to develop new capabilities and address consumer needs.

We are embedding a performance-based culture, one that holds our teams to account and rewards teamwork.

Our ways of working will be fact-based and collaborative, driven by a challenger mindset to motivate our people to deliver a higher level of performance.

We will invest in talent and create a more diverse and inclusive environment for employees to do their best work.

Finally, we will simplify our operations, driven by efficient global processes, underpinned by technology, with a performance management framework that demands accountability at all times.

Slide – Opportunity to differentiate our approach

This is a comprehensive plan for change that provides the opportunity for Imperial to differentiate its approach from both its past and from its peers.

There is a theme of focus running throughout this slide.

I want us to focus on selective battlegrounds and be more targeted with our investment.

As I mentioned, we already have strong retail partnerships where our customers want us to succeed and provide good competitive tension.

Becoming truly consumer-centric requires us to relentlessly focus on the consumer and ensure we meet their needs at all times.

And by virtue of our size versus our peers, we can become a successful fast follower – providing consumers with quality and choice in established categories.

We are embracing our smaller size to become faster, more agile and responsive in our decision making, and we are beginning to create a culture that is very different from the past.

A culture that challenges and does not tolerate siloed behaviour and is open to change and collaboration.

These changes to our culture and ways of working underpin my confidence in our ability to deliver a step change in performance.

Slide – What our strategy will deliver

The strategy will deliver a stronger business with a sharper focus behind tobacco and with clearly defined roles for its markets.

Our commitment to harm reduction will be evident through our new targeted and more disciplined NGP business.

We will have an energised and motivated organisation that is focused on meeting consumer needs with a culture that is collaborative, agile and focused on delivery.

We will deliver stronger, more consistent revenue growth and generate sustainable profit growth that does not require a margin reset in the short term.

And our continued strong cash generation will provide funds to support the implementation of the strategy, debt reduction and returns to shareholders.

Slide - Clear Sustainability Agenda Aligned with our Strategy

Before moving on to a more detailed look at the plan, I want to assure our stakeholders that throughout the strategic review, we have considered our sustainability and ESG responsibilities and have concluded that both are aligned to – and underpin – our new business strategy.

Our sustainability strategy remains focused on tobacco, NGP and behaving responsibly. These three pillars of our strategy are designed to enable growth and create value; they also define the approach we take to managing our ESG priorities.

We have clearly defined ESG priorities that have been validated with our stakeholders and are aligned with the UN Sustainable Development Goals – as shown on the slide.

Slide – ESG Focus for FY21

As much as we believe we now have a compelling strategy and are focused on the right issues, there is more we can do to help stakeholders measure our performance going forward.

With that in mind there will be greater transparency, with additional publicly available KPIs for climate and energy, farmer livelihoods, human rights and waste.

KPIs for consumer health will come later once we have reset our NGP business and they will be fully aligned with the new NGP focus.

We need to deliver a stronger NGP performance in order to realise our consumer health and harm reduction ambitions - and that will take time

I want us to make a more meaningful contribution to harm reduction by building a targeted NGP business that meets consumer needs and is managed in a disciplined manner.

I also passionately believe in diversity and inclusion and want to see this become a key foundation of the new culture we are creating to deliver the strategy… and Alison will talk more about this later.

I look forward to sharing more about our sustainability agenda later in the year when we relaunch our series of ESG webinars, starting with a deep dive on climate and energy.

Slide – Climate and Energy

This is an area where we are performing well.

We have carbon targets validated by the Science Based Targets Initiative and are focused on implementing the recommendations from the Task Force on Climate-related Financial Disclosures.

Our environmental credentials have been externally recognised by securing a place on the CDP's prestigious ‘A List’ for tackling climate change.

CDP also awarded Imperial an A-minus rating for minimising water use, up from last year’s B rating.

As much as we are performing well against existing KPIs, there is room for improvement and as part of that greater transparency I mentioned, we now have an additional renewable energy KPI.

So, as I say: clearly defined priorities that support the business and we look forward to telling you more at a later date.

STEFAN

Slide – Combustibles

Let's now move onto our combustibles business, which to be honest, has been neglected in recent years, as Imperial became overly focused on NGP.

A key part of our plan involves refocusing on driving profitable growth from our tobacco portfolio, which is where we see the greatest opportunity for value creation.

This will come from making some clear strategic choices to focus on our biggest profit contributing markets.

However, I should stress there is also a big opportunity in simply running our combustibles business better – and we are already implementing a series of operational improvement measures.

Slide – Combustibles: value creation model remains strong

The outlook for the tobacco value creation model remains very positive.

Overall, we expect pricing to continue to more than offset volume declines.

Affordability is still good across our footprint reinforcing a positive pricing outlook – and we continue to benefit from strong brand loyalty.

There are, of course, ongoing regulatory risks but this is something we are well used to managing.

Consumers are also continuing to trial NGP alternatives but the overall level of penetration is still relatively low.

Slide – Combustibles remain attractive going forward

This slide puts some data around our forecasts for the key regions… and demonstrates the value creation potential for combustibles.

Volumes are expected to decline in most regions – except for Africa.

Europe is a mixed picture with declines in Western Europe offsetting better trends in Eastern Europe.

The pricing outlook underpins the opportunity for low single-digit revenue growth with the exception of Australia, where cigarettes are relatively more expensive and there is strong growth in the illicit trade.

We will come on to explain how we are adapting our approach for these markets.

Slide – High combustible affordability across Imperial markets

Since pricing is such an important value lever… we have looked carefully at the data behind affordability and price elasticities.

Across our footprint, which is biased to developed markets, affordability remains very attractive… particularly in our two largest profit contributors of US and Germany.

So the overall outlook for combustible tobacco remains attractive.

Slide – But disappointing historic performance

Turning to Imperial… we recognise our performance has fallen short of expectations with relatively modest revenue and profit growth, coupled with share losses in nearly all of our largest and most profitable markets.

This has been caused by underinvestment in the larger markets and brands – with too often, in markets like Germany, a focus on short-term profit delivery at the expense of longer term market performance.

In recent years, this has been compounded by an increased focus on NGP and a lack of detailed performance management.

Slide – Market share losses across nearly all larger markets

You can see we have lost volume share across our five largest markets by profit contribution – with the exception of the US, which has shown very modest growth.

This has been made worse by the focus on short-term profitability and as we have fallen behind on some critical capabilities such as consumer insight, innovation and marketing.

Slide – Multiple reasons for historic share losses

There are multiple reasons for the recent share losses but they can be grouped into four key themes:

One, we have often underinvested in key brands – such as in Germany with JPS, West and Gauloises.

Two, we have often priced ahead of competition – for example, in the UK and Germany – with too much emphasis on short-term profit optimisation of the top brands.

Three, we have neglected some of our ‘local jewel’ brands – in favour of international brands – resulting in the subsequent need to reverse of brand migrations in markets like Spain.

This has hurt our share performance, given our relatively higher exposure to local brands following our acquisition history.

Four, we have often been too slow in responding to consumer trends such as crushball, menthol or new pack formats.

Slide – Detailed review informed our strategy

As I mentioned earlier, we have reviewed all of our combustible markets with really deep data dives on the larger ones – assessing all major brands and price points, our presence in all channels and reviewed consumer trends and our competitive positioning.

This new strategy is built on a highly detailed and rigorous assessment of the market potential, our assets and capabilities – and ultimately our right to win.

Slide – Summary: combustibles approach and ambition

So what will be different under the new plan?

There are two key aspects:

First, it is about making some very clear strategic choices to direct more investment to our five priority markets… where we will also allocate our resources and capabilities in areas such as marketing and regulatory affairs.

For each priority market, we have a detailed plan with very clear operational levers. We have also defined a clear role for each market in the portfolio to optimise resource allocation.

Second, it is about improved operational excellence. This is a 'catch up' opportunity for Imperial vs its peers – where in my view, many of these activities and initiatives are already embedded.

It is about having better consumer insights, using data to inform decisions and driving a far more pro-active and rigorous approach to performance management. I have already implemented this through monthly performance reviews for the divisions and top five markets – with all the key individuals from the division and market in the room to speed-up decision making.

These are all simple things, but they have not been happening on a consistent basis at Imperial. It is a theme we will return to later when we talk about our new ways of working and culture.

Slide – New approach to brand portfolio management

We are also taking a different approach to brand management. Imperial has an attractive portfolio of local jewel brands – which has been neglected in favour of more international brands.

In the past, many of these brands were migrated into international brands, resulting in share losses overall.

One of the important changes is that brand portfolio decisions will be made at a local level based on clearly identified consumer need-states – and the markets can ensure they have the most appropriate brands to suit local needs – whether they are international or local.

This puts the consumer at the centre of the decision – rather than it being led from a manufacturing efficiency viewpoint.

In addition, the level and variation of tobacco regulations by different markets means that product and packaging synergies are far more limited in our industry than in many other consumer categories that I have worked in.

Slide – Summary: increase focus on priority markets

So let's first explore the strategic choices we are making in our combustible markets.

We will drive disproportionate investment focus on our five priority markets: US, Germany, UK, Australia and Spain

These markets are our biggest profit contributors, representing 72% of tobacco profit.

They have the greatest potential for value creation, given their relative contribution – and I am confident that there is attractive revenue and profit growth potential for us.

Naturally, there will be less focus on the rest of the portfolio. However, we have also reviewed all our other markets and identified clear roles for them.

I would like to highlight an important difference about tobacco here… because tobacco is so highly profitable, it means that many of our smaller markets still contribute profit and cash.

For the market portfolio outside the top five, this will be about more efficient resource allocation between the markets.

Although their smaller scale means the profit upside is more limited – many are well positioned and provide an attractive base to build on.

Slide – Five priority markets account for 72% of operating profit

But first, a little more on the five priority markets…

As these markets generate around three quarters of our operating profit… managing these five markets better through some clear strategic investments and operational excellence generates the best opportunities for value creation – following a period of underperformance.

For the US, Germany and Spain – these are attractive and growing profit pools where we have scope to take a better share.

The market outlook for the profit pools in the UK and Australia is more challenging. However, these are highly profitable markets where we can drive a better operational performance to protect and even grow our position.

Slide – Priority markets: six operational levers

For our top five markets, we have identified six operational levers to strengthen performance.

This is not about a single 'silver bullet'… there are multiple clearly defined levers at a very local level, which we have grouped into these six themes.

In cigarettes, our priority will be to increase our participation in the sub-premium segment, which has great margins and is a relatively stable segment.

However, we typically under-index in this segment and we have several brands that could play a better role here.

We also see opportunities to rejuvenate our local jewel brands where we can capitalise on the strength of our local brand equity.

At the same time, we will optimise our approach to the value segment in cigarettes and maximise our potential in the fine cut tobacco category.

Both of these can be used effectively to address downtrading in certain markets – while also meeting consumer demand for roll-your-own.

We have good brands and a strong right to win in these segments but have lost share due to a lack of investment, inconsistent pricing and being slow to react to consumer trends.

The final two levers will enhance our channel and geographic coverage and also improve our Key Account management.

We have identified areas where our sales force coverage is underrepresented, given the attractive margins.

Our data demonstrates how increasing our sales force coverage and visits is correlated to improved market share performance. In parallel, we are equipping the salesforce with the right tools and capabilities.

We also often under-index in Key Accounts so we see a good opportunity to play a larger role there with the right investment.

These ‘route to market’ levers are expected to payback quite quickly… typically within a year… whereas the brand-related investments require a little longer.

We will give you some examples of these six levers and refer back to them as we look at specific markets.

Across these five markets we have identified more than 25 growth initiatives and even more sub-initiatives using these six operational levers.

It is a highly detailed plan so it is not possible to go into the full details today so we will just give you some examples for each of the five markets.

And I am going to ask Dominic to present on the US and Australia and Joerg to present on Germany, UK and Spain for Europe.

So first, Dominic… over to you.

DOMINIC

Slide – US: attractive market with strong Imperial positioning

Thanks Stefan… and hello everyone.

Let me start with the US.

This is an attractive major market… second only in size to China and with very high affordability supporting future pricing and value growth. And for Imperial, the US is our largest single market.

It also has the highly attractive mass market cigars segment, which has strong volume and price growth.

In cigarettes, we are the number three with a 9% share and with a brand representation across the price tiers… with some strong brands such as Winston and Kool.

Overall, our portfolio has a bias to the value end – and we have presence in the fast growing deep discount segment with Sonoma and Montclair.

In cigars, we are number two overall with a good portfolio of brands addressing the different segments. However, we are number one in the fastest growing natural leaf segment with Backwoods very well-positioned as the market leader.

Slide – US: growth strategy focused on key brands and route to market

Here… you see our framework of the six operational levers and I am going to give just two examples from our US plans.

First, is about how we will increase participation in the sub-premium segment by leveraging the unique brand equity and positioning of Backwoods.

Second, is about driving performance in under-penetrated channels and regions by enhancing salesforce coverage and effectiveness.

Slide – US: Backwoods to expand availability by region and channel

Taking Backwoods first… we have a great opportunity to build on its differentiated premium position in the natural leaf segment.

We have identified potential to extend Backwoods' regional presence into underpenetrated areas.

Our investment programme includes advertising at age-verified musical festivals and comedy events; the use of brand influencers and product placement, as well as developing branded partnerships in alternative outlets, such as bars and night clubs with brand ambassadors.

These initiatives are building on a tried and tested engagement programme, which has successfully enhanced equity and awareness with its target consumer.

We will also drive trial with smaller pack sizes and maintain interest with flavour extensions. Backwoods' reputation for quality will be reinforced through investment in leaf supply.

Overall, we expect continued strong top and bottom-line growth with Backwoods.

Slide – US: Driving sales force coverage and effectiveness

We have also identified an opportunity to enhance our US sales force coverage and effectiveness.

Our analysis shows we lag behind peers in terms of size and coverage – even after taking into account our smaller market share.

Perhaps not surprisingly, we have been able to demonstrate that there is a strong correlation between the number of visits and market share achievement.

Therefore, we have already begun recruiting and training sales reps to increase our sales force by around 25%.

This will deliver a higher penetration more in line with our relative market position.

In addition, we have improved our outlet segmentation ensuring all the salesforce are targeting the right outlets with the right service levels.

We're improving their effectiveness through "value-adding" activities to help our reps become trusted consultants to our trade partners.

We expect this to support our share position and with a financial payback within a year.

As a result, we have already begun hiring reps before fully completing the strategy so we can get this initiative underway as quickly as possible.

Slide – Australia: growth initiatives to reduce structural market decline

Let's now turn to Australia… which has a more challenging market environment.

Significant excise increases have resulted in one of the highest price points per pack globally – and a highly profitable market.

However, the downside is this has caused increased downtrading – and relatively lower brand loyalty – as well as a rapidly growing illicit trade.

The downtrading has led to the introduction of a new price tier – what we call the fifth price tier – which has impacted on the margins. Although this has been offset in the short term by some duty windfall profits.

Despite these challenges, we are well placed as a strong number two with a 33% market share – and a strong presence in the lower price points, where we can benefit from the downtrading dynamic.

Again, we have identified multiple operational levers to strengthen performance – and protect our strong market position.

One of the key operational levers here is the opportunity to work our fine cut portfolio harder to capture the growing trend towards roll-your-own.

We are reviewing the pricing and positioning of the portfolio and identifying opportunities for new brand launches and new pack formats and other innovations.

This will build on the success of our Riverstone fine cut brand, which we launched a couple of years ago.

While the outlook remains challenging, I see attractive opportunities in our new plan to improve our market position.

Let me hand over to Joerg to take you through his three priority markets of Germany, UK and Spain.

Joerg…

JOERG

Slide – Germany: attractive market environment with strong Imperial position

Thank you Dominic… and hello everyone.

Germany is our second largest market with an attractive outlook. It has relatively light regulation – with fewer restrictions on tobacco than many other European markets, and with very high levels of affordability and a relatively stable consumer base.

As in many markets, there is some downtrading although we are relatively well-positioned to meet this consumer trend.

Our market position is good… as the number two in cigarettes and the market leader in branded fine cut. We have three key brands across the price ladder, as you know, with Gauloises, JPS and West.

Slide – Germany: growth focused on brand equity and sales excellence

We have multiple levers to pull in Germany but I am just going to cover a brand investment example and two route to market examples.

First, on brand equity… we have not invested consistently or competitively behind our German brands as we have often pushed for profit over building a sustainable, longer term business.

As a result, our share in Germany has suffered – and I will talk through an example of how we plan to reposition JPS.

Second, on the route to market examples, we have identified areas where we are under-represented in terms of channel and geography. This has been informed through a detailed analysis of where we have been losing share.

There are opportunities to leverage our salesforce better to increase our coverage of the retail universe.

Our ability to connect to consumers through strong retailer partnerships will become even more important following the upcoming 'out of home' advertising ban.

Slide – Germany: Rejuvenate JPS as leading brand

Let's start with our JPS example, where we have undertaken extensive consumer research.

For JPS to grow share, we will have to broaden the brand appeal to slightly younger, adult smokers as the current franchise user group skews to older smokers.

The work on a new brand positioning, campaign, pack design and logo are already well advanced – all thoroughly tested with detailed consumer studies. Examples of the new campaign are shown here.

Stefan mentioned also that we were historically slow to react to demand shifts. We are about to change this and lead – bringing out the first double-pack of its kind to serve the trend for larger pack formats in a convenient way.

Before the launch of our new brand proposition, we are currently leveraging JPS's 50th anniversary in the market.

All this brand work will be underpinned by several commercial enforcements covering our field force effectiveness, the key account arena and regional opportunities with additional investments. Let me highlight some examples next.

Slide – Germany: Enhance retailer partnerships to gain efficiency

As such, we plan to leverage our customer relationships better through a direct retailer incentivisation programme and by stepping up the scale and effectiveness of our sales force.

In this example, we have already piloted a new partnership programme in a test area, which introduced clearer common goals and supported simple, pay for performance contracts.

The pilot achieved a 20% average improvement in market share– with the best results in stores where we have a relatively lower starting presence.

We plan to roll this out nationally over the next six months – combined with the previously mentioned improved sales force coverage and operational excellence step-up.

Slide – Germany: Improve performance in East Germany

Our analysis has demonstrated that we have typically been under-represented in East Germany – as we have focused more on defending our presence in West Germany – and we know regional differences are quite common in tobacco.

However, looking over the past three years, the combustibles market in East Germany – and even South Germany – has outperformed Imperial's West German stronghold.

Furthermore, consumers in the East are more value-focused than anywhere else so we would be well placed to leverage our value portfolio.

We have already launched an initial activation programme in FY20 in the East – which has delivered some encouraging results in key channels.

Our data indicates we have a right to win and there is a real potential for a further uplift to allow us to reach our fair share in the East.

Slide – UK: Strategic initiatives to offset market headwind

Turning now to an example from the UK…

As Stefan showed earlier, the UK has a more challenging outlook because cigarettes are relatively more expensive because of the history of above inflation excise increases.

This has then led to an illicit trade that normally represents around 20% of the market.

However, the market is highly profitable – and we have a strong market presence with a 40% share and with an excellent portfolio of heritage brands, such as JPS, L&B and Golden Virginia.

So here we have also developed six clear operational levers to improve performance – and I am going to outline just one of these.

Although we have a 40% share nationally – this varies significantly by region – and we typically have a weaker presence in the South.

Our objective is to target these regions to drive consumer trial and increase consumer advocacy. We will do this by leveraging our existing trade incentive programmes, which have been independently recognised as 'best in class'.

Some of our brands have already tested well during consumer trials reinforcing our view there is good potential to drive performance.

Slide – Spain: drive growth in a stable market environment

Moving now to Spain… where the market outlook is stable with low single-digit value increases.

Cigarettes are highly affordable as there has been very limited excise increases in recent years. As a result, volumes are relatively stable offset by modest pricing.

We are well-positioned as the number two player with strong local jewel brands such as Fortuna and Nobel.

These have been neglected in recent years in favour of international brands, contributing to our share losses.

So one of operational levers in Spain is to leverage the full potential of these local jewel brands.

As an example, we have already reversed the migration of Ducados into JPS – and since stabilised that share.

We are also increasing our investment behind Nobel, which has strong equity and national coverage.

The investment will focus on brand building and awareness. This is already being supported by improved packaging… such as the limited edition packs for Nobel that you can see here, designed by a well-known Spanish artist to reinforce the 'local jewel' theme

I should stress these are only a few examples of the detailed growth initiatives for these priority markets in Europe… and we believe this more focused and data-driven approach will strengthen our performance in Europe.

Thank you…

I'll now hand back to Stefan.

STEFAN

Slide – Priority markets: six operational levers

Thank you Joerg and Dominic.

I hope that gives you some insight into the plans for the top five markets.

We have developed highly detailed plans for all five and we have a range of operational levers and sub-initiatives to improve performance.

We cannot share all the details but you have heard examples of all six operational levers. We will provide performance updates on progress in our results meetings and other events going forward.

The common theme is focus – a greater focus on the top five markets to deliver a stronger performance.

By focusing our investment here, we will also free-up resources from the rest of the portfolio.

However, while smaller, the rest of the portfolio has an important role to play.

Slide – Broader market portfolio: opportunities to deliver attractive returns

Many of these smaller markets have highly attractive margins and cash characteristics. They also have more limited resource requirements – with some operated through distributor arrangements.

There are also significant benefits from being able to leverage our scale in manufacturing.

Within this group, there also some attractive markets positions which we can leverage better to create future platforms for growth.

For example, Africa where there is growth potential with a supportive market backdrop.

Going forward, it is about defining the role of the individual markets and optimising the value creation in these markets.

We will do this by ensuring our resources are effectively allocated, sharing best practice across markets, preparing future growth engines and selectively rationalising the portfolio if there is no case for value creation.

Slide 42 – Africa: strong platform for future growth

Let me start with Africa where we see a strong platform for future growth.

Africa currently accounts for about 8% of combustible operating profit.

The market environment is supportive and with improving affordability as incomes increase.

We also have a leadership position across four of our top five markets – and with strong brands and unparalleled route to market capabilities.

Imperial has overlooked the region in the past – resulting in underinvestment and a performance that has not matched the market potential.

As a result, we have now identified opportunities to drive growth in the region with a focus on the top five markets.

Again, we have multiple levers available: through the better application of our global brands in more premium price tiers, leveraging our local jewel brands, filling gaps in the price ladder and closing our sales coverage gaps.

Our ambition is to turn Africa from an unloved asset to a platform for future growth.

Slide – Other European markets: clear plans to optimise value creation

Similarly, looking at our other top ten European markets outside Germany, UK and Spain, we plan to assign clear roles depending on the market outlook and assessment of our right to win.

For example, we see a more attractive outlook for Eastern Europe than for the West – and so we will adopt a focused approach targeting our investment and resources more tightly.

Slide – Potential to selectively trim our tail

Finally, we have also considered the role of the broader tail markets and their contribution to the Group. These are about 80 markets, which typically each generate less than £25m of operating profit per market.

In aggregate, they represent around 8% of our combustible profit.

They are spread across Europe, Africa and the Rest of the World.

As I mentioned earlier, although these markets are small – they still generate profits and cash because of the very high margins in tobacco.

In practice, many of them are very light touch from an Imperial perspective because they're purely distributor markets with no in-market Imperial overheads.

We've carefully evaluated these markets and for the significant majority we see greater upside from managing them more effectively to optimise profit and cash generation, rather than getting out.

Clearly, we will always keep an open mind about whether we are the right owner for any of our assets – with a very clear priority to optimise our returns on capital.

We've also assessed the opportunities for realising value from selling parts of our portfolio, but in practice the pool of buyers is limited. In addition, the significant anti-trust constraints make divestments difficult or at valuations that are unattractive.

We have identified a small number of markets where the economics are not so attractive and we shall selectively trim these over time through market exits.

However, for the majority of our smaller markets, we see more value to be obtained from managing the assets better and a more rigorous allocation of resources.

Slide – Summary: combustibles approach and ambition

To summarise, we have undertaken a detailed assessment of our combustible business and developed a comprehensive plan that will significantly improve our combustibles performance over time.

The level of detail and data-led analysis gives me a high level of confidence in our plan

It is not a one size fits all approach but we have multiple initiatives in place across the various markets; so even if some of them don't deliver – we will still have other options.

There are two elements to our approach…

First, we have clarity on our strategic choices, informing our focus on our priority markets where we see good profit potential.

We have a clear set of initiatives across these markets – with disciplined and targeted investment in value drivers and resources... as Dominic and Joerg have demonstrated.

There is also a clear role for each individual market across the portfolio.

Second, we have underperformed and therefore there is a real opportunity to deliver improved operational excellence by becoming more consumer-led, more data driven and managing performance more proactively and rigorously.

These are all themes we will come back to a little later.

We will now take a 10 minute break before we move on to talk about our plans for NGP…

Slide – Break

Slide – Next Generation Products

STEFAN

Welcome back!

I would now like to turn to NGP – which absolutely has a role to play within Imperial.

I want us to have a successful NGP business, one that delivers stronger returns and can make a meaningful contribution to harm reduction.

We have product offerings across all NGP categories – vapour, heated tobacco and oral nicotine.

In the past our primary worldwide focus was on closed system vapour where in many markets we invested and tried to create the market – with hindsight an unusual and high risk proposition for a No 4 industry player with limited marketing skills and track record of creating new market segments.

We will take a different and more prudent approach going forward – one that is also more closely aligned with our capabilities.

The NGP format we offer in an individual market will be much more consumer and data-led and driven by what NGP sector already exists in each individual country. Markets will be prioritised based on the strength of our existing route to market and our ability to create a meaningful NGP business.

As a result we will dial up the focus on heated tobacco in Europe, where we see untapped growth opportunities to meet consumer demand.

The focus for vapour will be the US, the world's largest vape market.

And for modern oral, we will continue to concentrate on selected European markets with a tradition of oral nicotine consumption.

We will take a measured and disciplined approach that creates value over time which is built around the consumer's preference in an individual country and our ability to offer consumers an attractive NGP choice.

I will now handover to Group Strategy and Transformation Director, Murray McGowan, to take you through the detail.

MURRAY

Thank you Stefan and hello everyone.

Slide – Growing demand across all NGP categories

As you have heard, NGP has been a key component of our strategic review.

We believe NGP presents considerable growth opportunities for our business in the years ahead, based…as Stefan says…on a measured and disciplined approach.

We expect to see strong growth across all NGP categories over the next five years…

…and by 2025, expect NGP to have a sizeable presence, accounting for around 20 per cent of the total nicotine market.

Looking across the different NGP categories, heated tobacco in particular, offers very attractive growth prospects and appealing margins.

When you look at NGP growth rates in recent years…

Slide – Historic NGP growth rates

….as this slide clearly shows… heated tobacco has been the key driver of NGP category growth and is by far the strongest category.

This is where we see the greatest value creation opportunities for Imperial.

Whilst we have a good heated tobacco product in Pulze….our historic focus on vaping has meant that we have missed opportunities to benefit from the growth of this segment of NGP.

Slide – Significant uptake of NGP across our major markets

In the years ahead, we expect NGP to make up a sizeable part of four of our five priority markets…

…although the dynamics will be very different across these territories.

As we look out to 2025, we expect NGP consumers in US and UK to continue to be heavily weighted towards vapour, whilst consumers in Spain and Germany will move more towards heated tobacco.

Globally, we see heated gaining slightly greater traction over the next few years.

Slide – Fast growing NGP profit pools

In terms of profit pools…we see considerable growth opportunities across both our core NGP categories of vapour and heated.

Vapour will be concentrated in the US…with the majority of NGP growth and value coming from heated tobacco in Europe.

In terms of growth in global profit pools…by 2025 we expect heated to add 4.8 billion pounds… compared to 1.2 billion pounds from vapour.

This polarisation is driven by specific market, consumer, and regulatory differences across regions.

As we know, the US has been a turbulent market for vapour in recent times…but is now starting to stabilise…and is once again on a growth path.

Heated tobacco, on the other hand, is expected to see a much lower growth trajectory in the US……at least for the next two to three years due in part, to the regulatory hurdles of introducing new products and the comparatively slow current uptake of existing offerings.

Slide – Clear consumer needs for potentially less harmful alternatives

The driving force behind the growth in NGP is the consumer and their desire to reduce their cigarette consumption by seeking potentially less harmful alternatives to tobacco.

The key challenge, however, is that current NGP solutions do not adequately address the needs of adult smokers today.

With key reasons for churn from the category including lack of satisfaction, inadequate experience and cost.

Slide – NGP: a growth opportunity for Imperial Brands

We see NGP as a great opportunity for our business and a key part of our ESG agenda.

Consumers want potentially less harmful products and we want to provide them with quality offerings.

And we have the size….the scale…and the capabilities to be able to deliver.

We understand the needs of adult smokers…and have a good portfolio of NGP assets.

We also have strong routes to market…and benefit from close partnerships with retailers in all our priority markets.

Our regulatory capabilities are also strong and widely spread.

The key point for me to stress is that this will be a very…different….NGP business. One that has realistic and achievable objectives… and one that will support the long-term growth aspirations of Imperial.

Slide – Imperial NGP starting point

As part of our strategic review…. we looked back…and learnt the lessons from the past.

Our business was focused almost entirely on vapour, where it launched too quickly across too many markets and without sufficient consumer validation.

This resulted in poor investment returns.

However, in vaping we have some good brand equity and engagement in blu to build on.

In heated, although this has received only limited investment and roll-out to date, we have a promising product and technology in Pulze, which I will talk more about shortly.

And in modern oral, we have established a good position in Europe.

We've often focused too much on the product and its features… and not enough on the whole proposition for consumers – such as the brand or the consumer communications.

In practice, we have some promising products to work with… and we can do better at the brand building and the way we connect with our target consumers.

These are areas we are addressing through the changes we are making.

Slide – Detailed review of NGP strategy

In defining our new NGP strategy we have completed an in-depth analysis of consumer needs, of category drivers and economics.

We now have a much more realistic assessment of our NGP capabilities - both where we are today - and where we can get to tomorrow.

This has helped us define a clear ambition that the business can get behind.

It's about being a challenger….not a leader and re-defining our category focus with significantly greater emphasis on heated tobacco.

Slide – A new approach: realistic ambition with a challenger mindset

Our challenger mindset will be founded on four principles.

First, we will define very clear category market combinations. These will be based on consumer insights, a clear understanding of demand outlook and the strength of our existing route to market.

Our priority focus for heated tobacco will be our existing stronghold markets across Europe.

Vapour will be concentrated on the US… with oral nicotine focused on Europe.

Second, we will have a much more disciplined approach to investment.

Initial investment levels will be modest as we drive targeted trials of our offer.

Any category or market expansions will be grounded in research and consumer understanding

The success of our pilot initiatives will determine whether operations are scaled and only if we are satisfied a growth opportunity exists, we will rapidly scale

Third, we will no longer aim to create categories where demand does not exist today. Instead, we will take a fast follower approach in a consumer-centric manner and in markets where proven demand already exists.

This is about providing greater consumer choice through a differentiated approach in those markets we choose to target.

And fourth - we will refine our ways of working - and you'll hear more on that shortly.

Being a challenger requires a different approach and different capabilities.

As an example, rather than trying to do everything in-house, we will better leverage new and existing partnerships to accelerate and enhance our innovation and route-to-market capabilities.

Slide – Rationale for increasing focus on heated tobacco

I am conscious that the increased focus on heated tobacco is a departure from the past…and I want to spend time explaining the rationale.

This is a strategic shift grounded in data, consumer insights, and a clear understanding of both our assets and capabilities.

The reality is that heated tobacco is the largest, fastest growing and economically most attractive category.

It has already surpassed the size of the closed vapour category and is expected to continue demonstrating strong growth.

Whilst the largest market today is Japan….followed by Korea, going forward, the majority of the growth is expected to come from Europe

This is where we have both a strong presence and route to market in our combustibles business, which we can leverage to drive our heated tobacco offer.

Levels of consumer satisfaction experience are higher in heated, brand loyalty is higher, longer-term consumer retention is higher, re-purchase rates are higher, and churn rates are lower

The category also shows significantly more attractive economic potential with average gross margins of between 70 and 80 per cent, compared to around 50 per cent in vapour.

In addition, our strong tobacco heritage and expertise in areas such as manufacturing and supply chain and route to market are ideally suited to the heated category.

In Pulze, we also have a good product proposition that has already been extensively tested with consumers in a number of our European markets.

Slide – Heated tobacco: positive initial consumer feedback

Feedback from these market research tests has been very promising. It is clear that consumers are responding well to our product differentiators.

These include the ability to provide up to 20 consecutive smokes without recharging, the simplicity, touch and feel of the Pulze device and the faster heat up and charging times.

Consumers also tell us that they like the taste and flavour profiles of our iD sticks…and their lower odour levels.

Feedback on purchase intent was also encouraging. All of which gives us confidence and underpin our share and growth aspirations for the coming years.

Slide – Heated tobacco: our new, focused approach

So, in essence we believe we have defined a realistic and feasible ambition for our heated tobacco future.

We have a clear path forward…aimed at building our market share in Europe over time.

And by 2025, we expect the category to be delivering a meaningful amount of Group revenue and profit.

Our confidence is underpinned by our scale and infrastructure in Europe, which we can leverage to drive growth.

And as previously mentioned, we will take a pilot-based approach, with the initial aim of launching in two European markets this year. The results of which will be used to inform the scale and pace of rollout thereafter.

Now…let me move on to vapour…

Slide – Vapour: US is expected to remain single largest market

This slide illustrates the importance of the US vapour market…a key driver of our decision to sharpen our focus here.

The vapour category experienced substantial growth between 2017 and 2019, followed by quite a pronounced decline due to EVALI and regulatory changes including the flavour ban.

More recently, however, the market is recovering, which again gives us confidence.

We expect to see a far more stable and sustainable growth trajectory over the coming years with the US remaining the largest vapour profit pool, accounting for two thirds of the global market.

Slide – Vapour: clear plan to improve performance in the US

To make the most of these growth opportunities… we clearly need to improve performance.

Results and returns have been disappointing, with a lack of focus behind A&P spend, challenged levels of distribution and poor in-store visibility of blu.

We must address these issues…and continue to enhance our product over time.

The good news is that blu has strong brand equity, which I'll come onto.

We must drive clearer targeting of our consumers, supported by more efficient and effective A&P spend, improved distribution and greater visibility at the point of sale.

We now have a stronger go-to-market strategy…that will receive closer management attention driving stronger execution.

Again, we will take a pilot approach and then scale up based on learnings.

Planning for our pilot is already underway….and will begin in a defined area within the US later this year, with national roll out to follow.

As in the case of heated…this is all about taking a more measured and disciplined approach…so that we do not repeat the mistakes of the past.

Slide – Vapour: good blu brand foundations in the US

As I mentioned, the blu brand equity still very much resonates with consumers, as you can see from this slide.

Awareness levels are the second highest in the market and initial conversion rates are promising.

However, blu's relevance significantly declines when it comes to being the preferred brand for consumers.

This tells us that…although we have a strong brand proposition, we need to start deploying the new strategy to deliver an enhanced consumer experience, which in turn will drive higher long-term conversion rates.

Slide – Vapour: clear strategic market choices globally

While we focus on turning our US business around, we will also drive performance in our core European markets.

The US will provide learnings and insights that we can apply to improve our wider operations.

The priorities in Europe will be the UK and France…our core vapour markets…where we already have strong positions today.

Other markets have a role to play, but some existing markets are simply not delivering sufficient value.

We will exit these, as part of the new focused and disciplined approach that we are embedding within NGP.

Turning to oral nicotine…

Slide – Oral nicotine: strong position in Europe

…we are pleased with the results that we are generating from our European portfolio.

Traditional.. tobacco-based oral nicotine…is only available in a small number of European territories.

Modern OND, which doesn't contain tobacco, is more widely available.

We are well placed in traditional OND, we are the clear number two in Europe, with a 20 per cent share in the largest market, Sweden, and a 40 per cent share in the second largest market, Norway.

Our growth has been strong and steady since we entered the category through the acquisition of the skruf business… and we are confident in our ability to build on this track record in the years ahead.

Slide – Significant future growth potential from modern OND

Modern OND is expected to grow rapidly and, as you can see from the slide, we have established some promising share positions that we can continue to build over time.

Imperial will continue to focus on OND within Europe, where we will target both traditional and modern OND categories.

The US is a large and attractive market for OND, but we have no current plans to enter… and we will not seek to expand into any other markets at this stage.

This reflects the measured and disciplined approach we are now taking across NGP.

Slide – Summary: clear plan to enhance our NGP delivery

So…in summary, we have a clear plan for significantly enhancing our NGP performance driven by consumer insights, a realistic ambition, a clearer focus and stronger discipline.

We have revised our category prioritisation… based on market, category, consumer and competitor insights. In addition to a review of our own assets, capabilities and market footprint.

We will significantly increase our focus on heated tobacco within Europe.

Vapour will be driven by the US and core European markets and we will selectively exit markets that do not deliver value.

OND will continue to be concentrated in Europe… with no current plans for geographic expansion.

Our NGP operations will be much more consumer and data-led……and going forward…we will carefully select which categories and markets to target.

There will be more precision and discipline around investment… and in the general way in which we manage our NGP operations.

In short, this is a new strategic approach designed to turnaround our NGP business, using a much more focused and disciplined approach to address the needs of consumers and create long term value.

Thank you.

I will now hand back to Stefan.

Slide - Ways of Working and Culture

STEFAN

Thank you, Murray

Slide – Our three strategic pillars

Having taken you through our three strategic pillars, you hopefully have a deeper insight into how we are going to enhance growth in our priority combustible markets, extract value from the broader market portfolio and build a targeted and more disciplined NGP business.

Now, we will look at how we are changing our ways of working and culture.

Slide – New ways of working build on three critical enablers

As you heard earlier, the new strategy is underpinned by three critical enablers: putting the consumer at the centre of the business, embedding performance-based culture and capabilities and ensuring our operations are simplified and efficient.

These are all absolutely critical to the successful execution of our five-year plan. My experience across the consumer goods sector has taught me how critical these factors are for sustainable success.

Having now spent seven months inside the business working with our people and observing past behaviours and processes… I am more convinced than ever that driving change in this area is really critical for our company to achieve sustainable success.

I'll now handover to Chief People and Culture Officer Alison Clarke for a more detailed look at all three areas.

Alison…

Slide – Placing the consumer at the centre of our business

ALISON

Thanks, Stefan and hello, everyone.

I'll start by talking about consumers…..

It's clear that there has been an insufficient focus on the consumer at Imperial – and that will need to change.

Historically, the business has operated in siloes and has not had the right level of focus on the consumer.

Consumer insights and market intelligence have not been represented or had a voice at Executive level for the last four years and therefore innovation has not been grounded in consumer needs.

Going forward – as you have heard several times today – the consumer will dictate everything: decisions made will be truly consumer centric and the consumer will become part of the fabric of what we do – at the centre of our culture.

We are starting to invest in capabilities that will provide significantly deeper insights into brand and portfolio management and marketing and innovation.

You've already heard about the realignment of our NGP teams: this realignment will be built around clearly defined goals that will be based on consumer and competitor insights.

We will no longer pursue any new opportunities unless they have been validated by data and consumer insights.

Slide – Chief Consumer Officer to drive the new agenda

The appointment of a Chief Consumer Officer – a newly created Executive Committee role reporting to Stefan; this really shows how serious we are about placing the consumer at the centre of everything we do.

Recruitment for this position is progressing well and we will let you know when an appointment's been made.

The three core responsibilities of the Chief Consumer Officer are clearly defined on the slide.

First, the CCO will oversee the company's drive to bring a far more co-ordinated approach to how we collect and use consumer and competitor insights and data. This will inform and enable better and faster decisions.

Second, the role will ensure we have the right marketing, brand and portfolio management capabilities to support growth.

And third, the CCO will also be accountable for a newly defined innovation programme, making sure we have a pipeline of combustible and NGP products that our consumer desires..

Slide – Examples of culture change underway

As you have heard, the strategic review has been examining the culture of the organisation.

Our insights on culture have been framed by employee feedback from a series of engagement surveys and Stefan's onboarding programme, in which he hosted 300 meetings, connecting with thousands of our employees around the world.

These CEO engagement sessions were open, honest and transparent – and employee feedback has told us that this has not always been the case in the past.

So, we encouraged employees to be as direct as possible about what it's like to be at Imperial and what works well and what doesn't. Their feedback has been instrumental in shaping our transformation plans.

We are already taking that feedback and using it to design and embed performance-based culture and capabilities throughout the business.

Slide – Embedding performance-based culture and capabilities

To achieve this, we need to build on the Imperial's strengths, which we've already covered.

The good news is employees are really open to embracing change and with them we have identified the key areas for improvement.

We are building a more integrated organisation that will break down the silos and create a more efficient and effective business.

A recent survey tells us employees had lost trust in their leaders because of the way the business was previously managed - they feel disconnected from the strategy and our relationship with the consumer.

On the right hand side of the slide, you see the actions we're taking to start to embed performance-based culture and capabilities.

These are built around new behaviours, co-creation, teamwork, collaboration and accountability.

Employees will have a voice throughout the journey.

One of the first things Therese did when she was appointed Chair was to reinstate global engagement surveys.

Among the first things I instated was Imperial's first ever global diversity and inclusion survey.

This illustrates how serious we are about driving cultural change - and for the first time, change will be co-created with our people, to really motivate them to deliver the strategy.

Another key element of performance-based culture is reward and incentives framework to drive the right behaviours.

We have already made two important changes to the annual bonus.

First, is to create a greater alignment to Group objectives so 80% of the annual bonus is now on Group metrics. This is important to create integration and break down silos.

Second, is to change the market share metrics for the bonus to a weighted average for the five priority markets. This will ensure we are growing share in the markets that drive profit and value.

We are also changing the LTIP metrics to reinforce the delivery of sustainable earnings growth, a strong balance sheet, improving returns on capital and total shareholder returns.

Now the strategy is in place, we will continue to assess our incentives to improve accountability and align them with performance delivery.

So that's culture; let's now look at our ways of working….

Slide – Simplified and efficient ways of working

The essence here is to develop simplified and efficient ways of working, in particular building the right capabilities in our enabling functions to support the new strategy.

Combustibles will now have the right level of resource and capabilities, we will invest in assets that create the best value.

A big change is that we have now already brought together for the first time our different NGP activities for vapour, heated tobacco and modern oral within one distinct organisation.

Unifying our NGP operations will deliver leaner, more agile ways of working, built on a true entrepreneurial spirit, focused on meeting the needs of consumers, encouraging them to make the transition from tobacco.

Slide – Integrated NGP organisation

This integrated NGP organisation will ensure a sharper emphasis on delivery; a different business with a clearer focus.

We will innovate faster, driving growth with a start-up mindset and greater agility, and we will embed the right capabilities and culture to deliver this critical agenda.

A key point to stress is that although this will be a separate integrated organisation with all of the benefits of focus and enterprise this brings, it will not be detached from the wider Group. It will be an integral part of Imperial with clear interfaces with the broader business.

Slide – Leveraging strengths of wider Imperial Brands

In this way, the new NGP organisation will be able to draw on the strengths of the wider business.

This slide gives a flavour of that, highlighting consumer insights, R&D, supply chain/logistics, marketing and advertising and route to market.

The key takeout here is the need for the current disparate elements of our NGP operations to come together as one and leverage the capabilities of our global organisation to enable us to compete effectively.

Slide – Invest in organisation and capabilities through efficiencies

Realising this ambition will clearly require investment in a number of key areas, namely: sales force, consumer and marketing and upskilling market support teams – these skills will need to be enabled through developing lean process that will be underpinned by technology.

This slide gives an indication of cost and how this investment will be funded through efficiencies, generating annualised net savings of 40 to 100 million pounds a year.

So, that's an overview of how we are changing our ways of working and culture to ensure the successful execution of our new strategy. It's a big, exciting agenda and we are looking forward to making it happen.

Thank you. I'll now hand back to Stefan to introduce the financial section.

Slide – Financial Framework

STEFAN

So I'd now like to turn to the financial aspects of our new five-year plan.

What has struck me coming fresh to this sector is the strength of the margins and cash flows, albeit with a slower growth rate than some other consumer sectors.

This reflects tobacco's strong pricing power, the relatively low marketing costs and modest capex requirements.

As a result, Imperial has the capacity to deliver highly attractive cash returns to shareholders over time, through a combination of ordinary dividends, special dividends and by shrinking the capital base through share buybacks, as appropriate.

I'm confident that Imperial has significant potential to deliver growing cash returns for shareholders over many years.

You've already heard today how our five-year plan will deliver the necessary changes to strengthen delivery – and Oliver will provide further details on the restructuring costs and savings.

The key message I want to leave you with from this part of the presentation is that we will be far more disciplined in how we allocate capital and manage returns.

At the same time our reporting and disclosure will be more transparent to make it easier to assess our performance and model Imperial going forward.

This will all be set within a clear capital allocation framework, which I will outline shortly. But before that we will now go to Oliver to take you through the details.

Oliver… over to you.

OLIVER

Slide – Investments to support the new strategy

Thank you, Stefan.

In combustibles, you have heard from the team about how we will prioritise our investment more tightly behind our top five markets.

The big difference from the past is the level of detail underpinning our approach and the six operational levers through which we will direct investment to improve performance .

In NGP, you've heard how we are now taking a very different approach. From a financial perspective, near-term investment will be more targeted and disciplined behind specific market trials. Further investment will be carefully stage-gated, and only increased on evidence of progress through clear consumer validation and data.

We will be measured in our approach, applying more rigorous qualification techniques.

As Stefan said, there will be no major margin reset because the additional investment in our top five markets and in NGP will be funded through underlying performance improvement, resource reallocation and cost savings.

Slide – Investment to support new ways of working - savings

Alison has set out how we will be changing our ways of working to create the right organisation to deliver our five-year plan.

We will remove duplication and streamline the organisation, thereby speeding up our decision-making, creating a leaner, more agile business.

These actions are expected to realise annualised savings of between £100-150m by the end of FY23 – with the bulk of the efficiency benefits landing in the next two years.

Slide – Investment to support new ways of working – restructuring costs

To reshape the business behind our new strategy and deliver these savings for reinvestment we need to invest…

And we expect total cash costs of between £245m and £275m over a three year period as you can see on the slide. The majority of the spend will be in FY22, although some of the cash outflows will extend into the next financial year.

In addition, we also expect to incur associated non-cash restructuring charges. We currently anticipate these will be around £150m, and we will be transparent in updating you on these as we report to you.

We intend to implement all the initiatives by the end of FY22 although as I have said there will be some cash costs that extend into FY23.

I should stress this programme is different from those of the past in that it is highly specific and time-limited to deliver a step-change in organisational capabilities.

As a result, we intend to treat these costs as an adjusting item to aid comparisons of our performance over time.

Any additional restructuring charges beyond FY22 and those outside this defined programme will not be treated as an adjusting item, and will be reported within our adjusted operating profit.

These programmes we are announcing today exclude operational restructuring activities, such as factory closures, which will be reviewed by Javier who will arrive at the beginning of February.

Javier's review is not part of the programme we are announcing today and the cost of any future right sizing of our factory footprint over time will now be included as a charge within our adjusted operating profit – and be highlighted as an impact.

Slide – Delivering a stronger financial outlook

So what do we expect the five-year plan to deliver?

We see two distinct phases.

The first two years are about investing to strengthen the business, to underpin delivery of our new strategy and realise efficiencies.

During this period, adjusted operating profit progress will be limited – as there will be additional investment, which will only in part be funded by reallocating resources and cost savings.

In the second phase, you will see the benefit of the investment returns and we expect to deliver a profit growth CAGR over the three years in mid-single digits. And the combustibles business will be the main contributor to this profit growth.

Revenue will improve gradually over the five years as the initiatives bear fruit and overall, we expect to deliver a CAGR of 1-2% over that period.

Slide - FY21 guidance remains unchanged

I should stress at this point that our guidance for the current year is unchanged as shown on this slide, which we have lifted from our results presentation in November.

On an organic basis, excluding the impact of the premium cigar business sale, we expect to deliver a low to mid-single digit growth in adjusted operating profit at constant currency.

I won't go through the details as they are unchanged. I should say, however, COVID continues to impose restrictions across our markets although the business continues to perform within our original guidance.

In addition, please remember for your models that we have assumed a higher tax rate with a c. 2% impact on earnings, with constant currency organic earnings per share expected to be slightly ahead of the prior year.

We expect there is likely to be further upward pressure on the tax rate in FY22 – although less significant than the current year.

Slide – Continued strong cash outlook

The cash characteristics of our business remain highly attractive, with low capex needs supporting annual operating cash flows of more than £3bn a year… so over the next five years, this could generate around £18bn.

Looking ahead, we will be disciplined in our use of capital with a continued focus on working capital and this will support cash conversion over the medium term of 90-100% which is consistent with that delivered in recent years.

Slide – Logista

Moving onto Logista…

This is the Spanish-listed European logistics business where we have a 50.1% stake.

As the major distributor of tobacco products for the industry in Southern Europe, this is a relationship which is managed on an arm's length arrangement.

Logista plays an important role in collecting excise duty payments in Spain, France and Italy.

Therefore, depending on timing, Logista can often have a significant duty creditor and positive cash balance.

We have a commercial loan agreement in place with Logista that allows us to benefit through a daily cash pooling arrangement.

For example, if we take this past year, the daily average cash balance from the cash pooling arrangement was £1.9 billion, with the figure varying from a high of £3.9 billion to a low of £0.5 billion.

At the year end, the cash balance from the Logista loan was £2.4 billion.

As a result, our investment in Logista provides an attractive cash benefit to the Group, as well as an exciting opportunity for growth.

Slide – Deleverage priority to strengthen investment grade credit rating

Turning to our balance sheet… our disappointing financial performance over recent years has slowed the pace of debt reduction… as shown here.

This led to the Board's decision last year to cut the dividend in order to accelerate deleverage.

Debt reduction will remain a priority for the time being in order to achieve our target leverage which is towards the lower end of a net debt to EBITDA range of 2-2.5 times.

We believe a stronger balance sheet will provide the business with greater flexibility for the future, improving resilience to manage uncertainties, increase our headroom within our credit metrics and further underscore the defensive characteristics of our business.

Deleverage is also necessary to our investment grade rating – to which we remain fully committed.

Slide - Committed to an investment grade credit rating

An investment grade rating brings many benefits including cost effective access to an established debt investor base via the capital markets, better terms for our RCF, as well as reducing other costs such as those related to pensions.

The rating agencies assess companies on the basis of both commercial considerations and financial profiles.

As I mentioned, our pace of debt reduction has slowed, the business has lagged behind others in areas such as a NGP and we have seen persistent profit downgrades in recent years.

This combination of factors has limited our ability to create headroom within our current rating.

In addition, it is worth remembering that over the last two decades, we have run our balance sheet at the efficient end of the credit metrics, which has placed us at the bottom end of our rating.

The new five-year plan, together with a focus on deleverage, will help to strengthen business performance and our financial profile over time, resulting in a stronger balance sheet with less debt and more headroom with our credit metrics.

Thank you… let me now hand back to Stefan.

STEFAN

Slide – Clear capital allocation framework: priorities

Thank you Oliver.

In talking to shareholders in recent months, I am aware we need to provide clarity over both our strategy, which we covered earlier, and our capital allocation.

As part of our review, we have thoroughly explored and evaluated all aspects of capital allocation.

My objective is to give you a clear and transparent framework that sets out our priorities for the coming years.

My first priority is to strengthen the business by investing behind the new strategy. This is critical if we are to deliver the necessary performance improvements and rebuild trust and credibility.

This will ensure the ongoing long-term success and viability of Imperial.

Our second priority is to strengthen the balance sheet, to reduce leverage to the lower end of our target range to underpin our investment grade credit rating.

Third, we remain committed to a progressive ordinary dividend policy to provide a reliable, consistent cash return to shareholders.

The dividend will grow annually from last year's rebased level, taking into account underlying business performance.

Fourth and finally, I see the opportunity for returning surplus cash to shareholders.

This will be considered once our target leverage has been achieved. Our strong cash characteristics will support additional returns via share buybacks or special dividends.

Given the modest rating of our shares, we recognise that some of you would like to see a share buy-back sooner than this.

We have explored the options here and concluded that at present we do not have the headroom to take on the necessary additional debt for a meaningful buy-back without risking a credit rating downgrade.

And a downgrade would seriously reduce future financial flexibility to implement our strategy and lead to significantly higher costs.

This is why we are committed to an investment grade credit rating and will be reducing our leverage further to reach our target level.

I also want to emphasise our dividend pay-out ratio of around 54% is relatively low compared to peers, which will give us significant flexibility around the nature of future surplus cash returns.

I can assure you we will be disciplined in how we optimise these returns, based on market conditions and the share price at the time.

Slide – Our new strategy

So to summarise… we have set out a clear strategy that will strengthen the business through strong execution and consistent delivery.

The strategy will unlock value for our shareholders, employees and all other key stakeholders, supported by three clear strategic pillars.

A renewed emphasis on our five priority tobacco markets, a clear plan to drive value from our broader market portfolio and more disciplined execution in NGP… with an increased focus on heated tobacco.

These strategic pillars are underpinned by our new critical enablers.

Placing the consumer back at the centre of Imperial's business, embedding a challenger mindset that embodies a performance-based culture and implementing new ways of working to support an efficient and simplified organisation.

These will be exciting times for Imperial Brands as we transform and focus the company to strengthen our delivery in the years ahead.

Slide – What our strategy will deliver

We also have a clear view of what our strategy will deliver over the five years.

A stronger business with a sharper focus behind tobacco and clearly defined roles for our major combustible markets.

Our commitment to harm reduction will be evident through our new targeted and more disciplined NGP business.

We will have an energised and motivated organisation that is focused on meeting consumer needs with a culture that is smart, agile and focused on delivery.

We will be a stronger business… capable of delivering sustainable growth in revenue and profit, with continued robust cash flows and a strong and efficient balance sheet.

This will support a progressive dividend policy delivering consistent reliable cash returns to shareholders… while excess cash can be returned to shrink the capital base over time.

Slide – Investment case

So what does this mean for shareholders?

This creates a very different investment case for Imperial Brands…

Our revitalised tobacco business will be the most significant contributor to value creation over the next five years.

Our NGP business provides an additional opportunity for growth – and with better prospects for success.

We have a significant upside from self-help initiatives through operational excellence and performance improvement… and this is just doing the basics better.

And we have a motivated team of employees, who are ready and willing to embrace these changes to make this a successful business we can all be proud of.

Most importantly, the business remains highly profitable and cash generative… underpinning enhanced returns for shareholders over time.

Thank you for listening to the team and me… and giving us the opportunity to share our excitement about the future of Imperial.

We would now like to take a short 10 minute break before taking your questions.

If you would like to ask a question… please dial in to the conference call numbers provided – and we look forward to speaking to you shortly.

Thank you.

Q&A

Stefan Bomhard: Welcome, everybody, back. I hope you had a good break. We're now coming to our question-and-answer session and for that, actually, the whole executive team, all the presenters of the day, are here to answer your questions. So, with that, I would suggest that we pass it over to the Operator, who is lining up your questions, so we can get back to you..

Michael Lavery (Piper Sandler & Co.): I want to understand how you think about Imperial's right to win. I know you started by saying you assessed that in the drive for strategy. I'm just wondering, maybe, more explicitly exactly how you define what that is. I know you mentioned some of the strengths the company has, things – but sometimes those are a reflection – that's the fruit of the right to win, oftentimes. So, just curious how you think about what the right to win is?

Stefan Bomhard: Absolutely. I think the – I would start off, first of all, if you look at where are our strong positions in the market place. Therefore, the clear focus on our top markets, on our top five markets. That is very clear, where we hold strong route-to-market positions and also strong positions in the marketplace.

So, here we clearly have identified these are the markets where we clearly have a right to win, where we have the strong positions, I would say. I think what is very fair to say in some of the smaller markets, where we hold smaller positions, these are clearly the markets where we are saying we will become more selective in our investments.

Michael Lavery: And I guess I'm just curious: is there a capability, or some differentiation you would point to, as the right to win that drives the strong market positions or is it – do you consider it just to be the fact that you have that in place already?

Stefan Bomhard: What is very clear we have in comparison to our competitors, lacked on our consumer-centricity and our ability to actually address consumer needs. That is clearly a catch-up opportunity, an opportunity for self help to complement the strengths that we clearly have in our route-to-market capabilities.

Michael Lavery: Okay, great. And then just a follow-up, I wanted to understand a little better when you talk about being a fast follower in heated tobacco and as you model out your next several years and expectations for yourselves, can you give us a sense of how much you think any gains in heated tobacco you could get would come from helping grow the category further, or is it from anticipating taking share from somebody like IQOS?

Stefan Bomhard: I think it's a great question. I think what is important about our plan, if we step back, one of the key distinctions of our NGP strategy going forward: it is to focus on markets where there is already a consumer market for NGP products Because if you look at our track record, if you look at our core competencies, we, as a company, have a good track record of actually offering consumers choices in the markets.

This is less about us building new markets. So when you ask the question, so what our focus will be, where already there is a consumer market developing for an NGP product, the ambition is clearly to offer consumers choice in that market. And to be clear, offering choice to consumers is one way of building the market versus being the pioneer in building a completely new NGP segment in the market.

So that is a different approach, to be clear, that we're taking versus our own past and to be clear, that we will take in comparison to some of our competitors. But that is what is captured in the more rigorous approach and clearly one that links better in our skillset. I'll also pass it over to Murray, if he wants to add something from his side?

Murray McGowan: Thank you, Stefan. Yeah, I mean I don't think we'll talk about the balance between share steal versus growing the category. I think we're very clear, as we talked about in the presentation, that our product appeals to very specific consumer segment, given the attributes of the product and how it differs versus competition.

So, versus the past, I think we've got a much clearer defined target to go after. For sure, the categories are going to continue growing, so for us it will be a balance between both taking share within that specific consumer segment and benefiting from the growth of the category within the markets which we target. Stefan.

Stefan Bomhard: So, I think hopefully that answers the question. Can we have the next question please? Hopefully the technology works now.

Operator: Thank you. The next question comes from the line of Gaurav Jain from Barclays. Please ask your question. Your line is open.

Gaurav Jain (Barclays): Thank you. Earlier, I couldn't ask all the questions because of the line issue, so hopefully now it will be better. So I had asked the question earlier on your long-term revenue growth projection and you're arguing that that is well underpinned. I guess the other question becomes on your guidance and the way you have given the EBIT guidance that FY 2022 is flat over FY 2021 because of investments and then EBIT growth will accelerate to mid-single digits. Now Imperial, as a company, historically, it was missing guidance for quite a long stretch of time. So, how much confidence should we have in a guidance which is essentially post-FY 2022 i.e., it is almost 18 months away from here?

Stefan Bomhard: Sure. Gaurav, I think an important factor is what you, hopefully, have gotten the first impressions on is there is a very clear deep-dive and a deep understanding of what are the key drivers of that performance. That's point number one. Point number two: you will have observed that a significant chunk of our guidance in the past was on the NGP business performing in a very significant way.

Now I think, if you look at our plan of today that we're presenting for the next five years, the key driver of that profit improvement that we see in the outer years is going to be driven by our core business. So, that is a much securer way versus the past of delivery. The second point is that I think – what you heard from Alison there is a very – I mean as a management team we looked at our past performance and why we didn't perform.

And one of the key elements is clearly about performance management, culture, yet also attention to understanding our consumers. So there's a lot of things happening in the background that give us the confidence that we can deliver this set of numbers.

Gaurav Jain: Sure. And a follow-up question on share buyback. Look, if you have the confidence that Imperial will be growing at mid-single digit from FY 2022 onwards and you yourself referenced that the stock price is very low, so it might be true today that your balance sheet is stretched but by September FY 2021, it will be much less stretched. It will be within 2–2.5 times and it will be going rapidly to two times by September FY 2022. So if the stock price is where it is, would you be willing to look forward at where leverage is going and start commencing some form of share repurchase because even a 300 million share repurchase will meaningfully move your EPS growth.

Gaurav Jain: And it will help you deleverage. It won't take away anything from deleverage.

Stefan Bomhard: Gaurav, I think you're absolutely right. And so hopefully, number one, what we shared with you today is a very clear capital allocation policy. Also being very transparent with you, what are the priorities within that, with a clear confirmation of our progressive dividend policy. But at the same time also clearly letting you know, once we have achieved our deleverage, surplus cash will be returned back to shareholders. And I think one thing we shouldn't forget in this one, that in the reset of our dividend policy last year, our current payout ratio is 54%, which is the lowest of any of the major players, which gives us, as a company, once we have achieved that deleverage that we talked about, significantly more flexibility to return cash to shareholders, in whatever form is right at that point in time.

I think we probably would all agree, if the share price would be where it is today, that would be in the form of a share buyback.

Gaurav Jain: Great, thank you.

Operator: Thank you. The next question comes from the line of Owen Bennett from Jefferies. Please ask your question. Your line is open.

Owen Bennett (Jefferies): Afternoon, all. I've actually got two questions please. I don't think you heard the one earlier. The first one is a two-part question, actually, around NGP and the focus on heated, again. Firstly if you look at heated in your core European markets, with the exception of Germany right now, it's not really seeing much success. So, the first question is why do you think you need to be in heated? And then, second, what makes you think you will be able to take share as a fast follower without significant investment? I mean that segment is becoming increasingly crowded now, with even KT&G and China Tobacco.

The example we've got is Japan, where you were a fast follower and arguably there's more freedom to advertise and build awareness there and you had a little success. So, yeah, what makes you think you can take share without significant investment? Thank you.

Stefan Bomhard: Owen, very happy to answer your two questions together with Murray and apologies that your question I couldn't hear it before. On your question, looking at the – what we've done in the last couple of months, looked at all the key data, also consumer interviews, understanding where the categories will go across our core markets.

And it is very clear that we are observing that the heated tobacco category is gaining more traction across a number of European markets. That's number one. Number two, when you look at the structural economics of heated tobacco with, as Murray referred to earlier, a significantly higher gross margin, that means also the break-even point is at a much lower level.

It's also helped by the fact that the retention rate of heated tobacco today is superior to any EVP product. Now, to your question about how can we compete in this space? Now, one of the important – because you bring up the Japan example.

I think the Japan market, as Murray referred to, for our – in our assessment and our observation about the success or failure, there a three key elements that apply to NGP for success. One is the product. The second one is the marketing communication and the third one is the route to market.

And I think one thing we shouldn't forget, that in Europe the route to market on heated tobacco is virtually in the majority of countries, exactly has the same route to market to our classical combustible business. So it puts us at a competitive advantage in this area. It is very clear in Japan, while there were lots of learnings coming out of the Japan market, we have a 1% market share, so a relatively small route to market. And to be honest our knowledge of Japanese consumers is quite limited.

So it wasn't putting the product together with the right marketing mix and the right route to market. Good learnings to be learned but the likelihood that Imperial would succeed in a market like Japan, as the fourth entry into the market, in a market that is not one of the core markets of Imperial, I think we have to say was not the highest likelihood of success.

I think it is a different picture in our core European markets and the feedback from consumer – from consumer data that we have done, in our European markets does indicate there is a consumer segment that actually has an appreciation for our product. I mean Murray outlined earlier today there are some product features that, for certain segments of heated tobacco users, are actually quite relevant. Murray, you want to add anything from your side?

Murray McGowan: Yeah, thanks Stefan and thanks for the question, Owen. I think the only add for me is just reemphasising the pilot approach that we're taking to this, Owen. We will have two pilots in Europe during this year. I think that will give us a chance to really test how robust our thinking is around the scale we can get to within the markets, both through the product, with improved execution, with a real focus on a specific consumer target.

In terms of the market development, we've done a lot of work to try and understand how we expect markets in Europe to develop over time. Clearly, as we look to consider rollout beyond the test markets, we will look closely at the latest view on that expansion and use that to help amend our rollout plans thereafter.

So it's not a blind investment, a sustained commitment to scale across Europe if the market doesn't materialise. It's a pilot approach to demonstrate the viability and the economics before we look to scale up and increase, significantly, investment. Stefan.

Owen Bennett: Okay.

Stefan Bomhard: Owen, I hope that answers your question.

Owen Bennett: Yeah, that's very helpful, thank you.

Stefan Bomhard: Yeah? Thank you.

Owen Bennett: Yeah, that is very helpful. I just have one second question actually –

Owen Bennett: – on the combustible asset outside of the core and obviously the shift to a greater ESG agenda and obviously, within the ESG agenda you want to move away from those legacy assets. So, you said unlikely to find buyers for the tail. However, you talked through the attractive trends on US mass-market cigars, emerging markets cigarettes in Africa, for example. So it should be easier, in theory, to find buyers for these assets. So, I was just wondering, would you be open to selling these assets, especially given the ESG agenda? Thank you.

Stefan Bomhard: Owen, personally, I think – it's a great question. I think, number one – I think it is important: our ESG agenda is about driving our business the right way and building a position in reduced harm. So our interpretation is not that disposing of specific combustible assets would be part of the ESG agenda.

But let me go to the specific questions you asked about mass-market cigars US and Africa. Now, I think, number one, hopefully what comes across from our plan that we presented to you today is that we do see significant opportunity to actually drive these brands and these market positions better versus the past.

I mean, Dominic shared with you the plan for Backwoods for example. It's also very clear – and if we stay on Backwoods and mass-market cigars, what I think might not be that visible from the outside, the route to market for mass market cigars in the US is exactly the same as for our FMC business, very different to premium cigars.

So, actually, you would weaken our FMC business in the US if you would be disposing of the mass-market cigar. It's the same customers. It's the same outlets. So we do believe there is a significant opportunity for value creation around the mass market cigar business in the US. We also believe that, for our African business, this has been under-managed, and there's a real opportunity to get a better place behind our African business. And also, probably, as you will understand, our markets – this is an industry that is already highly concentrated, so the number of potential buyers is quite limited. And therefore we do believe the best way of creating value for our shareholders is to look after our assets with this plan first.

Owen Bennett: Okay, yeah, that's very helpful. I appreciate your time.

Stefan Bomhard: Thank you Owen. Can we have the next question please?

Operator: Thank you. As a general reminder, ladies and gentlemen, if you wish to ask a question, please press star one on your telephone. The next question comes from the line of Adam Spielman from Citi. Please ask your question; your line is open.

Adam Spielman (Citi): Thank you very much. Inevitably I have several questions. But can I start with a helicopter-view question? Do you think the cigarette market in the US, in Europe, globally, is going to go on declining in the way that it has declined recently, or do you think there's a risk that next-generation products will accelerate that decline, or maybe even just fizzle out and we actually get a slightly better trend? So it's this really big picture, high level view about how you see the next 10 or 20 years for the cigarette market.

Stefan Bomhard: Adam, I love the question. And as you can expect, given the importance of the performance of our top five cigarette markets and that includes the US, this has been an item we, as an executive team, have debated at length and looked at lots and lots of data. I think the important – my feedback would be we should look to the consumer here. Because ultimately this is all driven by consumers making a choice every day what product they actually want to use for getting their nicotine hit. And our observation is very clear why there is a trend about consumers switching over to NGP. We can clearly see that is – that at this point in time there hasn't been, really, a massive acceleration in that trend. So, unless there is a very significant disruption from the regulators, which we cannot foresee at this point in time, especially focusing again on the top five markets.

So the answer would be our plan today does foresee a continuous decline of the core combustible business driven by consumers switching off, in certain numbers, to NGP offerings. But we do not foresee a massive acceleration of this trend in the next five years. But it's also a position that's slightly different market by market. I would just also invite, Dominic to give his perspective from a US side.

Dominic Brisby: Yeah, I think there's nothing to add, Stefan, actually. I think your analysis was absolutely correct and yeah, very much in line with what we've seen, Stefan.

Adam Spielman: And so, just to focus on the US, because it's obviously so important to you. Altria is saying – Altria, Philip Morris USA, is saying – has said in ten years you could easily see half of the nicotine market move away from cigarettes to various forms of non-combustible.

Adam Spielman: I mean is that in line – which, by the way if you're Altria, it sounds really scary to me but how do you think – do you think that's too aggressive, do you think that's about right?

Stefan Bomhard: Adam, I probably, look, you will probably understand that it's Altria, our competitors, I have enormous respect for them, they have their business. I mean we've done quite a deep dive from our side.

Adam Spielman: Yeah.

Stefan Bomhard: We have looked at the pick-up rates of vaping, I mean the reality, vaping and oral nicotine, these are the two offers for US consumers in NGP and we have extrapolated and we looked at all kind of different scenarios. We just, at this point in time, would not foresee where in that timeframe you would have half of consumers having switched out of combustible products.

Adam Spielman: That's very clear and very helpful. Thank you. On the – just turning – this is a much more granular question. On your next-generation product strategy, you say again and again we're looking at consumer data and we've got these plans for heated tobacco in Europe, but it's gated plans. If they don't achieve what we hope, you know, we won't roll it out. And obviously, you know, anyone who – any investor in Imperial would hope that you achieve. But clearly you're highlighting a risk that, actually, your product doesn't work, or the current plans don't work. And I was just wondering how we should think about that risk?

I mean I'm not looking for a sort of percentage chance on it but what happens if at the end of, I don't know, 12 months' time, you just think the product and the proposition isn't good enough for heated tobacco in Europe?

Stefan Bomhard: I think Adam – number one, I think what is very important and I think a real departure from the past, the top and bottom line growth that we're presenting and committing to, behind this strategic plan, is primarily driven by our core business. I think that's a very important distinction versus the past.

So we have a much higher level of security about delivery of this plan. The second piece, it is – and Murray touched upon it – it is very clear our plan will – we're going in with the propositions, with test markets and qualifications. What is important, which I think is important to – we're committing to shareholders. We're not going to roll out propositions if we do not have the confidence level that they can achieve the targets that we're setting ourselves. Now what would happen in this case, as you asked very specifically, this proposition would then not be rolled out. We would be finetuning this proposition, and see.

At the same time, there's enough data generated in the last couple of months across a number of European markets that give us some confidence that actually our proposition – there's a consumer segment where what we can offer consumers is appealing. Murray, you wanted to add some colour to this?

Murray McGowan: Yeah, thanks Stefan. I mean I think, just to build on it, the research we've done, I think the – the product definitely appeals to that very specific consumer set. I think it's a different product to what our competitors have and I think those points of difference are what we see people attracted to, particularly within heavy users, which clearly is the most attractive consumer segment.

So we – at least at this stage now, prior to the pilots, we have confidence in the potential there but clearly the pilots are going to be the thing we'll use to determine the pace and speed of rollout thereafter. If the pilots fail, then we'll need to reset as to where we go next with it. Stefan.

Stefan Bomhard: Yeah, okay. Adam, any more questions from your side?

Adam Spielman: There's more but I'll keep it to two more. In your detailed presentation, you talked about five market – your top five markets. And you said, you know, there should be decent growth in three of them but for various reasons, UK and Australia you expect sort of declining top line in the markets within the next few years.

And I was just wondering if you think about the balance of your markets, sort of, you know, the other ones, is that a sort of good rule of thumb, that sort of three out of five of them should be growing but two out of five won't be? Is that a sort of reasonable way of thinking about the next, let's say, ten markets down?

Stefan Bomhard: I would want to focus on the top five, Adam. I think the number one – I think if we step back and as you asked the question about bigger picture, the reality is, when you look at our market portfolio, market number one, US; market number two, which together represent the bulk of the 72%, they are both falling in the category where actually we are seeing and our competitors are seeing, still, growth.

So I think what is reassuring, that two of the five where we are forecasting shrinking market sizes do not belong to the top two markets. I think that's an important piece. I think when you look at – to answer the second part of your question, if you look at the next set of markets, I think we are relatively less dependent on market growth. In reality, some of them are growing, some of them are not but I think it's about how do we compete in these markets? That will be a key value driver for us. But I want to repeat: the big value driver, the big opportunity for Imperial is to drive these top five markets, where the top two have significant, even market growth opportunities, to actually achieve better results in these markets by being more focused on them.

That is the key driver of our strategic plan here.

Operator: Yes, the next question comes from the line of Alicia Forry from Investec. Hello, can you – your line is open.

Alicia Forry (Investec): Can you hear me?

Stefan Bomhard: Alicia, if you can ask your question please.

Alicia Forry: I'm speaking. Can you hear me?

Stefan Bomhard: Yes, we can hear you now. Thank you.

Alicia Forry: Great, thank you. Questions on the NGP business: the focus is welcome. So, heated tobacco in Europe, vapour in the US, thank you for that. I'm wondering, does this mean that you will exit Japan? And second, is Russia considered to be a part of the addressable market for heated tobacco in Europe for you?

And also I'm curious about your decision not to include any specific targets around NGP, whether penetration or absolute sales or perhaps these will be wrapped up with the consumer health KPIs. Can you explain the thinking behind that decision?

Stefan Bomhard: Very happy to do that, Alicia. And first, thank you for the comment on the heated tobacco strategy and the focus within NGP and I think it links to answering your question. It is – behind the new strategy, the NGP in Japan will not be a priority for Imperial. And the reasons are quite straightforward, because we are going to focus on the markets where we believe we have a right to win. And that is clearly about making sure that we have a good route to market, as well as good marketing capability. On the question on Russia, it is clear that, from a combustible perspective, Russia has not been the top market.

And it is a market where clearly our route-to-market capability is not the same level as some of our Western European markets. So it is definitely despite the size of the heated tobacco market but to be clear that is at a lower level of profitability versus some Western European heated tobacco markets. It is definitely not one of our top priorities at this point in time.

Alicia Forry: Okay, thank you.

Stefan Bomhard: Okay, I think – Alicia, hopefully you heard my answer?

Alicia Forry: Yes, I did, yeah.

Stefan Bomhard: And the final – on the third part, on KPIs. Now it is very clear as we reset the strategy, we didn't feel today would be the right point to put KPIs out. It was more important to share with you the overall drivers and strategy behind our NGP business.

What is clear, as we progress – and you've rightly picked up, it will form part, also, of our ESG commitment. So there will be targets for our NGP business as we progress. So you will have the opportunity, to follow whether we are making progress against our priorities and our objectives.

Alicia Forry: Okay, that's very helpful. Thank you very much. Just one final question if I may and then pass it on.

Stefan Bomhard: Sure.

Alicia Forry: The restructuring: could you provide more detail about where these savings are coming from? I appreciate this may be sensitive but whatever information you can provide would be useful.

Stefan Bomhard: Sure. Alicia, I'll give you an overview and Oliver will give you further detail. The overview is – what is very clear, we've done a deep-dive on the organisation in the last six months and it is very clear that the new strategy will drive different strategic priorities versus the past.

So there are going to be certain areas of the business where we will be able to take some of our overheads out because they're not forming a key part of the strategy forward. Secondly, we've clearly identified that the silo perspective that Alison gave you, one of the challenges there is a duplication inside the business, that does not create value.

So one of the areas where we are clearly going to release investment back into the core markets is by running our back office significantly more – in a more effective way. So these are key elements of where the savings will come from. Oliver, you want to give some more colour from your perspective?

Oliver Tant: Yes, I mean thank you Stefan. Yes, I mean historically a lot of our restructuring was focused on our factory footprint and the implications of our brand portfolio in the context of that factory footprint. As Stefan has said, as we move into this particular strategic framework, we are much more focused on looking at efficiencies in the back office and in our route-to-market structures to enable us to focus our investment right at the front end, in the context of improving our in-market performance and satisfying consumer needs. Stefan?

Stefan Bomhard: Thank you. Okay. So, Alicia, hopefully that provides – as you rightly said there are certain limits to what we can talk about today. Also, to be clear, the details of the plans are being worked through sharing them with you today should give you a high level of confidence, that these are definitely deliverable plans. It's also, to be clear, where other companies have been able to generate efficiencies. Okay, can we move to the next question please? –

Operator: Thank you. And the next question comes from the line from James Edwardes Jones. Please ask your question. Your line is open now.

James Edwardes Jones (RBC): Hello, can you hear me?

Stefan Bomhard: Yes, we can hear you.

James Edwardes Jones: Great. So, again on NGP, just quickly, can you give us some idea what the ongoing capital expenditure is going to be for NGPs and also what the P&L implications are going to be of reduced revenue investment in the NGP business? And secondly, what was it that convinced you that a progressive dividend policy would be preferable to a share buyback programme?

Stefan Bomhard: Okay, sure. Let me deal with the NGP question first. Now, number one, I think what is important to understand is our NGP strategy will only trigger any meaningful CAPEX investments once we are really convinced that we actually have a product market mix route to market for a specific market ready with success

So there are – so it is going to be a very prudent and very rigorous approach on this front. To be clear, also – and that might not be known to you – there has been a very significant CAPEX investment in our heated tobacco capabilities in the company before. So our actual plan does not require us massive CAPEX investments on this side.

At the same time – so we do not foresee a massive increase of CAPEX behind this plan. So if you think through what we have given overall as a business, including our combustible business, for around £300 million is probably – annually is probably the right range. On your second question, on consideration of their current dividend versus the share buyback, we have looked at all options.

But it's very clear, when we also spoke with our shareholder base, a reliable dividend income is important for a very significant majority of our shareholders. Therefore, having this security about our progressive dividend policy is clearly something that we have prioritized over our short-term share buyback, funded by a cut by the dividend.

James Edwardes Jones: Okay, thank you.

Stefan Bomhard: Okay, all right. Can we have the next question please?

Operator: Thank you. The next question comes from the line of Jon Fell from Ash Park. Please ask your question; your line is open.

Stefan Bomhard: Hello.

Operator: Jon Fell, can you hear – can you –

Jon Fell (Ash Park): Yes, sorry, I was on mute I think. Just to come to James's question again, I think you answered why you're not cutting the dividends but I would quite like to know why, given the earnings growth looks like it will be flat the next couple of years, you've committed at this stage to raise the dividend further when the yield is already so high?

I think it was 8.5% at the start of today; it's nudged up nearer 9% this afternoon. Why, with the share price already so low, is increasing the dividend now a priority? And then, secondly, I think you've got about £10 billion of debt coming to maturity over the next six years. You haven't accessed debt markets since the middle of 2019. Now, looking at your reported redemption yields on those bonds and looking at how other companies have accessed debt markets at very low yields in the last year or so, it's – or why aren't you accessing debt markets more aggressively? And if you had a longer debt maturity profile, would that make you a bit more relaxed about being able to do share buybacks more aggressively perhaps?

Stefan Bomhard: Sure. Okay, James let me come – let me answer your question also together with Oliver. On the question about dividend yield, I think one thing which is important – with the reset of the dividend last year, we're now at a 54% dividend payout ratio.

So I think what we felt, important, as the business progresses – and let's not forget when you look at – through the five-year strategic plan, you are looking, in the later three years, at a mid-single-digit operating profit increase. So I think that is how we see it coming together. and I think that is also, when we spoke with shareholders – and I understand there are different points of view out there but that was what we understood was making a lot of sense for the majority of our shareholders.

On the debt financing, I pass it over to Oliver who can give you a more specific answer.

Oliver Tant: Thank you, Stefan and thank you very much for the question. We've obviously, over the last 18 months or so, been expecting some proceeds in from the sale of the cigar business. And to some degree, therefore, we've been in a position where we've had relatively strong short-term cash flows, or the expectation of relatively strong short-term cash flows. So we haven't needed to raise additional funding, in overall terms, in relation to our current debt portfolio.

We have refinanced our RCF facility, so our banking facilities. They were refinanced at the beginning of this year. And we have, at various stages, put a number of bilaterals in place over the course of the last 12 months. But our cash flow has been strongly positive and therefore, actually, the need to increase our overall debt levels hasn't been something that we've had to consider.

We are obviously mindful of the current attractive rates in the market and we are mindful of the fact that there are opportunities for us in that context.

Stefan Bomhard: Okay, thank you Oliver. Can we have the next question please?

Operator: Thank you. And the next question comes from the line from Vivien Azer from Cowen. Please ask your question. Your line is open.

Vivien Azer (Cowen): Hi, can you guys hear me now?

Stefan Bomhard: Yes, we can hear you.

Vivien Azer: Okay, wonderful. I apologise. My line went dead as I was being introduced and so I might have missed some of the content but my first question is on, kind of, the conservatism that's built in to your outlook for a 1–2% revenue CAGR over the next five years, you know, in particular the downtrading, you know, that you noted in key markets like Australia. Are you anticipating that downtrading to accelerate or does your five-year forecast maintain kind of a status quo assumption about the marketplace?

Stefan Bomhard: No, I think it's a great question. Number one, I think I'd say, upfront, as you will know, our track record – and it's very clear, what is important behind this five-year strategic plan is to rebuild credibility around our numbers. So we, as a team, have been quite disciplined about this approach and therefore when we have done our bottom-up analysis of all the different markets, this is the range that we are committing to.

What is important for us, at this point in time, is to rebuild that credibility as a business. Number two, as you asked specifically on some of the markets –

Stefan Bomhard: Okay, as we're asking specifically on the Australia and the UK, we have forecasted a further decline in these markets, but that is reflected in our numbers.

Vivien Azer: Okay, that's helpful. Thank you. And then my second question is on blu in the United States. I appreciate the consumer insight and brand equity work that you have done but I'm curious – you know, with 64% having purchased, like, that makes sense given blu's kind of longevity in the marketplace. But did you dig into that and get a better sense of whether these were consumers that onboarded with blu, when blu was earlier in the marketplace, you know call it 2012, 2013, 2014, or are you focused more on more recent consumer behaviour? Thanks.

Stefan Bomhard: Sure. I'll pass it over to Murray. But one thing, the data's actually data from September, October of last year. so it is quite recent data. So it is – does reflect the recent picture. Murray, you want to give some extra colour on this, please?

Murray McGowan: Yeah, I mean the only thing to add is, as Stefan says, it's a recent survey, it's not looking back as many years as when the product launched. So it's a realistic view of performance now and we actually have got further consumer work in the market now that's going to help inform the testing that we're planning, or the pilot we're planning for the US, this year as well. So we're trying to be as realistic and as recent as possible in our aspirations for the market. Stefan?

Stefan Bomhard: To build on this point, I think what is important, as you look at our plan, as Murray mentioned in the presentation, we will put a pilot test into the marketplace where we will test a different marketing approach and a different route to market because our assessment is that, in these two areas of the three elements that drive success in the NGP market, clearly neither our marketing approach in the past nor our route to market have been optimal.

So that is what we – what the plan is. At the same time, we assure you that, if we scale up this, then, this will be based on some very clear criteria before we make any major investments here, which should give you the confidence that any investments will only come when we have some consumer-based and market-data-based evidence that this is an attractive proposition for us to invest in.

Vivien Azer: Understood, thank you very much.

Stefan Bomhard: Thank you. Can we have the next question please?

Operator: Thank you. The next question comes from the line of Sanath Sudarsan from Morgan Stanley. Please ask your question, your line is open.

Sanath Sudarsan (Morgan Stanley): Hello. Thank you very much for the opportunity to ask questions. I've got two questions. One, just carrying on from Adam's question and kind of approaching it a bit differently, how do you think, Stefan, about your long-term consumer pool, let's say about your user base out into the 2030s?

Do you see these consumers declining or do you expect it to be remain broadly similar or do you expect it to add to the consumer base? So just on the longer-term health of the business, how do you see this evolving? And then, secondly, I just wanted to kind of come back on your guidance of mid-single-digit profit growth for 2023–2025.

So, if you can just maybe run us through how you think about pricing, operating leverage and maybe NGP profitability to kind of help you drive that 3–5% growth over that period? Thank you.

Stefan Bomhard: Sure, absolutely. I understood your question about, kind of, the consumer pool that Imperial looks after. I think what – one of the things, as part of the strategy work we've done, we've actually looked at our consumer pool country by country. And for example, the work that Joerg talked about earlier, about paying more attention to local brands, local jewels, is part of the outcome of that work because we would have seen that we have purposefully – we've walked away in the past from a consumer base that was linked to these brands.

So actually reinvesting in our local brands is one of the areas where we actually want to more actively look after our consumer pool, I would say. It is also very clear – you saw it also in the JPS work earlier, about Germany – a clear identification that, in the past, for short-term profit reasons we have not invested in rejuvenating the consumer base for some of our core brands. But that is clearly part of the strategy we're putting in front of you.

That's where a very significant chunk of the investments in marketing and sales capabilities go. So it is something we're very aware of. At the same time, we have enough examples in our portfolio where we can actually see, in certain countries, where we've actually been able to grow the consumer pool.

I take Backwoods as a great example where, if you look at the US, we have that capability but we have not deployed that consistently throughout the company.

Sanath Sudarsan: Okay. Thank you. And then the second one on the mid-term –

Stefan Bomhard: Yeah. Sure, please. Go ahead.

Sanath Sudarsan: I'm sorry. Okay, I think my question didn't come through. The second one just was trying to understand where, 2023–2025, you've guided on the mid-term – sorry mid-digit profit growth.

Stefan Bomhard: Yes.

Sanath Sudarsan: Can you just run us through what's the kind of break up that in terms of pricing versus operating leverage versus NGP profitability? How should we think about those drivers to get that number?

Stefan Bomhard: Sure absolutely. The most important piece – and I think that should reassure you – the single biggest driver of that profit improvement is the improvement of performance in our top five tobacco markets. So, that is something – so it builds on our right to win. Only a smaller part of that will be driven by our NGP performance.

It's also very clear – as you – in the presentation, it's not one lever that is the key driver. It is a combination of market share gains. It is also, over time, clearly a combination of becoming more efficient as an organization, which should give you the confidence that these numbers over time are deliverable.

Sanath Sudarsan: Thank you very much.

Stefan Bomhard: Okay, thank you. All right. Shall we move to the – can we please move to the next question please?

Operator: Thank you. The next question comes from the line of Adam Spielman from Citi. Please ask your question. Your line is open.

Adam Spielman (Citi): Great. Thank you for allowing me back in. Can I just refocus on the last question, or the second-last question, because you answered it in a certain way and I suppose I kind of interpreted the question in a bit of a different way. Do you think the overall – so not for your plans but for the sort of total nicotine market, do you think the total number of consumers is falling, flat, rising, perhaps? Do you think there's any change of trend there?

Stefan Bomhard: Okay, Adam, I had some difficulty hearing the question. So, if I understood it correctly, you asked about the consumer pool in our core markets, what developments do we see in there. I think we have done a deep dive –

Adam Spielman: Right, not for you –

Stefan Bomhard: Sorry? Adam, sorry I couldn't hear you. Okay, so let me answer the question as I understood it. We clearly have done a deep dive in the top five markets of understanding the consumer pool. We are forecasting a certain decline across these markets overall in the consumer pool.

But at the same time what we've clearly identified, the brands we have in these markets, have not been fully leveraged to capture our share of this opportunity. And the examples that you heard from Dominic and Joerg earlier, take the German example. We clearly see with brands like Gauloises, JPS and West an opportunity to capture more of the consumption in these markets for our brands.

I mean, they are positioned in the right places but we have not made the right, consistent marketing investments and the right consistent sales investments to actually capture the opportunity. Joerg you want to add something from your side on that? –

Joerg Biebernick: Yeah, I hope you can hear me. Adam if I understood your question, you're talking really about nicotine consumption and nicotine occasions. And from that point of view, we've done extensive analytics and predictions. And actually, total nicotine consumption is not forecasted to go down significantly in the European footprint in the next coming years.

And that is – I think you asked a question on the regulatory side before, I can tell you, even in France, where the government has increased excise tax significantly, consumption actually has not slowed down. It's got replaced by travel retail, by inflows and in most other places it's a dual usage actually starting to pick up between combustible and NGP categories, especially heated tobacco.

Stefan Bomhard: Okay.

Adam Spielman: Thank you. Thank you very much.

Adam Spielman: Yes. Yes, so that answers the question. Can I ask a question for Oliver? This is about cost-cutting. So, as I understand it, in the past, your cost-cutting focus has mainly been around the factory footprint. This latest programme is much more about back offices but there might be another factory footprint restructuring going forwards. So, I just wanted to check that that's right.

And you also said that it's somehow more specific and therefore you're treating it, from an accounting prospect, in a slightly different way which, I suppose, putting bluntly seems odd to me because I would have thought restructuring a factory was, frankly, easier than doing back office but maybe I am missing something.

Anyway, that's the sort of –

Stefan Bomhard: Okay, all right.

Adam Spielman: – question really.

Stefan Bomhard: No problem, Adam. I'll pass for the answer from Oliver. I'll pass it over to Oliver.

Adam Spielman: Thank you.

Oliver Tant: Thank you, Stefan and thank you for the question, Adam. there are a couple of facets to this. I mean, firstly, yes, historically a lot of the activity, in terms of where the cost savings originally – ultimately ended up was in terms of factory footprint changes.

What I said in the presentation was that, as you're all aware, we're being joined by Javier at the beginning of next month and Javier will have a look at our manufacturing footprint. So, until that review has been completed, it will be premature to make any comments on what we may do in terms of overall factory footprint requirements.

I mean, we have done significant reductions in our overall factory footprint and right-sized its capacity much more closely in line with current levels of demand. I think, as regards the programme that we are now announcing, there is quite a lot of activity for a switch others have already undertaken, which we haven't done in the context of our back office operations, simplification of elements to it, focusing on where activity is undertaken, not just what's undertaken, which represent opportunities for us. And that's really what this particular set of programmes that we've talked about today is focused on. We are going to treat them, in an accounting sense, differently. So, the programme that we've talked about today, we will incorporate as, essentially, an adjusting item. But any further factory footprint changes we will take within our adjusted operating profit as a charge. So, from now on, any further changes outside of this existing programme, in factory footprint terms, will be taken in adjusted earnings and also any other restructuring activity, outside the programmes that we've announced to date, will be taken as part of adjusted operating profit.

Adam Spielman: And just, if I can follow up on that, when other people have done it, they has tended to be big SAP or ERP, let's say, investment. But clearly you don't feel that's necessary, to do that. I suppose that's really an observation; it's hardly a question but there's no – you know, this isn't being sort of – well, I suppose the question is how you are doing it? So, I'll try and make it a question. How you are doing this if it isn't an investment in a better ERP system? I mean it seems so strange that you can just do it out of thin air I guess.

Oliver Tant: Well, I think, firstly, Adam there are options other than instituting an entirely new, bespoke ERP system which you can use as a platform to create change. So, you know, there are different ways in which we can do it. Inevitably, every organisation will go through periods when it needs to invest in its structure and infrastructure and systems.

I mean, a lot of what we'll be looking at is how we share that information more effectively between us. And you know, there are opportunities that come from the better data analytics capability around what our consumer is doing back to our core strategy, which is where we will be spending time investing to ensure that we are better prepared, basically, to deliver this strategy.

Adam Spielman: Okay, thank you very much.

Oliver Tant: I can hand you back to Stefan, who, I think, has just got a brief…

Stefan Bomhard: So, Adam, thank you for the question. Just to emphasise the comment from Oliver, we've looked very hard about what IT infrastructure investments are required to enable this and that is in the programme. But it is as Oliver expressed. That's quite limited because the reality is there have been investments in the past.

What we do need to do, which is similar to what many other companies have done, is just leverage these investments to actually create a more integrated back office. And look, I've done this a couple of times in my career; Alison has experience in this area. So it is something – I think the foundation is clearly there and in the timeframe we've given you, I think it's eminently possible.

Adam Spielman: Thank you.

Stefan Bomhard: Okay. Shall we, thank you Adam. Next question please.

Operator: Thank you. The next question comes from the line of Nik Oliver from UBS. Please ask your question; your line is open.

Nik Oliver (UBS): Hello. Thanks a lot for the question and apologies if this was asked earlier, just my line was quite weak at the beginning. Just referring back to slide 53, when you talk about the NGP potential across the largest markets, can you give us the building blocks for markets like, you know, Germany and Spain? How do you think NGPs will get from 2020 penetration levels to what you're forecasting for 2025?

And linked to that, anything you can share on Imperial's pipeline, just to give us confidence that you can capture your fair share of that going forward as well?

Stefan Bomhard: Sure. Nik, let me give that question to Murray, who can give you colour of the work we've done, looking at the European markets, here, from an NGP perspective. Murray?

Nik Oliver: Great, thank you.

Murray McGowan: Thanks, Stefan. Yeah, I mean we did quite a lot of in-depth modelling around the expected progression across each of the markets, Nik. I think – I don't have the numbers to hand exactly on the year-on-year building blocks, if that's what you're looking at, but we've looked at a range of scenarios, both external and our own internal modelling to understand what the trigger points for development are for the category and how we expect it to evolve over time, which we've used as the basis for our projections.

I think, as we said earlier on, the important thing to bear in mind, though, is we'll take a pilot approach first, we'll test and as we go through the pilots, we'll relook at those markets and understand if those projections have changed at all. So we'll be as fact-based as possible, in terms of evolution.

I think you're second question, if I understand correctly, was asking about the pipeline. I'm assuming you meant the innovation pipeline. I think there's a couple of points here –

Nik Oliver: Yeah. Yes, exactly.

Murray McGowan: – I think. Yeah, so, look, I think we've got a good product today. Clearly, in this world, the products will continue to evolve.

We've taken a hard look at our approach to innovation in the past and there will be a couple of key changes for us. One is a much stronger rooting in consumer insights to really drive the innovation agenda going forward and the second is a much closer focus on what we call kind of horizon one, horizon two innovation, rather than horizon three, the more out there, long-term innovation.

So I think it's a more cost effective, much more focused innovation programme to continue that drumbeat of new news to the consumer but not necessarily massive step change, at least in the short term, in terms of the product. So, you know, we think that what we've got today is good, we've got product lined up ready for the pilots. We have improvements in mind but focused on shorter-term evolution at this point in time. Stefan, you have anything to add?

Stefan Bomhard: No, I think that captures it very well. I think this rigorous approach, I think, is a very important one. And also, to be clear, I think we have to be humble. European consumers will decide about their NGP journey in the next five years. So I think what our plan signals to you: we'll start with the consumer, what is their preference? We do have offers and it's important that we actually match them up between what do consumers in a certain market want to have, what is the product offering from our side? But it's fair to say our analysis clearly shows that we see a stronger growth in heated tobacco than vaping in the European market footprint.

Nik Oliver: Great, thank you both, much appreciated. Thank you.

Stefan Bomhard: Yeah, thank you. Thank you, Nik. Can we move to the next question please?

Operator: Thank you. The next question comes from the line of Patrick Folan from Redburn. Please ask your question. Your line is open.

Patrick Folan (Redburn): Hi, thank you so much. NGP and I'm not sure if you addressed this earlier when the line was breaking up but, first, you're focus on heated tobacco in Europe: you mentioned a meaningful contribution by 2025. Is there any number you have in mind for heated tobacco by 2025? And then, in terms of modern oral, what is behind your decision-making with no further geographical expansion? Yes, it is a competitive category but modern oral, as we know, has the quickest payback for you to develop NG products, so I was wondering what your thinking behind that is? Thanks.

Stefan Bomhard: Okay, sure. Patrick, let me deal with the first part of your question, then hand it over to Murray on oral nicotine. It is very clear, we, at this point in time, wouldn't want to publish a number about what is our ambition for heated tobacco in the year 2025. I think we'll come back to this rigorous approach. It has to pass through the tests first. And only when we have met these success criteria will we scale up and work through that and I think that is the right approach, also, given our track record in this area. Murray over to you on oral nicotine.

Murray McGowan: Thanks, Stefan. In terms of oral nicotine, explicitly what we said in the presentation was no immediate plans for geographic expansion in oral nicotine. As we look to markets where we see a nascent version of the category today, it's clear that it takes a while for the category to evolve and develop. It's quite a different habit of nicotine consumption for the consumer versus cigarettes or vaping or heated tobacco.

So I think, for us, we'll – you know, as I said, we're not going to go into markets where we'll be creating a category, we will keep a close eye on development within category – within a category within Europe. And if we see opportunity, we will test and potentially go after it. But at this point in time, if you, especially, look at our key categories and our key markets in Europe, the category is so small and so niche, we don't think it's the right time for us to invest to help create the category at this early stage. Stefan?

Stefan Bomhard: Yeah and I think Patrick, this hopefully demonstrates to you the more rigorous approach, the fast-follower approach, the focus of Imperial of actually tapping into markets that exist, move away from the desire that we had sometimes in past trying to create markets. We don't have that skillset, to be clear. And this has led to the very significant investments that you would have seen in the past that have not been successful. So that is a very material shift in our NGP strategy that I think makes a lot more sense in the light of what our capabilities are and where we have a right to win.

Patrick Folan: Okay, thank you.

Operator: Thank you. And the next question comes from the line from Jon Leinster from Société Générale. Please ask your question; your line is open.

Jon Leinster (Société Générale): Thank you. Afternoon, gentlemen, a couple of questions. First of all, back to heated tobacco. Just to be clear, on the strategy, it sounded, from the comments, that the strategy seems to be led by the actual device having some advantages over other devices in the category. Is that correct or is it that the iD stick is interchangeable with the – you know, in an IQOS device, or is that both strands – different strands of the same sort of overall strategy?

Stefan Bomhard: Sure. Jon, first let us just explain. What we referred to is about – our product has some unique features. I mean one of them is clearly, you can have a lot more sticks consumed, as a consumer, with one battery load with our product than with the majority of other devices.

So I think what we want to refer to – and I think that's an important piece to understand our strategy going forward – is about – this is about making sure – identifying the consumer group out there, whether it's in heated tobacco or whether it's on the vaping side, where our product features, our marketing capabilities, our marketing communication is more relevant to them to a competing product.

So I think that's a philosophical change. the philosophical change is not to have the best product in the marketplace for all consumers. I don't think that is the right approach for where we are in our industry. But what is our ambition, which is exactly what we've done in our combustible business: finding a group of consumers where what we have to offer as Imperial is superior to what the competition has to offer, that's the ambition. It is not built on interchangeability, where, you're right, today our Pulze product, our iD product is interchangeable with another product from a competitor but that is not the key driver here. Murray, you wanted to add something from your side?

Murray McGowan: Yeah, I'd just emphasise, on the differentiation of the product, I think, you know, first and foremost it's an all-in-one product. It's simpler to use, we find, than competitor products. Stefan mentioned the charging time is quicker, the 20 consecutive smokes. And then the iD sticks themselves have a lower odour profile, which consumers tell us they prefer.

So we think there are points of distinction in the product. The important thing to bear in mind, as we go to market with this, the actual – going hard at the route to market and being clear on the execution and the focus on the consumer and how we bring the brand to life will be equally important for us in terms of how we think we can make a success of these pilots and hopefully eventually scaling up within Europe. Stefan?

Jon Leinster: Okay, thanks. I've got a second question, if I may? On the combustibles side, on the traditional side, am I correct in thinking that some of the investments and some of the opportunities that you see will involve brand repositioning and price cuts, basically to achieve sort of value status within the markets? Is that a key part of it?

Stefan Bomhard: It's one of the levers, Jon. But I want to be clear, we gave – we shared a whole set of tools. I think one reference that Joerg made in his presentation earlier today, one of the – when we looked at the past, what has gone wrong? It is very clear and I think that's a factual statement, our pricing strategy on some selective brands in the German market, increased the price cap of some of our brands versus the competitor reference to a level that has led to share losses. So, that is the fact, because we can track that in our data. I wouldn't necessarily read into that that you should do – that we'll reposition pricing of our brands.

What we wanted to impress on you is that we have looked, through the consumer lens, brand by brand, customer segment by customer segment, price segment by price segment and we have identified that there's quite a number of levers that we can pull in our core five tobacco markets to actually achieve a better market share position for Imperial.

So that should give you the confidence that what is the core of our five-year strategic plan, which is a better performance in our core five combustible markets, is actually well grounded in detailed plans but is also focusing on the strongholds of Imperial.

Jon Leinster: Okay, thank you very much.

Stefan Bomhard: Okay.

Operator: Thank you. And the next question comes from the line of Gaurav Jain from Barclays. Please ask your question.

Gaurav Jain (Barclays): Hi. Thank you for taking my question. Again, I had one question on interest expense. So, here's this £1 billion bond coming up for maturity in 2022 which has a 9% coupon. So, if you refinance it, that will lead to a massive interest payment. So that should drive your EPS growth in FY 2022, despite flat EBIT growth. Is that a fair way to think about it?

Stefan Bomhard: Okay, Gaurav, I pass this question to Oliver. Oliver, please.

Oliver Tant: Gaurav, thank you for the question. Over time we have obviously engaged, on occasions, in various interest rate swaps out of fixed, into floating and back again. So there is an element of us having mitigated some of these costs over time. Clearly, we would hope, over time, given the current environment to see both a reduction in interest charge from reduced levels of leverage but also we have a number of debt instruments that have been relatively expensive for us that were raised back in the financial crisis in 2007–2008, of which the one you refer is an example. And those are beginning to mature over the coming years and we would expect that to have a positive effect on our overall interest cost.

Gaurav Jain: Is it possible for you to quantify that, Oliver?

Oliver Tant: I think it would be dangerous to do that at the –

Gaurav Jain: How much as a percentage –

Oliver Tant: Sorry Gaurav, I think it will be a little dangerous to do that at this stage because we haven't replaced those debt instruments and we will do so over the coming 18 months or so and it will partially depend on the costs that are applicable in the market at that particular point in time.

But, as I say, I would expect our interest rate charge to reduce overtime, as a result of both the deleverage and an active attempt to reduce the coupon cost on the instruments we raise. There is – the other issue that we're obviously thinking about is the maturity profiles of our debt as well, which will play a factor in that judgment. And we will look at the entirety of those issues over the coming months and year to end up with the appropriate debt portfolio to meet the needs of the business over the coming five to ten years.

Gaurav Jain: Sure, thank you. Thanks a lot.

Operator: Thank you –

Stefan Bomhard: Next question, please.

Operator: – and the next question comes from the line, from Michael Lavery from Piper Sandler. Please ask your question. Your line is open.

Michael Lavery: Thank you, good afternoon. I just wanted to follow up on the 70–80% heated tobacco gross margin colour that you gave and I'm curious about a couple of things, partly to understand how your margins in the space could compare. When you say, on one of the slides, that it's in the top three markets, is that your top three, like, priority markets or is that the top three markets for heated tobacco as it exists today?

And then, also, I'm just curious: your price point assumptions that shape the 70–80%, is that current market pricing? And if so, would you expect to align your pricing with that as well?

Stefan Bomhard: Sure, Michael, I think the key piece – and I think it's – you picked up on one of the key themes. One, let's be clear. The key driver is consumer preference, and we're clearly observing, in a number of European markets, consumers are having a preference for heated tobacco. That's why the market is bigger.

But it's also very clear from a product perspective there's, structurally, a higher level of gross margin in heated tobacco products, which has to do with the fact – a smaller universe of competitors because you do need to have tobacco technology which we clearly have.

So our – I can't tell you whether the heated tobacco margin in two or three years' time would be exactly at this level but at – what I think we recognise: there's a structural reason why margins in heated tobacco, gross margins, should be higher. To be clear, we won't comment on our competitors, the important piece is we have seen some significant price discipline in this market in the past.

So I think we inherently believe, when you look at the things that we see happening in the marketplace, that the heated tobacco market over time will have a more attractive gross margin than actually the vaping market. And that has been the case for quite a period of time. The difference is that Imperial has not participated in the heated tobacco market, despite having a significant route to market in some of our key European markets.

Michael Lavery: That's helpful. And so, just to echo what I think you're saying, it's that you want to take advantage of the premium pricing and enjoy that for yourself, rather than trying to compete on price because of the dynamics of the consumer and this segment, is that fair?

Stefan Bomhard: I don't – Michael, just as you would expect, I will not make any comments, on our pricing strategy going forward. I think it's – I would just come back to the point: it's a structurally more attractive margin here.

Michael Lavery: Okay, thank you very much.

Operator: Thank you. And the next question comes from line from Jared Dinges from JP Morgan. Please ask your question. Your line is open.

Jared Dinges (JP Morgan): Hi, guys. Two questions from me please. So, first on NGP, can you please confirm your expectations on the NGP investment levels in the P&L, at least over your next year or two? I'm just thinking versus full year results back in November, when you guys talked about holding investments stable but now you're talking about investing behind US vapour and clearly the heated tobacco rollout in Europe. And I'll ask the second question after. Thank you.

Stefan Bomhard: Sure. It's – just the basic point is about the investment levels in the short term are not going to be materially different versus what was communicated before, because we're talking here about three pilot markets. So, just to reassure you, so that is not a material change. But again, that comes back to that rigorous approach. Before we would be scaling up behind this, we, as a company, need to be satisfied that the marketing mixes and the products that we have actually have hit our expectations and then we would roll them forward. Murray, you wanted to give more colour from your side here?

Murray McGowan: I think, Stefan, you answered right. And we're not expecting, in the short term, with the pilot market focus, a significant step up in investment levels. I think with – post those pilots, we'll have a much clearer view of the pace of expansion and the breadth of expansion, which – I think at that point we'll be able to communicate clearer targets to the market on the expectations of investment and on targets of what we expect in terms of returns or performance. Stefan?

Stefan Bomhard: And the only point which I will add, to the outer years, I think what is important to – it might not be coming clearly through. The strategic change away from building markets towards participating in markets that exist already would, when we look at it, lead to a different investment profile versus what we would have done in the past.

I think that's an important piece to understand. It's just the rigour on the one side but you are also going to participate in markets where, actually, you can already observe what the size is and what the level of investment is to compete in these markets. That is a different profile versus our investments in NGP in Imperial's past.

Jared Dinges: Got it, that's clear. And for the second one, can I push you guys a bit on the EBITDA target of the low end of two to 2.5 times net debt to EBITDA? I mean considering you guys do run a tobacco business, with very stable cash flows, do you really feel it's necessary, given your cost of debt versus your cost of equity, to be at the low end of that range or are you just being extra conservative there?

Stefan Bomhard: Let me kick off and Oliver will provide more detail. Now, number one, we have looked at all options. I just want to reassure you about this. But the fact is that what we expressed with the target range to you is the right level for this company and we have run a very efficient balance sheet in the past.

So I think it is a key part to allow us to get the flexibility that we do need as a business down the road. Oliver, you want to provide more detail here?

Oliver Tant: Yes, thank you, Stefan and thank you for the question. We need – I think we need to be mindful of the fact that we have always run, as Stefan said, a very efficient balance sheet in terms of quite high levels of leverage. We – our rating has been lower than some of our competitors given the sort of balance between business performance and leverage on our balance sheet.

I think it's critically important – and we've done a lot of modelling on this, we've talked and been through it with the board – that we maintain investment-grade status. And that – you know, that – in order to achieve that, we need, within our current rating, to be at the sort of – to be heading towards the lower end of that range.

I think if we deviate from that and have higher levels of debt, then we do run the risk of a downgrade at some point of time. And therefore, actually, that profile is important to us in terms of maintaining that rating. Now, why is that rating important? We will see step-up costs and access-to-capital restrictions if we went sub-investment grade.

Now, we're not in danger of that today because that we have been pretty steadfastly committed to that objective and therefore actually maintaining that steadfast commitment, I think, is an important commitment to the debt markets to ensure that we retain access to the opportunities that come from being investment grade.

And I think that – our models show that clearly is in the interests of our shareholder group, given the impact of that step-up cost and the restriction in available sources of funding that would come in the event that we were to see a downgrade. Thank you.

Stefan Bomhard: Okay, all right.

Jared Dinges: Thank you, that's helpful. Thank you, guys.

Operator: Thank you. And the next question comes from the line of Alicia Forry from Investec. Please ask your question. Your line is open.

Alicia Forry: Hi, thank you for the follow-ups and I'll be brief because I know it's late. Two questions: one, can you update on the Auxly Cannabis partnership? And secondly, picking up on Patrick's question earlier, on the role of modern oral for you, clearly that is very popular in the markets where you operate so you have a footprint advantage there. There's ESG angles that are favourable, with modern oral and the margin profile is quite positive, at least at gross margin level. So, just maybe if you could address a little bit more why it's not as significant an opportunity as some of the other categories.

Stefan Bomhard: Sure. Alicia, happy to address your both questions. On the question of cannabis and our indirect investment in Auxly, now number one, it's there. I think it's very clear. We looked at all options but it is very clear for us that, given how the cannabis market has developed, and also the footprint, where the market is actually legally accessible, the overlap with our current market footprint is not there. So there's an optionality about cannabis at a later point in time. But as we look at the facts that we have in front of us today, we see a bigger priority, to be fair, in our core business, in our core combustible business to focus upon and in the NGP options that we have between heated tobacco, vaping and oral.

Which brings me to modern oral: I think what is important to reassure you about is, in the markets where there is a modern oral market, which is primarily the Nordics markets and parts of Germany, Austria, Switzerland, these are focus markets for Imperial. And I think we're privileged, based on the past acquisition strategy of Skruf, to actually having, in several of these markets, strong positions that we have every intention to exploit. However, what is an important distinction: Imperial has not the ambition to build an oral nicotine market beyond the natural footprint of an oral nicotine market because our consumer observation is to switch consumers over, to a very different way of consuming nicotine is a very long-term effort.

And the skills that Imperial has built over many years is not a good suit for that. So, read into it, we are – oral nicotine is a priority for Imperial in the markets where there's an oral nicotine habit. And the only exclusion as Murray shared earlier, we do not foresee to enter the US market because, again, the entry costs we foresee here are not the right level for us. We've many other opportunities in our portfolio that I think we can more reasonably and more cost-effectively exploit. So, hopefully that gives a more complete answer on oral nicotine.

Alicia Forry: Yes, thank you.

Operator: Thank you. There are no more questions at this time. Please continue.

Stefan Bomhard: Okay. Well, first, a big thank you, to all of you, for some really great questions. And I apologise again for some of the challenges that we had with – with getting the questions across. Now, hopefully what you have appreciated. This is all – this strategy is all about running the business more effectively. It's a core focus on our combustible business and getting closer to our consumers. And hopefully what has come across also, there is a real focus on the core combustible business that we feel very comfortable to deliver. And there is optionality in our NGP portfolio but a much more rigorous approach versus what we would have done in the past.

So, thank you for staying with us three hours plus. I really appreciate it. We will update you on our strategy progress in the meetings to come. Thank you.