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Preliminary Results 2018

Good morning and welcome to our 2018 preliminary results presentation.

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Disclaimer

This morning I'm joined by Oliver Tant, Chief Financial Officer and Matthew Phillips, our Chief Development Officer… and in the front row by Dominic Brisby, Growth Markets Director, Joerg Biebernick, Returns Markets Director and Richard Hill, Commercial Director for blu.

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Creating Something Better for the World's Smokers

Creating something better for the world's smokers.

That's our purpose and it drives our focus in both tobacco and NGP, both internally and externally. It sets the agenda for an exciting future for Imperial.

It embraces our drive for continuous improvement in Tobacco Max – to provide a better experience for smokers with an evolving high quality tobacco portfolio.

And for NGP, this is about providing smokers with alternative products with lower health risks… delivering an outstanding experience underpinned by leading edge science.

Our strategy is fully aligned with our purpose… the focus hasn't changed but we have refreshed the representation of the strategy, to more clearly highlight our NGP ambition.

In Tobacco Max we're focused on the right brands, our Asset Brands, in our priority markets to drive quality growth. And we drive that growth through investment behind our codified Market Repeatable Model.

In NGP, our priority is blu… building blu as **the** trusted vapour brand… with a clear market prioritisation… supported by our blu adoption model and investment, to drive accelerated growth.

It's about delivering quality growth from both tobacco and NGP. It's about high margins and strong capital discipline, supporting investment and growing shareholder returns.

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Strategy Delivering Improved Performance

2018 was a successful year of delivery against our strategic priorities.

Net revenue grew 2%, with around 1% coming from tobacco and 1% from the success of blu.

We grew earnings per share by 5%, whilst increasing our investment in NGP and following a step-up in tobacco investment in the previous year… and we delivered another year of 10% dividend growth,

The additional investment over the last two years behind our TobMax strategy has delivered volume outperformance, with an increase in our overall market share.

We've delivered high quality growth, with two thirds of our revenue coming from our strongest equities... and have continued to make clear choices to balance financial returns with volume progression, depending on the market dynamics. Increased investment behind our MRM, has delivered share gains or improving share trends in many of our priority markets, with our Growth Brands gaining share across all divisions.

We said 2018 would be a step-up year for NGP – and it **has** been, as we've focused on building sales of blu.

We've significantly expanded the portfolio and rolled out *my*blu across new and existing markets, building distribution through the second half and starting to leverage our blu adoption model. We've delivered strong growth in the pod repurchase rate, reflecting a positive response from smokers and vapers.

We doubled sales in the year… with much of this in the second half supporting an annualised exit rate of £300m, building momentum for accelerated growth in 2019 and subsequent years.

To support this acceleration, we have some exciting brand building activities planned for this year, aligned to our blu adoption model, which will add about £100m to our A&P in the first half.

We've also built a strong pipeline of innovative products in vapour, heated tobacco and oral nicotine delivery to further drive smoker conversion levels..

Importantly, we have a clear route to profitability so NGP can begin contributing to profit as we exit 2019, with margins continuing to build thereafter.

Strong cost and capital discipline are always front of mind… and 2018 was another year of good progress. This discipline also reads across to our NGP approach and our capital light, returns-focused model.

Our cost and cash delivery has been strong with another year of debt reduction of £0.8bn at constant currencies… our balance sheet is in good shape following our USA deal, with our gearing now below 3 times.

We announced at the interim results, that our strategic focus has also identified opportunities to actively reallocate capital. We realised £280m of proceeds from asset disposals during the year – and we are making good progress on other divestments to free up capital and streamline the business. When we are able to provide further detail, we will.

All-in-all… a successful year where all the elements of our strategy have contributed to our results… building momentum going into 2019.

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Delivering Our Strategy

I'll hand over to Oliver shortly to take you through the financial results in more detail. I'll then cover how we are delivering our Tobacco Max strategy – with Dominic and Joerg providing some market colour. I'll then update you on our progress in NGP.

So first of all… Oliver and the numbers…

Oliver Tant

Thank you and good morning everyone.

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Summary Financials FY18

These results demonstrate further delivery against our strategy in both NGP and Tobacco Max.

Net revenue grew by over 2% at constant currencies, with around half coming from tobacco and the other half from NGP.

Overall, our NGP business delivered £200m of revenue in the year and an annualised exit rate in September of £300m

EPS was up 5% at constant currency driven by revenue growth, a better contribution from Logista and lower financing and tax charges… and **after** the additional investment into NGP. At actual rates, EPS was affected by a 3.1% currency headwind.

Our focus on cash has delivered another strong performance with a similar debt reduction to last year of £0.8bn at constant currency… this is **after** higher restructuring cash costs, the additional NGP investment and the impact of Palmer & Harvey earlier in the year.

This strong cash performance underpins another year of 10% dividend growth.

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FY18 Net Revenue

Our volumes declined 3.6% in the year, outperforming an industry decline of 5%.

As expected, we achieved a stronger price mix in the second half across a wide base of markets, which more than offset the volume declines. Our full year price/mix of 5.7% was also boosted by the growth in our NGP revenues.

Overall our revenues grew by 2.1% at constant currency, with average FX rates impacting the actual rate numbers by 2.4%, due to the weaker US dollar more than offsetting the marginally stronger Euro.

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Quality Growth in all Divisions

If we now look at the divisional performance.

Asset brand net revenue and Growth Brand share increased across all divisions, with Growth Brand share up another 70 basis points.

Growth Markets benefited from strong growth in NGP, particularly in the second half – with net revenues up over 17%. Excluding NGP, Growth Market revenue was also up.

Our US business continues to perform well, with further price/mix gains in cigarettes and mass market cigars.

In Returns Markets, price increases in several key markets, such as Germany and Australia, supported a 1.4% increase in second half net revenue, despite the pressures in Returns South, driven largely by France.

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FY18 Adjusted Operating Profit

Our Group adjusted operating profit grew 2.9% at constant currency.

However, excluding three previously guided items, our underlying growth rate was almost 6%.

Firstly, the increased NGP investments, which were slightly below our guidance at £44m.

Secondly, transactional FX, driven primarily by USD leaf purchases, affected our cost of goods by £34m.

And lastly, other gains included in operating profit were £80m, £34m lower than last year. These included £40m profit from the sale of other tobacco assets in the US and £40m from the sale of property in the UK. You should assume we can generate similar gains of between £50 and £100m in FY19 as we continue to monetise low return assets and manage our liabilities around the Group.

Logista improved profits by £40m, reflecting a stronger tobacco performance against a tough comparator, further development of their non-tobacco business and a continued focus on cost control.

Overall, a good underlying performance.

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Strong Capital Discipline

2018 was also another good year of cash delivery.

Our cash flow from operating activities benefited from higher operating profits and lower cash tax payments. This was achieved **after** restructuring cash outflows of £241m and £78m from the P&H write-off, where we worked closely with the administrators to successfully reduce the final impact.

You can see we delivered cash benefits on interest, capex and from the proceeds from the Logista share sale.

Overall free cash flow increased by £207m, more than offsetting the cash outflow from the dividend growth and enabling a slightly higher debt repayment this year.

This resulted in a net debt to EBITDA ratio of 2.9 times.

Our cash conversion rate of 97% benefited by about 2% from the timing of some working capital benefits at Logista.

Looking ahead. we expect cash conversion in 2019 to be slightly below 90% due to a reversal of this Logista benefit but primarily due to additional working capital to support NGP growth.

In addition, to avoid any potential supply disruption that might arise with Brexit, we will be building around £30m of contingency stocks in the first half, which we expect to unwind by the year end. This is part of our broader contingency planning across several areas including manufacturing, supply chain and tax.

Our capital discipline is supporting our ability to invest, reduce debt **and** deliver growing returns to shareholders.

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Cost Discipline

We maintained our focus on cost control – with a further £110m of annualised cost savings this year.

Our first cost optimisation programme is now completed, delivering just over £300m of cumulative savings as planned.

The second programme is due to run up until 2020 and has now delivered £180m of cumulative savings with £120m to go. We expect around £80m of these savings to be delivered in 2019 with the balance of £40m to come in FY20.

These savings support improving tobacco margins and our investment in NGP.

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Segmental Reporting Changes

We previously announced our intention to change our segmental reporting in 2019.

The additive growth opportunity we see in NGP means that our historic segmental descriptors of Growth and Returns are no longer applicable.

We will therefore move to a geographic split of the business with three tobacco and NGP segments being Europe… Americas… and Africa, Asia & Australasia with a fourth segment, Distribution, for Logista.

The three geographic regions will include all Tobacco and NGP activities in that region, reflecting the market responsibility for both areas.

At the same time, blu – currently a Specialist Brand – will be reclassified as a Growth Brand… and we will also make some other minor brand reclassifications.

In addition, we'll be implementing some accounting changes for 2019 including the adoption of IFRS15, which affects payments we currently make to customers for promotion, listing or distribution activities they perform on our behalf. Those that are currently booked as cost of sales, will be moved to be a deduction from net revenue.

With the adoption of IFRS 15, we've also reviewed payments under the Master Settlement Agreement in the US, which are currently **deducted** from net revenue. With IFRS 15, these payments will be deducted **from cost of sales**. The overall impact from the adoption of IFRS 15 will be to reduce net revenue by just over £30m but it does not affect operating profit.

These segmental and accounting changes are set out in the appendices with the 2018 financials restated so you have the comparators for 2019 reporting. You can also see other aspects of our guidance on tax, interest and FX in the appendices.

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FY19 Outlook

Looking to the year ahead… we will continue to prioritise quality growth and expect our tobacco business to deliver continued modest revenue growth reinforced by the embedded pricing we achieved this year.

Together with ongoing efficiencies, this is expected to deliver tobacco margin progression and strong cash flows.

In NGP, we expect to deliver an acceleration in revenues as we build on the momentum achieved this year. In aggregate, we expect to deliver constant currency revenue growth at, or above, the upper end of our 1-4% guidance range.

Our guidance for constant currency EPS growth of 4-8% remains in place. However, we have been so encouraged by the performance of blu, we will be investing an additional £100m in the first half in brand building and consumer activations. This will result in slightly lower year-on-year adjusted operating profit in the first half, which will be **more than** offset by a stronger second half to deliver full year growth.

We have clear levers to drive profitability in our NGP business and we expect it to contribute to Group profit as we exit 2019, with margins continuing to build thereafter.

Thank you. I'll now hand you back to Alison

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Strategy Delivering in NGP & Tobacco

Thanks Oliver.

We've made significant progress across all areas of the business in 2018.

I'll come back to NGP shortly but let me first cover Tobacco Max where our focus on quality growth is delivering share gains and strong financial results.

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TobMax Strategic Focus, Informed Choices

In Tobacco Max… we are making clear investment choices to optimise performance and deliver the best returns with a focus on our priority markets. We're investing behind our strongest equities aligned with our MRM, our codified route-to-market model ensuring consistent execution across our footprint.

And we're supporting our top-line growth agenda through lean ways of working and an efficient operating model.

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Tobacco Max: Growth Brand Focus

Our Growth Brands are outperforming the market and have grown share by around 80 basis points a year since 2013.

We're generating quality growth, deriving a significantly higher portion of our revenues from our strongest equities. Our Asset Brands now represent over two thirds of our revenues – up from a half in 2013.

Our focus on the right markets with targeted investment is delivering improved share trends and financial delivery– supporting improved Group performance.

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Asset Brands: Creating Something Better

As well as focusing on the right brands, we are also focusing on the right formats.

For example, formats such as queen size are the fastest growing in Eastern European markets. Davidoff Reach has now been launched across 14 markets and in Russia, queen size has been the key growth driver of Parker & Simpson doubling its share this year to 2.7% of the market.

The trend for crushballs has been growing globally for a number of years and, although these products won't feature in the EU from 2020, there are growth opportunities in West, Parker & Simpson and Davidoff in Eastern Europe and Asia. For example, we have achieved very strong growth with Parker & Simpson crushball in Russia and we recently launched West Purple in Taiwan.

We're continuing to rollout our Parker & Simpson and JPS ranges in Western and Central Europe with lighter tasting tobacco blends and new filter formats…. and we're launching larger fine-cut and cigarette formats as demand for value grows.

I'd now like to hand over Dominic and Joerg to share some more insight into how we're performing in our priority markets.

Dominic…

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Market Performance: USA

Thanks Alison.

We've had an excellent year in the US.

We've grown share in Winston, Maverick and Kool and our overall share trajectory in cigarettes continues to improve – with a reduction of just 6 basis points in the full year, versus around 30 basis points historically in FMC. Our fourth quarter share was also higher than it was last year.

Having annualised the impact of the increase in California state excise, industry volumes in the second half were 1% better than the first, and now declining by around 4.6% in the year.

Price/mix has been strong throughout the year with cigarette pricing up around 8 percent on our portfolio.

We made some clear portfolio choices to prioritise resources behind Winston and Kool with meaningful investments in equity building and consumer activations – and with a focus on Maverick in the discount segment.

In the rapidly growing deep discount segment, we've been active with two of our non-strategic brands, Montclair and Sonoma. Sonoma in particular is performing well.

Mass market cigars have had another fantastic year with revenue up almost 20 per cent, and overall share up 20 bps. Backwoods has been especially strong and is now above 7 per cent share, an increase of around 150 basis points this year.

Overall we've delivered a particularly strong financial performance, driven by the right assets.

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Market Performance: Russia

We've also had a very good year in Russia, performing well on all metrics.

While an increase in illicit has driven a decline in market volumes, we've achieved a good level of pricing

Portfolio investment behind key demand shifts and in key accounts has seen us achieve another year of share growth and strong financial delivery.

Market share is up 90 basis points, driven by queen size and crushball formats in both Parker & Simpson and Davidoff

Davidoff Reach, our most recent launch, is showing great potential with crushball mint and berry flavours performing well.

Our investment is focused on key accounts, which have grown significantly over the past three years and now represent over a third of our volumes. Our key account focus has driven increasingly strong distribution levels for our brands, supporting our strong share growth and financial performance in the market this year.

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Market Performance: Japan, Saudi, Italy

The Japanese combustible market has continued to see double digit volume declines in 2018, driven by the growth of heated tobacco, and against this backdrop we have grown share, increasing volumes by 5%.

We've made further distribution gains in the convenience channel and West has grown share by 20 basis points

Our recently launched zero nicotine variant of *my*blu also continues to perform well.

In Saudi, last year's excise changes effectively doubled retail selling prices, which has had a significant impact on the size of the profit pool. The associated shift from premium to value brands benefited West which grew share, particularly in the first half.

Although the market remains somewhat volatile from a regulatory perspective, we are focused on driving our Growth Brands - Davidoff and West - and leveraging the MRM, particularly in ensuring we have the right brand initiatives and distribution.

We had another good year in Italy. Our share was up by 40 basis points and is now over 5 per cent following another good year for JPS, which exited the year at over 4 per cent of the market.

Overall, Growth Markets have had a good year, delivering increased revenues and share growth. I am particularly pleased with our strong US performance and our share growth in the last quarter.

Thank you. Let me now hand over to Joerg.

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Market Performance: UK

Thank you Dominic and good morning…

We had a strong performance in the UK, delivering share growth for a second consecutive year, with Asset Brands now accounting for 75% of revenue. Our investment focus enabled us to extend our overall market leadership, with our growing presence in the crushball segment supporting the number one position of Players in FMC, alongside further success in FCT, where Gold Leaf has grown 150 basis points year on year.

Financially, we improved our performance significantly, having lapped the impact of EUTPD earlier this year. Industry volume trends have improved and we increased prices in April, which delivered substantially stronger price/mix in the second half.

Commercially we are committed to winning in the critical key account channel. Over the last few years, we significantly stepped up our investments into those important relationships and built capabilities. So, it is satisfying to see that we were ranked number two only to Procter & Gamble in a recent independent customer survey.

Finally, we were able to successfully launch *my*blu, which is now available nationwide in 95% of top tier key accounts.

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Market Performance: Germany

Germany had another excellent year, delivering strong top and bottom line growth, with Asset Brands now accounting for 83% of revenue. Margins have improved 240 basis points year on year, with good pricing and an ROI focus on investments. We have increased investment in key accounts, gaining a higher proportion of distribution and shelf space, optimal brand positioning and exclusive digital point-of-sale.

Our portfolio strategy has focused investments behind growing demand shifts, including larger value-oriented formats and lower nicotine variants in both cigarette and fine-cut. These choices resulted in significant share growth in fine-cut, particularly from West. In cigarettes the growth in JPS and Davidoff was offset by Gauloises and legacy brands – something we are addressing going forward.

Regarding NGP, we launched *my*blu in 3 cities in April. Results are pleasing with more than 2 million consumers reached through our activities.

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Market Performance: France, Australia, Spain

France has been a more challenging market following the implementation of a government excise plan to increase cigarette prices to €10 per pack by 2020. As expected, this has resulted in a decline in the profit pool, particularly as some of our competitors did not pass on the excise increase.

We did pass on the excise and, whilst this price ladder compression did affect our volume share, we were able to grow our value share by 70 basis points as a result. Moreover, it is reassuring to see market volume and share stabilising in the last quarter.

The changes to tobacco regulation and excise are supporting a growing vapour market, so we are prioritising the roll-out of *my*blu. Initial results are excellent, as we already command the number one position in device sales in tobacconists.

In Australia we again achieved strong growth in revenue and operating profit, whilst at the same time consolidating JPS as the leading brand in the market. A lower price tier has emerged where we have positioned Parker & Simpson and Horizon, which contributed to our move back to stable share in the last quarter.

In Spain, we've delivered further improvement in our blonde share trend following investment in larger value formats, including Fortuna and West super kings. These initiatives, together with a 200 basis point improvement in our fine-cut share performance, have strengthened our overall share trajectory… this, combined with diligent cost control, supported our stronger profit delivery.

Overall, this was a strong performance in Returns Markets with good momentum in the second half, and a growing NGP platform as we start 2019.

I'll now hand back to Alison.

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Delivered FY18 step-up

Thank you Joerg.

Before getting into the detail of our NGP performance, I'd just like to underline that whilst NGP represents a genuine opportunity to create something better for the world's smokers it is imperative that the sale and marketing of NGP is handled the right way.

These products are for adult smokers only. Minors should never use tobacco or nicotine products and we fully support the FDA's desire to eradicate underage sales.

We recently had a very constructive meeting with the FDA and we will continue to work with regulators and governments to ensure that the right framework is put in place to support the conversion of smokers to less harmful products.

2018 was the year we stepped-up our NGP activities, driven by the successful roll-out of *my*blu across new and existing markets. *my*blu has received a very positive response from smokers, vapers and retailers, which is reflected in the growing pod repurchase rate.

We have built a comprehensive vape portfolio, solving for smoker satisfaction with significant learnings that will continue to improve our scalable blu adoption model. We made substantial progress with our exciting innovation pipeline, underpinned by leading edge science…. and we have a hugely energised organisation behind our ambitions…. all focused on accelerating our NGP growth as we move into 2019.

We gave further details at our capital markets day in September… but here is a brief reminder…

NGP is a significant additive opportunity for Imperial – on top of our tobacco business – leveraging a unique combination of assets and competencies. We have clear levers to drive both sales and profitability… with NGP beginning to contribute to Group profit as we exit this year and building thereafter.

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Additive Growth Opportunity

The growth potential of NGP and the extent of possible cannibalisation of our existing tobacco business are two questions we are often asked.

The NGP potential is big… we expect the global retail sales value of vaping to grow significantly, supported by a growing public health agenda in favour of these reduced risk products. We are initially prioritising markets that together have a retail value of over $30 billion.

And for Imperial this is easily additive given our relatively small global tobacco share… we have around a 14% share in our tobacco footprint… So 86% of smokers aren't currently smoking our brands.

And the economics of vaping are attractive for both the smoker and us. It's a more affordable option for smokers across most markets… but we make more net revenue per pod than we do for 20 cigarettes…. And we have the levers to improve profitability over time.

We've also modelled the impact of cannibalisation across the two largest vaping markets… In the USA, where we only have 9% tobacco share, we expect to source mainly from smokers of other companies' brands so cannibalisation is not really an issue.

In the UK, where our tobacco market share is more than 40%, cost of goods efficiencies already underway will deliver an absolute gross margin contribution per pod that exceeds an average pack of 20 cigarettes by the end of 2019. So even in one of our highest margin cigarette markets like the UK, sales of blu pods will be gross margin accretive.

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Momentum in Largest Vapour Markets

We've been rolling-out *my*blu across a number markets, offering smokers an excellent vaping experience in a convenient format.

This has included national rollouts, where we are building distribution in both traditional retail and vape stores, supplemented by targeted city tests as we develop our blu adoption model.

The US & the UK were our first market priorities and momentum is building in line with our plans… particularly encouraging is the 500% increase in weekly pod sales we've achieved in both markets since launch… reflecting a strong repurchase rate in these two important markets.

As Joerg mentioned, the tobacco dynamics in France will only encourage more smokers to seek alternatives and we have been building awareness and distribution through the tobacconist channel with encouraging share development.

We have also invested in Japan, Russia, Germany, Italy and Spain, building learnings ahead of accelerating growth in 2019… and we will be launching in more markets in 2019.

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Dynamic Innovation Supports Smoker Conversion

We are focused on creating something better for smokers. In NGP we are leveraging our smoker insights to create an exciting innovation pipeline and we've made great progress in 2018.

This included the roll-out of *my*blu Intense, a nicotine salt product that more closely replicates the experience and satisfaction of smoking a cigarette, adding to the broad range of nicotine levels we offer, including a nicotine-free variant.

And we are working on further enhancements such as connectivity and 3D flavour, which will provide further smoker satisfaction to encourage not only conversion but also retention...all endorsed by a trusted brand in blu.

And, while we believe the biggest opportunity lies with blu, we've also developed products in the hybrid, heated tobacco, and oral nicotine categories to give smokers even more choice.

Earlier this year, we launched Skruf tobacco-free pouches in several markets… with encouraging share gains in a fast growing segment in Norway and Sweden.

We have also developed, Pulze, our heated tobacco product... We've taken our time to listen to smokers and address frustrations such as portability, ease of cleaning and the ability to enjoy consecutive experiences, without needing to recharge. We are looking forward to a launch in the first quarter of calendar 2019.

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Clear Levers to Drive Profitability

So we have a clear focus on solving for the smoker, but what about the financials?

Here we have clear levers that we can control to drive improved profitability and target margins similar to tobacco in the medium term.

The first of these is cost of goods, which we are reducing through scale and innovation… including enabling automation… all of which contribute to a significant unit cost reduction.

And as we build blu, we also expect to see some normalisation of trade margins and will capitalise on our omnichannel distribution strategy to reduce route to market costs.

Also, as we scale, operating leverage will improve our overall margins as our fixed cost base supports higher revenues… A&P will also normalise following initial market launch investments.

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Building Blocks in Place; Accelerating in FY19

In 2018 we have stepped up our NGP activity, ready to accelerate growth in 2019… we have a great portfolio of assets and are leveraging the key competencies from our tobacco heritage alongside new capabilities.

We are delivering a compelling proposition for smokers…. a satisfying, less harmful experience, endorsed by a trusted brand in blu and available where smokers want to buy it. We are improving that experience through innovation underpinned by leading edge science and regulatory capabilities… and we support a regulatory framework that protects consumers and prevents youth access.

In terms of the proposition for shareholders, it's about a substantial revenue opportunity for Imperial…. delivered by a lean and scalable business and supported by an asset efficient, returns focused, model.

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Creating Something Better for the World's Smokers

In conclusion… we have a clear purpose to create something better for the world's smokers… and we are making clear choices to ensure resilient delivery from our tobacco business whilst realising a significant additive opportunity in NGP… both top and bottom line as profitability improves.

Our ongoing focus on cost control and cash conversion ensures we have the funds to invest behind our ambitions… And we are active managers of capital, with clear investment priorities behind both tobacco and NGP and an agile, asset light approach to emerging growth opportunities… whilst also targeting divestments to streamline the business and free-up capital. This will support continued debt reduction, further investment and growing shareholder returns.

This has been another strong year of value creation by the Imperial Brands team globally many of whom are watching this presentation… a big thank you everyone!

We have a strong foundation for the next chapter of Imperial's growth story… these are exciting times… and we have the strategy, assets and capabilities to generate growing returns for shareholders.

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Preliminary Results 2018

Thank you. That concludes today's presentation and we'll now take any questions.

The presentation is being webcast so please wait for a microphone and give your name and organisation before asking your question. May I have your first question?

Q&A

John Leinster (Berenberg): On the extra £100 million, could you give some detail as to – first of all that's – you seem to say it's all in the first half, secondly how does that break down in terms of new geographies? Are there some markets where you've just launched into, where you actually need to expand quite quickly, or put extra A&P in? Obviously, there's the – online marketing which is a relatively new area and also the new products that you are talking about. So, broadly speaking, therefore, are you indicating that there's going to be a series of new geographic and product launches all in the first half and just the sort of breakdown between that and existing markets.

Alison Cooper: Okay, I'll pass it across to Richard in a second but the answer to all of those points is yes, to some degree. Some, clearly, are smaller than others in terms of the mix. There's no doubt a significant focus on the markets that we've already launched into in 2018 but there will also be some additional market launches that are supported during the year. But the balance is more to the markets that we're already in and how we're going to take that forward. Maybe Richard can pick up on it but also linked to a lot of the work we did to really analyse how to spend this money in 2018.

Richard Hill: No, absolutely. As Alison said, the lion's share is going to be going in the core markets, where we're currently trading. So it starts with the US, UK and into our European markets and Japan. We're investing behind the four Bs model; we talked through that in the investor day last month, so that's *believe, buy, buy again and belong*. The focus in the first six months is very much in driving awareness and that's in our advertising but also through new media right through the line, then also in building distribution, so a big distribution push. We're in 100,000 points of sale so far and growing fast, but also in buying, critically, trial with consumers. We know if we get myblu into the hands of consumers, they get to try it, they'll purchase and purchase again. And so in the first six months it's very much on building awareness and driving trial.

John Leinster: Sorry, just a supplemental. I was wondering, with the Nixx product, have you actually had Japanese Ministry of Finance approval for that product to be launched into the Japanese market yet, because it's quite an unusual sort of hybrid?

Richard Hill: We're in discussions with them at the moment.

Adam Spielman (Citigroup): A couple of questions: first, following directly on from John's, in your slide pack you helpfully say that your pod sales are up 500%. That's sort of meaningless because it comes from a low base. So can you give what you would expect to see, if you took today's spot rate and in 12 months' time, or let's say September 2018 versus September 2019, what sort of growth trajectory would you expect in the UK and the US? Are we talking 20%, 50%, 100%, I mean if you have to guess?

Alison Cooper: I think, to put this in context, you may remember Oliver's chart from the capital markets afternoon where we looked at the construct of what components would make up the upper end of our incentive target for 2020, which is the £1.5 billion revenue number. Within that we assumed two to three pods per vaper within that model and that's really what we're tracking towards and looking to move towards in the markets where we've launched a longer time ago, such as the UK and the US and both of those are tracking really well against our plans to get up to those levels and so we're doing well with that. So the 500% is a meaningful number because it's actually representing the growth we were looking for to get towards that two to three pod consumption level for those smokers.

Adam Spielman: Two to three pods, how many – I mean – how many consumers, asking for such specific forecasts is – you're not going to give me, or you can't give me, or you don't know. Can you give some realistic run rate of what you've done recently? I sort of do think putting 500% up there is a bit ridiculous, I suppose.

Alison Cooper: Okay, alright. Do you want to comment, Richard, on the USA in particular? We won't pick up on every market but let's just pick up on the USA.

Richard Hill: Just on the last month since we last met and we talked at the investor day, our scan data, which is public data from IRI, shows that our US month-on-month sales have increased by 11%. If that were to continue, which we think it will for the next year or two years, then we will be in the upper end of the forecast we presented to you last month.

So, just to give a sense, there are already over 4 million devices in circulation in the US, just to give you a sense of the scale of our business.

Alison Cooper: I think Joerg you can pick up on the UK quickly as well.

Joerg Biebernick: I beg to differ on one thing, that it is not really a meaningless KPI. And I'm sure you don't really mean that anyway because when you have an FMCG, a CPG launch, whether or not you have a winner on hand can usually be seen within the first two months. I've hardly ever seen – and you can check that with IRI or Nielsen, any initiative that was a dog in the first two months and then turned into a rock star.

So when we see this exponential growth of weekly, accumulated, pod sales in the UK, that's a very good indicator. It's not the only KPI; we also look at, for instance, pods to device sales, which we expect to go up over time. And it's nice to see that when we have started, in the first two months we had only four pods per device sale, which is normal when you do a trial and now we're already exiting with six. Now, obviously, we're not going to stop there; our forecast is exponential and we're not going to go into details here but I think these are actually very meaningful numbers to look at and indicative of a very strong start.

Adam Spielman: Okay, thank you, moving on, I'm intrigued about your first half, second half guidance for 2019. Given that all your pricing was in the second half of 2018, one would naturally imagine that the 2019 would be biased towards the first half, particularly on pricing, particularly on profitability and yet that's not what you've guided to. So I'm just wondering if you can talk about why that – beyond the NGP investment why it isn't more first half biased in 2019. And also, are you assuming a further acceleration in pricing in the second half of 2019? So, I hope that's clear.

Alison Cooper: Okay. Oliver, are you good with this one?

Oliver Tant: You're right to say, obviously, we have a carry over from the second half; we had significant price mix benefit in the second half, over 11% in aggregate, 8.1% I think broadly from tobacco. We'd guided to about 8% at the half-year, so significantly better performance, and that does carry over, in part, into the subsequent trading period i.e. H1 2019. But we also need to be aware that we're rounding a number of other factors. We had particularly strong volume performance in the first half of 2018 and a slightly weaker volume performance in the second half. And the strong volume performance, obviously, in the first half provides a stronger comparator when we're looking at the volume numbers, which have an impact as well.

We had a number of specifics in the first half of FY2018, events that occurred that we're now rounding, so we had sort of slightly tougher environments in places like Saudi and France that impacted us, that are therefore affecting that underlying tobacco comparator. But when you reverse out the impact of the additional investment in NGP, you still see quite strong FY2019, H1 underlying tobacco performance.

Alison Cooper: Yes and top line.

Adam Spielman: And top line. And just very quickly, what are you assuming about the sort of second half trajectory of growth – sorry, of price for this coming year, fiscal 2019?

Oliver Tant: Well, in second half terms we're clearly assuming that we end up, in overall terms, with about the same standard guidance around the sort of 5% price mix. So over the duration of the full year we're expecting price mix to be broadly in line.

Alison Cooper: Alright, okay.

James Edwardes Jones (RBC Capital Markets): How do you see the competitive environment in the NGP – well, in the vaping sector – developing compared with combustible tobacco? And the other one is you're putting an extra £100 million into A&P behind NGPs; is this a capability that already exists within Imperial, or are you having to buy in some of that capability, given, obviously, that A&P hasn't been one of your key drivers, historically?

Alison Cooper: Okay, let's pick up on the second question first. The £100 million is around spend behind the brand in markets, which, as we alluded to earlier, we've done quite a lot of work in 2018 to really look at how do we get smokers to adopt blu? So what do we need to do for awareness? What do we need to do for trial? What do we need to do to really make them become a loyal user of that lifestyle brand? So the £100 million is going behind all those activities, as Richard spoke about earlier.

Aside from that, there has been a ramp-up in capability in certain areas in the business over the last few years. I spoke about the NGP capital markets session about the fact that we have some really important competencies within our tobacco business that we're leveraging to drive NGP, but at the same time clearly there are some additional capabilities we've brought in. We've upped our innovation capability, plus we've added Nerudia into the mix with that as well. We've upped our capabilities in a broader marketing sense as clearly we had quite a constrained environment, from a tobacco perspective, historically. So there have been pockets of capability; digital, for example, has been quite an important area too but the £100 million isn't reflecting that capability build, which has largely happened; it's reflecting spend behind the brand in 2019.

So that's that particular point. In terms of competitive environment, this is quite live, really. I think maybe Matt can talk a bit about the regulatory developments here but we have been very focused on how we carve out an advantage in this space through the assets and capabilities that we build. And as regulation develops in this space as well, I think we will very much see the competitive environment evolve in line that regulation as well, as we get people to stand behind their products a lot more, which is essential when you're wanting to move smokers from combustible cigarettes to something better.

Matthew Philips: Yeah, I would back that really. I mean the numbers of people playing in the vaping space, I think, are going to reduce fairly substantially and the kind of assets that one needs range from brands to omnichannel capabilities, to deep scientific capabilities, as Alison was just talking about, the ability to operate at scale, deep understanding of patents and intellectual property more broadly. And the numbers of players in the industry that are able to do that are not that great. So, as regulation continues to tighten and manufacturers are required to stand behind their products, I think the numbers are going to dwindle significantly. So I mean to pick up on Alison's point, there's a live debate – and I'm sure I'll get asked the question in a minute about – with the FDA in the US at the moment and they are very, very focused on – and are supportive of how do we off-ramp smokers into the vaping category but yet protect against the on-ramping of non-smokers? And when you stand back and you think about what's the impact of that? I mean you're going to have to have a great brand. You're going to have to have a diverse product portfolio. You're going to have to have scientific capabilities. You're going to have to have an omnichannel route to market. So the kind of things that we bring are very aligned with being able to protect against the on-ramping risk that the FDA foresee at the moment.

Owen Bennett (Jefferies): Hello. Morning guys, a couple of questions a couple of questions on the combustible business. Firstly it looks like you've underperformed the industry in the second half. I was just wondering where you're seeing market share pressures perhaps pick up. And then secondly, on mix in the US, with your moves into the deep discount, I was just wondering, especially if that continues to get traction, what sort of manufacturer take have you got on those deep discount brands versus, for instance, a Winston and a Kool? Thank you.

Alison Cooper: Okay, second half volumes were more in line with the market. I think that reflects some of the pressure we've had particularly in France on share, which was a decision. It was a choice that we didn't want to absorb the excise and therefore we passed that on, so share in France has been under pressure in the second half and also some of the continued pressures, clearly, from Saudi, where our share has also been under some pressure in the second half and we're addressing that as well. But overall it was in line but there were a couple of markets effectively – in fact one that I don't like to mention again but it was Ukraine as well. Ukraine is still not great from a share perspective or a volume perspective as we make choices for profitability in that market but it is quite a large-volume market and therefore affects the numbers.

So those are probably the key drivers. Overall I'm very happy with the progress in priority markets. As Dominic highlighted, the US in particular fourth quarter is coming strong and with share growth, which will come back to your next question and the progress across a number of markets is continuing the momentum through into 2019.

On the mix in the US, I don't know whether Dominic wants to pick this up at all but I mean deep discount is around – it's happening in around 30% of the market, the non-EDLP part of the market. We are active with Sonoma and Montclair but at the same time very focused on driving the growth from Kool and Winston and also you hear Maverick is performing well as well. So I think it's a dynamic we need to manage but at the same time I don't see it as a particular risk on our US business. We already get a disproportionate price impact on our portfolio versus the competition because we have a lower-price portfolio generally to the market. So as we take the same absolute price increase it's a bigger percentage benefit for us. Yeah. And I've probably said everything about that now, haven't I, Dominic?

Dominic Brisby: I mean I think it may just be worth adding – so this year, all our sub-premium brands, which are present in EDLP outlets, the ones we were really focusing on we managed to grow, so we grew on Winston, we grew on Kool and we grew on Maverick. But there is still quite a big part of the market, which is the non-EDLP stores, where volumes are growing quite significantly and also where certain brands are growing quite significantly where we weren't really present. So having taken quite decisive action on Montclair and Sonoma, we ought to put ourselves in quite a good position in both parts of the market, so in the EDLP part of the market and in the non-EDLP part of the market. So it bodes quite positively, I think. And if you look at our absolute share trend, of course, the brands that we acquired – before Imperial acquired these brands in the US, they were declining quite quickly. Since we acquired them, until this year, they were declining in absolute terms by about 30 basis points a year and this year they've declined by only six basis points but the brands we've really focused on have managed to grow. So actually also taking part in the non-EDLP section of the market makes eminent sense when you look at the opportunity to grow share there as well.

Nico von Stackelberg (Liberum): Hi, I had a quick question: you mentioned the pod repurchase rate. Could you please specify your pod repurchase rate and what is that relative to your peers, please?

The next question is on A&P spend for next-generation products. I understand a big expense line that's more discretionary in nature is listing fees. Can you discuss when do you see that normalising and when do you have more annual-related discussions with your retailers? Is that a catalyst for margin improvement? Because when I talk to vapour entrepreneurs they say, 'Wow, these big tobacco guys, they spend a lot on listing fees compared to what we do,' and so why should it be as high as it is, if it is. I'm not sure if it is.

And the last one is on the dividend: on the outlook statement you finished saying, 'Our medium-term guidance is for constant currency EPS growth of 4 to 8%'. I understand the dividend growth of 10% is also there. Could you please confirm if it is also there, because I don't see it in the press release but I understand it is? Thanks.

Alison Cooper: Yes.

Oliver Tant: Shall I take the last one?

Alison Cooper: Yes, go ahead.

Oliver Tant: It isn't but we didn't put it in last year. We are reaffirming our commitment in the same way as we have done over the last couple of years.

Alison Cooper: Okay, I'm going back up the list here. The listing fee element, it's not so much the listing fee as the trade margins which are high within NGP. So I mean listing fees we're used to, I mean big fuss made of certain people listing in certain retail accounts. I mean this is bread and butter, doing business for us in different markets and it's part of the initial launch in the market. So clearly we'll be lapping it in some markets but it will be part of other markets that we need to add that into the mix. But actually it's the trade margins that we've highlighted before that are very high in vaping, so 40% type of levels versus circa 10% in tobacco. And that's something I mentioned in the presentation earlier, that we will look to work on over time and we are working on over time, but they are disproportionately high currently. But that will be part of our just cost of doing business; that's not part of the A&P £100 million that we're talking about. That just sits in arriving at gross margin.

And then on the pod repurchase rate, I mean to give an aggregate number is a bit meaningless, given the different markets we're in and the phasing of different markets. But all I would say is we're making good progress towards the levels that we want to achieve within our business plan for 2019 in line with that two to three that I mentioned earlier, so that's progressing well.

Nico von Stackelberg: Sorry, could you give colour on the repurchase rate in some key markets, like the US and the UK?

Alison Cooper: We haven't given a lot of detail on that today. I think we've got to give a more rounded set of KPIs that we look at, rather than just on the pod repurchase rate but all I'd say it's moving in a direction in line with our plans for 2019.

Chas Manso [SocGen]: Okay, on the combustible side I think the second half performance was like 3%, something like that, correct me if I'm wrong. You're guiding to modest net revenue growth in the next fiscal. I think your history – you did 0% organic sales growth when you were losing share; now that you've tightened that up, you're meant to be getting to the classic tobacco business model of more like 3–4% organic sales growth, you're sort of there in the second half. This thing about modest growth for tobacco in – does that mean you're pulling back a bit from that, that you don't see that 3% as sustainable? Could you talk a bit around that?

Alison Cooper: The point is fine apart from the fact that price mix isn't smooth, shall we say, across the year. So, as you saw, it was lumpy towards the second half in 2018. It's going to be lumpy – the price mix, but it's going to be higher in the first half in 2019 but with the volume point ameliorated that Oliver spoke about earlier. So I think if you look at the year as a whole, the dynamics that we've been seeing of around market down roughly 4–4.5% overall across the footprint price mix of 5 ish, that's the sort of picture we're looking at. It could be a bit better; it could vary from that slightly, either plus or minus but I mean that's the broad shape of it that we're seeing going into 2019. So I think you've just got to address the – or allow for the lumpiness of when pricing comes through.

Chas: Okay and then on NGP Matt said he was expecting it, so I might as well ask it: so what if the FDA in November, in the next week or two, comes out with its new recommendations and one of those is to ban pod-based systems? How dependent are you on pod-based systems for your NGP plans, and how would you adapt to that? Yeah.

Alison Cooper: Okay. I think Matt alluded to some of this earlier, but let's pick up on it.

Matthew Philips: Yeah, I mean they're clearly relevant but I mean there's – for me there's little point in speculating around all of this because what if flavours happens, or what if it's retail versus vape stores, what if its – yes, there's lots of what-ifs, I mean we had a very constructive conversation with the FDA last week, and we put forward some really concrete proposals about how to try and address the youth access issue that they're trying to deal with. And the one we're most keen on, for example, is this whole connected device that Alison talked about, because you can eradicate that. But what that means is that the PMTA process that the FDA process would normally insist on would have to be different. So we focus the conversation on steps that we can positively make, and I think we will be formally responding to the FDA this week, to their written requests and I think after that it's more appropriate to have some of these conversations. And all I'd say is in the middle of November the FDA have said that they will come out with a proposal, and our diversity of portfolio, our diversity of flavour range, our omnichannel approach, the strength of our brand, etc., mean that we will be able to deal with whatever comes out in the middle of November. Clearly we've got preferences because we're focused on smoker conversion and that drives a line of thinking. But it's – we'll be able to adapt and we'll be fine.

Alison Cooper: I think what does come through as well very strongly from the FDA, which I think doesn't get picked up as much, is the fact that there is a really clear commitment and conviction that vaping is a really important opportunity to get smokers to switch into a healthier product and that's a very strong backdrop to all of their thinking. They've just got this – well, we've all got this point that we want to address, which is how that underage aspect is address but we're doing everything we can currently – we've – this is in our DNA as tobacco, we market – everything we do is a responsible approach but if we could get connectivity then that would be great, that would further reinforce that but that's clearly just the one area they've got – we've got to work through.

Chas: Sorry, two more questions if I may. One is just number of users. Could you tell us your NGP number of users for the year and the exit rate maybe? And actually number of smokers would be quite interesting.

And then, on the US, obviously there's all this talk about youth vaping. Could you perhaps give us an idea of the size and growth of the market excluding youths, if you have that?

Alison Cooper: I'll let Richard contemplate that for a minute, but I think some of this is going to be vague to say the least. I mean your question about number of consumers who are vaping, number of smokers who have converted, is also a very difficult one because you have to make all sorts of assumptions on usage rates. We know we've got a lot of devices out there, so that's one thing but then who is actually converted into a regular user is another. We have data in terms of our own ecosystem and we have roughly 600 –

Richard Hill: There's 1.5 – we've got 1.5 million accounts.

Alison Cooper: We've got 1.5 million accounts; we've got about 600,000 regular users within that ecosystem, but there's lots of registrations elsewhere. There's use of e-retail and there's also a lot of people who don't register at all online. So it's not something you can do a very precise science around. All I would say is that we've delivered against the revenue level we were planning for 2018, so it's running well on track. The other key indicators we look at, in terms of repurchase rates, in terms of – where we can measure, in terms of repurchase rates, in terms of equity scores, in terms of lifetime value attributes where we can measure are all looking like they're moving in a good direction.

Do you want to have a comment on the vape market ex-underage?

Richard Hill: The way we've looked at it is to look at the number of vapers globally. So we said, if you remember, at our presentation in September, 36 million vapers in the world today. We would expect that to be growing. So by the end of 2020 we would see that as being between 50–60 million vapers and clearly there's a large proportion of that in the USA. So we're seeing quite big step-ups in growth at the moment. And all the data coming out of either Nielsen or IRI is demonstrating that to be true in the US.

Alison Cooper: It's not a data rich category currently, as you can all see by the number of people who do surveys of a number of people – 2,000 people or 400 people and extrapolate, it's not going to be very robust.

John Leinster: Just following up on the FDA point, if the FDA does come out with something which you fundamentally disagree with, what are your legal – potential legal challenges to that?

Matt Phillips: The answer, simply, is we'll wait and see what they come out with.

Alison Cooper: Too early to comment on that.

Nico von Stackelberg: I understand for PMTAs you probably need about three years' worth of clinical data for, for example, myblu. Could you tell me how long you've been testing this and do you have a long – I guess do you have many years' worth of data to support a PMTA if it still needs to come?

Matt Phillips: I mean it's not as long as that but you're right. There are elements like clinical studies which do take time. But one of the things we've been discussing with the FDA, or we want to discuss further with the FDA, is how can that process be clarified and speeded up? So we've currently got a situation where products that were on the market before August 2016 are allowed to stay on the market until August 2022 and so there's plenty of time to do whatever is needed to be done ahead of that time. If that date were brought forward then it depends on how far forward that date is brought to what the consequences of that are. And all I'd say is we're very confident in our science but whether the whole industry would be in a position to be able to react to those kind of timelines, we'd have to see. But the FDA are very mindful of that and it's – we're good with where we're at, at the moment and we'll just have to see what happens in a couple of weeks' time.

Alison Cooper: Adam?

Adam Spielman: Do you support a 21 years old age limit?

Alison Cooper: Do we support 21 years old, a 21-year age limit?

Matt Phillips: It's a difficult – I don't find it a straightforward question because what you're seeing playing out is people's individual commercial strategies. And in some states where the smoking rate is – the smoking age is 18 to then have a vaping age at 21 seems a bit strange to us. And so a blanket support of that, absent everything moving to 21 – I mean what we are definitely happy to talk to the FDA, have been talking to the FDA about, is online, where we do control, actually, sales, then having a 21 age on those. But –

Adam Spielman: Would you support 21 years old for cigarettes as well as – and other tobacco products, as well as vapour?

Matt Phillips: I think we'd have to – I mean that's not something that the FDA can actually do. It's a state-by-state move, as I understand it. So I – it doesn't feel like that's where we're going to end up, but...

Alison Cooper: Okay. One more?

Adam Spielman: On your – again, coming back to your guidance, you said – EPS I'm talking about, 4% plus 3% currency headwind – sorry, currency tailwind.

Alison Cooper: Tailwind.

Adam Spielman: Is there any scope impact we should be thinking about as you dispose of your £2 billion of assets, or is that already in the 4%?

Alison Cooper: Yeah, the guidance at the moment does not incorporate any impact of significant asset disposals. It would be premature to do so.

Okay. Well thank you everybody for attending today. Thank you for the questions and have a good rest of the day.