

INTERIM RESULTS SCRIPT

Slide 1 – Interim Results 2019

Good morning and welcome to our interim results presentation.

Slide 2 - Disclaimer

I'm joined by Oliver Tant, Chief Financial Officer and Matthew Phillips, our Chief Development Officer. In the front row we have Dominic Brisby, Director for the Americas, Africa, Asia and Australasia, Joerg Biebernick, Director for Europe and Richard Hill, Commercial Director for blu.. and our chairman, Mark Williamson is also with us.

Slide 3 - Creating Something Better for the World's Smokers

Our purpose is to create something better for the world's smokers.... and it defines our focus in both tobacco and NGP.

In tobacco we're focused on our Asset Brands in our priority markets to drive quality growth... and we drive that growth through investment behind our codified Market Repeatable Model, with a focus on continuous improvement – evolving our high-quality tobacco portfolio to provide a better experience for smokers.

And for NGP, it's about providing smokers with alternative products in different categories, all with lower health risks.

Here, our priority is blu... building blu as the trusted brand that delivers a superior vaping experience, not just functional delivery but an emotional brand connection. Here, we also have clear market priorities and a blu adoption model which we invest behind to drive growth.

And we have additional growth opportunities coming on stream with heated tobacco and oral nicotine products...

This is about quality growth from tobacco and significant additive growth from NGP with a continued focus on high margins and strong capital discipline, supporting investment and growing shareholder returns.

Slide 4 - Strategy Delivering in Tobacco & NGP

I'm pleased with the progress we've made in the first half.

Net revenue grew 2.5%, driven by the contribution of blu complementing a good underlying performance from tobacco with revenues up in both Europe and the USA by 4%.

We've invested an additional £94m behind blu in the first half which has temporarily affected profitability but has successfully raised the awareness and is supporting increasing consumer adoption of blu.

We achieved particularly pleasing growth with blu – up nearly 250% year on year - as we extended its rollout in Europe and Japan, growing the category and achieving retail leadership in many markets. In the USA, we've grown year-on-year despite the category slowdown. We're growing but we are also learning as we continue to refine our investments behind our blu adoption model and build a sustainable second growth engine for Imperial. We will build on these results to realise further growth in the second half.

And we are delivering against our Tobacco Max strategy with good underlying sales growth and increased profitability, helping fund our NGP investment. We performed well in the Americas, Europe, Africa and Australasia, albeit our volumes were affected by shipment timings but these will reverse in the second half.

Strong cost and capital discipline remain a priority focus, including our divestment programme, where we're progressing a number of opportunities, including the sale of our premium cigar business.

Overall, a good start to the year and on track to deliver our full year expectations.

I'll now hand over to Oliver to take you through the financials.

Oliver Tant

Thanks Alison and good morning everyone.

Slide 5 - Summary H1 Financials

I'm going to start with a summary of our results, which demonstrate good underlying performance in tobacco and significant NGP progress.

I should remind you these results reflect the adoption of the new geographic segments announced last September, as well as the implementation of IFRS 15, a new accounting standard, which affects net revenue and cost of sales. Prior year financials have been restated to reflect these changes.

We increased net revenue by 2.5%, driven by growth in NGP and tobacco price/mix up 6.5%.

Our Asset Brands outperformed again as we continue to focus our investments behind quality growth. These brands delivered a greater proportion of our financial performance, growing by 280 basis points to 65.3%.

Tobacco margins improved, partly offsetting the additional £94m of investment behind NGP, such that adjusted operating profit and EPS declined slightly.

As flagged in our pre-close trading update, first half cash conversion was lower due to the timing of duty payments and other working capital timing differences impacting our stock holding. Excluding these temporary differences, underlying cash generation remained strong.

Slide 6 - HY19 Net Revenue

Tobacco volumes declined nearly 7% reflecting the weaker market in the second half of last year... exacerbated by shipment timings, particularly in the Middle East, and some distributor disruption in South East Asia.

In addition, in the US, we implemented a price increase in February – a month earlier than last year, which also affected the timing of shipments.

The unwind of this phasing will support a stronger second half volume delivery.

The volume reduction has been mainly offset by strong tobacco price/mix, benefiting from a carryover of pricing from last year, as well as first half price rises in the higher value markets of the US, UK, Germany and Australia, which will flow through to benefit the second half. Around 90% of our expected full year pricing is already embedded. This

strong price/mix dynamic has an obvious positive impact on the levels of our underlying tobacco profitability with both good margin and operating profit performance which I will talk about further shortly.

As regards timing differences, US shipment timings alone impacted first half Group revenue delivery by 0.7%, which would have resulted in first half revenue growth of over 3%.

Overall a good revenue performance, driven primarily by NGP and supported by strong tobacco/price mix.

Slide 7 – HY19 Adjusted Operating Profit

As mentioned we delivered good growth in tobacco profitability, driven by strong performances in the USA and Europe.

Last year's operating profit benefited from £40m of profit on the sale of other tobacco assets in the US.

If we strip this out... underlying tobacco profitability benefited from a strong price/mix performance which has largely fallen through to the bottom line. This price/mix performance reflects the underlying pricing dynamic across our footprint, the positioning of our product portfolio in our priority markets and the strong adherence to pricing strategies in accordance with our MRM, where we retain the relative price positioning of our portfolio.

We stepped up our investment in NGP by £94m on a gross basis – or £65m on a net basis - after taking account of the margin contribution from the additional NGP sales. The increased investment has supported first half growth and is building momentum for the second half.

The H1 results are not impacted by any one-off items. As previously stated, and as a reminder, we do expect the second half to benefit from gains in the region of £50m to £100m.

Slide 8 – Continued Focus on Cost & Cash Delivery

As expected, cash conversion of 66% reflects the timing of various duty payments, including Logista, as well as some working capital impacts principally associated with the implementation of 'track & trace' regulations in Europe.

As a result, net debt increased slightly by £0.2bn on a constant currency basis

These are temporary impacts on working capital that will reverse in H2 and therefore we still anticipate full year cash conversion of just under 90% and further deleverage. Our performance reflects our continued focus on capital discipline and strong underlying cash generation.

Our cost optimisation programme continues to make good progress and we expect to realise a further £60m of annualised savings this year. This is slightly lower than our original plan for this year as we have re-phased £20m of savings into next year due to the timing of certain cost initiatives. We remain on track to deliver £600m of cost savings by September 2020.

Slide 9 – FY19 Outlook: On Track to Meet Expectations

Our expectations for the full year are unchanged.

We will continue to prioritise quality growth and expect our tobacco business to deliver modest revenue growth, underpinned by embedded pricing.

Together with ongoing efficiencies, this is expected to deliver good underlying tobacco profitability and strong cash flows.

In NGP, we expect to deliver further growth in revenues, which will support improving profitability as we exit the 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.

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

Alison

Slide 10 – Environment Shaping Category Developments

Thanks Oliver.

I presented recently at CAGNY and referenced some data from a major consumer study we conducted across seven of our largest markets.

Evolving lifestyle choices with changing regulation and increasing innovation continue to shape what consumers buy, where they buy it and how often.

In tobacco this means smokers today are increasingly moving away from consuming only one product. Just under a half of consumers regularly choose two or more products, be they cigarettes, fine cut tobacco, cigars or reduced risk products such as vapour, oral nicotine and heated tobacco.

This is a significant change from 20 years ago, when over 90% of smokers were cigarette soloists... And this represents both an opportunity for smokers to transition to “something better” but also an opportunity for us.

Slide 11 – Leveraging our Capabilities Across Categories

As I discussed at our NGP event last September, Imperial’s competencies in tobacco have been enhanced over the years as we’ve developed our NGP business... and you see some of these highlighted on the left-hand side of this chart.

The starting point, as ever, is the consumer and our insights work is central to our understanding of adult smokers and vapers, their preferences and motivations. And we’ve continued to build the capabilities to leverage these insights across categories to realise more growth.

As you know, in tobacco, we focus on quality growth with clear brand and market priorities to deliver modest and sustainable growth in our footprint... an element of this growth is about capitalising on demand shifts through innovation to provide a better experience to smokers.

Vaping is the biggest NGP opportunity in our footprint and our focus is *myblu*, which provides a great vaping experience in a convenient form... and we continue to innovate to improve the experience.

And we’ve created optionality in heated tobacco for parts of the world where vaping is not permitted or where smokers prefer heated tobacco. For those occasions, we have Pulze and ID, which I’ll come back to later.

Consumer interest in oral nicotine is also increasing. We've expanded our oral tobacco products, building on our success with Skruf and adding tobacco-free and other variants as we've entered new markets.

These capabilities also make us well placed to capture growth opportunities in some targeted adjacencies and as you know, last year we invested in Oxford Cannabinoid Technologies. This has enabled us to build our knowledge of the science of cannabis and investigate the potential for our technology and innovation capabilities in a category where consumer attitudes and regulations are evolving quickly.

Let's now have a brief look at the progress we are making from a category perspective before we look at the region performances.

Slide 12 –Quality Growth from Asset Brand Focus

Our Asset Brands encapsulate our strongest equities across our consumer categories, supporting quality growth opportunities.

In tobacco we've continued to optimise our portfolio through brand migrations, exits and divestments – as well as SKU rationalisation... and we have made a couple of recent reclassifications to our specialist tobacco brands recognising a shift in priorities... with minimal impact on the financials.

In NGP, we have the benefit of starting with a tightly focused brand portfolio. blu is on track to become one of our largest brands – it's already in the top 10 - so it's now classified as a Growth Brand.

We've also further prioritised within our Growth Brands – recognising JPS, Parker & Simpson, West, Davidoff and blu as having broader, global potential versus other more geographically targeted brands.

...And Asset Brands continue to outperform... with revenue up 7% year on year... and now accounting for two-thirds of our revenues, up from a half in 2013.

Slide 13 –Priority Market and Asset Brand Focus

Importantly investment behind our asset brands in priority markets has delivered a stronger tobacco business... with priority market share up 50 basis points over the period, top line progress and growing profitability.

In the UK, Germany and Australia, given our market positions, we continue to balance share growth and returns.

Our position in the UK is not only stronger following the investment step up in 2017 but the market has also returned to growth... we have recently increased prices which accounts for the recent share decline.

In Germany and Australia, we consistently achieve strong revenue and profit growth, which has been balanced by some share decisions in Australia... whilst in Germany, we are working to address some current portfolio pressures including some further brand migrations.

In Spain, we're improving our blonde share whilst in France we continue to choose value share over volume share and pass on excise increases and have redirected our focus to blu.

I'll cover the USA shortly, where our focused portfolio has delivered share gains for the first time since acquisition. And in Russia, Italy and Japan, we continue to deliver share improvements.

In essence, our investment focus behind our TobMax strategy means we're well-placed to deliver further growth in tobacco...

Slide 14 – Evolving Tobacco Portfolio

And that means we need to keep evolving the tobacco experience too.

As a simple differentiation, there is roughly a 50/50 split between smokers who are more conventional in their habits versus those who are more progressive and looking for new experiences.

Our portfolio is well-positioned to meet the needs of conventional smokers with products such as those shown on the right, via typically full flavour SKUs.

The progressive smokers are interested in demand shifts such as different filter experiences or formats and we are increasingly realising share opportunities with brands such as Davidoff, West and Parker & Simpson to launch new products, as shown on the left.

Slide 15 – Tobacco: Capitalising on Consumer Demand Shifts

With Davidoff, we identified an opportunity to broaden its appeal to a more progressive set of adult smokers by focusing on four cigarette demand shifts – queen size, crushball, lighter tasting blends and new filter technology.

We launched Davidoff Reach last February - a queen size format that taps into each of the demand shifts. It's now in 19 markets, largely in Eastern Europe and Asia, adding to Davidoff's overall market share, as well as building awareness and share in the Davidoff

core brand proposition. These new variants have rejuvenated the consumer base, appealing to different adult smokers with high product quality and a good smoking experience.

We expect to build on this success with a king size version, Davidoff Evolve, which we've already launched in Germany, Czech Republic and Saudi Arabia.

Slide 16 – Vapour: Investment in blu Supports Growth in NGP

In vapour we are focused on transitioning smokers to something better using our blu adoption model. Our first half investment has been building awareness and trust in the brand to encourage trial and repurchase through an omnichannel approach... mainly with tobacco retailers, but also improving our vape channel engagement and building our online presence.

Both awareness and trial are growing, providing the foundations for increasing repurchase and ultimately loyalty.

We have tested a lot and learnt a lot over the past year, and continue to do so... with a focus on building blu into a strong & sustainable business... a great vaping experience delivered by a great brand.

Slide 17 – Vapour: Further Growth in H2

In the second half we are building on the first half momentum with a continued focus on awareness, trial & repeat purchase.

This will be supported by the ongoing roll-out of some product enhancements, such as coloured devices, and, outside the USA, an improved pod design which also supports lower cogs...

And we will continue to leverage our retail relationships - it's where smokers go to shop - with a greater emphasis on the bestselling key accounts, particularly in the US. And we're enhancing our engagement with vape stores and in online channels...

And our innovation agenda adds to our growth momentum beyond 2019 with pilots of 3D flavour and our connected device planned for later this year.

Slide 18 – Heated Tobacco: Pulze City Pilot in Japan

Vapour remains our focus but we've also developed a high-quality heated tobacco product, which delivers a more consistent and uniquely personalised experience. Pulze includes some other features important to smokers, such as continuous use without interrupting the experience, as well as different heating modes to personalise the intensity of the experience.

We began a city pilot of Pulze this week and are anticipating generating additive revenues next year as we extend beyond the pilot. For the smokers among you, we have some available here today and we invite you to try it after the presentation.

So, in summary... consumer behaviours are changing with a broader repertoire of categories – driven by an increasing preference for reduced risk products. We're shaping this category development using innovation and proprietary technology to provide great functional experiences, combined with an emotional brand connection to offer adult smokers and vapers “something better”.

Slide 19 – Americas: Growing NGP & Tobacco Revenue

Our investment choices in tobacco and new product categories are integral to the results across our regions...

Let's start with the Americas, where we had a very strong start to the year reflecting good performances in cigarette, cigar & NGP... with revenues up 4%.

In cigarette, our focused portfolio strategy has meant we have grown market share in the year to date – for the first time since acquisition – a milestone given the trajectory of the portfolio at that time. Share was up but, our shipment volumes were down more than the market because of our price increase in February. This temporarily affected shipments relative to last year but is beneficial to our full year performance.

We achieved good revenue growth with strong pricing and the benefit from the continued growth of our mass market cigar business led by Backwoods... plus the positive contribution from blu.

Underlying tobacco profit growth was strong taking into account shipment timings & the OTP profit last year, more than offsetting the increased NGP investment.

As you know, there are ongoing developments on a number of regulatory fronts in the US; we continue to actively engage with the FDA and believe we and our product portfolios are well-placed to manage regulatory changes, while continuing to develop our business.

Slide 20 – USA NGP: Continued Growth in Consumer Offtake

In NGP, our investment in blu has driven awareness and continued growth in consumer offtake, despite the category slowdown.

As a result, we grew blu revenues by over 50% year on year but with a slower sell through of our pipeline inventory than originally anticipated...

In H2 we have several initiatives to build further consumer offtake and growth in the second half, building on the first half activities. This includes an enhanced key account focus in traditional retail and extending our presence online and in the vape channel.

Slide 21 – USA NGP: Optimising Distribution and Key Account Focus

In traditional retail, we've built distribution for myblu, with a presence now in 90,000 stores... and growing.... and you can see we have driven high shares in about 30% of the stores.

The focus in H2 is therefore to take the learnings from these stores and apply them in the first instance to the 16,000 stores that represent the highest value opportunity of the balance... at its simplest it's about targeted ranging, visibility and in-store communications, backed by appropriate incentive arrangements, supported by local equity investment.

It's a clear action plan and well advanced, which, coupled with investment behind our blu Adoption Model, will drive renewed momentum in the second half.

Slide 22 – Europe: Strong Tobacco & NGP Performance

So, a strong performance overall in the Americas but also in Europe... with the benefit of the strong growth in NGP with blu, as well as in tobacco, mainly from the UK, Germany & Italy... with revenues up over 4%.

Overall profit grew even after increased NGP investment, reflecting the strength of our tobacco delivery and ongoing cost optimisation.

From a category perspective, we are also launching oral nicotine delivery products in more markets, building on the success of Skruf in Scandinavia. We've launched tobacco chew bags in Denmark and Switzerland and our tobacco-free pouches are performing well in Austria and Sweden... with further European city tests planned for the second half.

However, the main NGP focus has been the continued roll-out of blu across our European footprint, where we've achieved retail leadership in France, Germany, Italy, Spain, among others, and led the category development of the pod format. All delivering additive revenue growth...

Slide 23 – Europe: myblu Building Presence in Priority Markets - 1

In the UK, we launched the pod category just over a year ago – and it's this category that's the primary driver of growth in what is a relatively mature vapour market, albeit mainly in open systems currently. We've established myblu as the number two vape brand in the retail channel and we've been supporting growth by building awareness and trial through above the line advertising and direct engagement with adult smokers via brand ambassadors in retail and relevant horeca.

In Italy, the national roll-out of myblu has delivered strong share growth and market leadership... and has more than doubled the category in the tobacconists.... as we build our presence in channels where we can directly engage with adult smokers.

Slide 24 – Europe: myblu Building Presence in Priority Markets - 2

Similarly, in Germany and France, we're focused on improving availability where smokers buy tobacco.

In Germany, we tested our smoker engagement strategies in three cities before going national at the beginning of this year; since then we have taken market leadership in retail and more than doubled the category.

And we have achieved further growth in France, with myblu responsible for seven out of every ten closed devices sold.

Spain has also been a success story in the first half where we have created the category in tobacconists.

In summary, we've had a good performance in Europe, with increasing consumer offtake that we will build on in the second half.

Slide 25 – AAA: Share Growth in Priority Markets

In Africa, Asia and Australasia, our performance was affected by shipment timings in the Middle East, as a result of excise increases and other regulatory changes, as well as some distributor disruption in South East Asia... As Oliver mentioned, we expect this to reverse in the second half of the year.

Elsewhere, we achieved share growth in Russia and strong tobacco performances in Australia and Africa and by a number of our premium cigar brands.... added to by a positive contribution of myblu in Japan and Russia.

Slide 26 – AAA: Growing NGP Revenues

In NGP, we've been very pleasantly surprised by the success of myblu in Japan, where our zero-nicotine version has exceeded expectations, following an initial trial in Fukuoka last year.

myblu has now been rolled out to more cities with growing visibility across key retail chains, coupled with a targeted above the line campaign, which has proved highly successful and we will extend myblu nationally in the second half.

In heated tobacco, we've begun a city pilot of Pulze, which has tested well in smoker trials - supported by a range of hyper-local brand-building activations, as well as a flagship store which opens next month.

We're also extending the presence of *myblu* in Russia to broaden our category offering.

Slide 27 – Strategic Delivery Through Portfolio & Market Focus

To summarise... the changes in consumer preferences and our widening repertoire of alternatives to combustible tobacco creates opportunities. We're shaping this category development with the launch of new products, utilising our innovation and technology capabilities.

In tobacco, the increased investment since 2017 behind our Asset Brands and priority markets has delivered improved performances and sustainable value growth.

In NGP, our investment behind the *blu* Adoption Model is driving awareness, trial and repurchase across all regions, and we'll build on this momentum in the second half.

We've expanded our NGP offering with *Pulze*, to provide optionality in markets where heated tobacco plays a role within the smoker repertoire. And building on the success of *Skruf*, we've continued to make targeted launches in Europe of new oral nicotine products.

In essence... *TobMax* is working well and NGP is building and supporting our growth...

Slide 28 – Strategic Focus: Right Market, Brands & Products

Before I conclude a comment on capital discipline which continues to be central to our strategic agenda both in relation to our organic & inorganic decisions.

Our strategic focus means that there are assets less central to our growth agenda as we announced this time last year. Last week we announced the sale of our worldwide premium cigar business - it's a business that continues to perform exceptionally well but is not central to our agenda. Significant progress has also been made, and continues to be made, on a number of other divestment opportunities... Recognising current tobacco valuations we are working to execute disposals that will realise value and within the 2-year horizon we set ourselves this time last year... Proceeds will be used to pay down debt and invest in appropriate growth opportunities.

Slide 29 – Strategy Delivering in Tobacco & NGP

So to conclude... I'm pleased with our progress in the first half with *TobMax* working and NGP building and delivering additive growth... and there's more to come.

The combination of our *TobMax* and NGP focus is strengthening our top-line delivery, which we will build on for the full year leading to further profit and cash delivery... funding investment, debt reduction and growing shareholder returns.



Slide 30 – Interim Results 2019

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?