Alison Cooper, Chief Operating Officer

Good afternoon ladies and gentlemen. I'm pleased to have this opportunity to present Imperial Tobacco to you today.

I'm Alison Cooper, Chief Operating Officer of Imperial Tobacco, and from May 13th I will take over the role of Chief Executive following the retirement of Gareth Davis. I am joined here today by Gerry Gallagher, our Director of Investor Communications.

Over the next thirty minutes or so I'd like to talk about our approach to sustainable growth, with particular focus on sales, and how we will continue to apply our growth model to ensure that we maximise long-term shareholder value.

Significant value creation – our 13 year track record

I'll start with a familiar slide, our track record, which does serve to illustrate the successful application of our strategy – to generate sustainable growth in our operations organically and through acquisitions.

Our strategy is underpinned by three core objectives – sales growth, cost optimisation and effective cash utilisation.

These are hallmarks of Imperial, they will continue to be key growth drivers in the future, and I'll talk more about each of them later.

Over the last 13 years, consistent organic progress, supported by value creating acquisitions, has delivered compound annual growth of 16 per cent in earnings per share and 14 per cent in dividends per share.

We have generated over 15 billion pounds of profit, and our focus on maximising cash conversion has enabled us to convert approximately £13.5 billion or over 90 per cent into cash.

We focus on growing our top line through a combination of volume gains and pricing, which coupled with effective cost optimisation and cash utilisation, should enable us to deliver mid to high single digit organic earnings growth consistently over the medium to long-term.

And there may be further opportunities to use our surplus cash to enhance shareholder returns over the medium term, but for now the focus is on debt paydown.

Total Shareholder Return – delivering shareholder value

The successful application of our growth strategy has created significant value for our shareholders over the years, that will continue to be the focus for the future.

These returns have been supported by disciplined cash utilisation with excess capital being returned in the form of dividends and, when the timing has been advantageous to shareholders, share buy-backs.

With dividends re-invested, 100 pounds invested in Imperial on 1st October 1996 when we first listed on the London Stock exchange, was worth 1,241 pounds on 1st February compared to just 213 pounds invested in the FTSE all-share index.

Key Growth Drivers – building blocks of our business

I mentioned our three key growth drivers earlier, sales growth, cost optimisation and cash utilisation.

We are a sales led business, but we also seek to optimise our costs, and utilise our substantial cash flows to create additional value for our shareholders.

These are the building blocks of our business and continuing to deliver a strong performance in each of these areas is critical to our future success.

Let me show you how each of these drivers are expected to contribute to our growth model.

Mid to Long Term Growth Model – targeting mid to high single digit EPS growth

At the outset, I should emphasise that this is a mid to long-term model and the actual movement of the components will undoubtedly change from one year to the next, and, as we strive to maximise long-term value, on occasion our results may fall either positively or negatively outside the parameters I am about to lay out.

Finally, please note, the following is on a currency neutral basis.

Looking at sales growth, we expect our cigarette volumes to grow by around one per cent per year over the medium to long term.

However, for 2010 we expect our volumes may be slightly down due to short-term economic pressures in a few markets.

We expect a two to three per cent benefit from pricing, resulting in top line growth somewhere between two and four per cent over the medium to long-term.

Whilst we face short term leaf pressures we are well known for our focus on costs and by maintaining or reducing our cost base in real terms, we would expect to add a further one to two per cent to our operating profit over the medium to long-term.

We generate high levels of cash with our normal cash from operating activities after capital expenditure and before interest and tax representing over 90 per cent of our adjusted operating profit.

By using this cash effectively to pay down debt or reinvest in the business, we expect to increase earnings by a further two to three per cent.

So, in a steady state, we expect our earnings to grow over the medium to long term by a mid to high single digit percentage, with the additional potential benefit from acquisitions and share buybacks on top.

Before I focus on how we are proposing to deliver sales growth going forward, let us take a look at how we have performed in the past.

Organic Cigarette Volume Growth – 5 year CAGR 2.1%

Our organic cigarette volumes have grown 2.1 per cent compound over the last five years, which, as you can see, compares favourably with our peer group.

In 2009 organic volumes declined largely as a result of the economic downturn impacting a few markets, though generally our markets were resilient.

In some developing countries such as Russia there has been a reversal of the normal growth trend whilst in the likes of Spain and some EU accession countries there has been an acceleration of downtrading from cigarettes into fine cut tobaccos.

Given the fiscal pressures many governments face, there is understandably a focus on potential excise changes. However, of our larger markets, only in the US did we see a material impact on our volumes in 2009 because of excise duties, but even here pricing ensured that local currency profits improved.

Fine Cut Growth – leveraging Total Tobacco

While there is a lot of focus on our cigarette business we should not lose sight of the potential offered by our Total Tobacco approach through our global leadership in fine cut tobacco, cigars, rolling papers and a small, but growing, snus business.

As a broad rule of thumb, on a cigarette equivalent basis, our fine cut business added about 10 per cent to our 2009 cigarette volumes of 322bn. Organic fine cut tonnage grew 17 per cent in 2009, and this tonnage growth was achieved despite greater use of volumised product.

The markets of the Central European accession countries are beginning to see their fine cut markets expand as duty increases push cigarette prices higher. We are well positioned to benefit from this trend, and ongoing growth in Western European markets. Only in the USA, where the duty regime after last year's Federal Excise Tax increase is prohibitive to fine cut growth, do we see less immediate potential for this area of our business.

Historic Sales Growth – pricing

In the past price increases have been possible in periods of economic decline as well as growth.

Over the last 12 months we have been able to take at least one manufacturer's price increase in almost all our key markets.

Where tobacco duties are high and contain a significant fixed amount of duty per pack, a relatively small percentage increase in the selling price to the consumer can translate into a much larger increase to the manufacturer.

As we have seen in a number of markets, where governments raise duties by substantial amounts, consumption may not be significantly impacted; however both legal and illegal cross-border trade often increases at the expense of in-market duty paid sales.

A current example of this is in Ireland where illicit trade has grown to around 30 per cent of consumption in the last two years as a result of successive large duty rises and a display ban in July 2009.

As you would expect, we constantly monitor and assess potential duty changes. Whilst we remain vigilant, and there are clear fiscal pressures on many governments, we believe the vast majority now understand the negative impacts of aggressive duty increases on duty paid market size and, consequently, government revenues.

Sales Growth

Against this background, let me now move on to discussing how we propose to drive our sales growth going forward, and here I want to emphasise we are a sales led business not a volume led business. Sales is a function of four main drivers:

- Market
- Market share
- Price, and
- Mix.

Taken together market size and our market share provide our volumes, which are clearly an important component of sales, but price and mix are equally important to us.

In terms of creating sustainable long-term value we focus on revenue in its totality with volume and market share being important factors contributing to sustainable revenue growth, but no more than that, they are not an end in themselves.

Delivering Sales Growth – smart leverage of our assets

For us sales growth means leveraging our extensive brand portfolio to generate international growth in all our product groups, not just cigarettes.

As the fourth largest international tobacco manufacturer, I believe that we are uniquely positioned to compete strongly in all markets in which we operate and we continue to see a number of opportunities for further growth.

We have a broad market footprint with a mature and emerging market balance. Specific areas of increased investment will be in the United States, the developing markets of Eastern Europe, Africa and the Middle East as well as on profit enhancement in the mature markets of Western Europe.

This can only be achieved by having the right people and I am confident that we have the capabilities and ambition to be successful.

Brand Equity – driving growth of our global brands

Looking at our brand equity, we are particularly focused on driving the international growth of our three most important global brands, Davidoff, Gauloises Blondes and West.

In the last year, we have launched Davidoff in Morocco and Davidoff Superslims variants in Central Europe, while Gauloises Blondes is now available in a number of new markets.

In May 2009 we launched West Superslims, initially in Poland and West Blue in Turkey with an innovative SteamTec filter and dynamic metallic pack. In 2009 West volumes contracted but the brand has been on a positive trajectory from the second half of 2009, helped by these initiatives, and is currently back in growth globally. Where suitable for a given market, we have also extended West into roll-your-own and make-your-own products.

We are active across our geographies, ensuring that our brand and product portfolio remains dynamic and relevant. During 2010 we have a number of global brand initiatives including Davidoff rejuvenation, Gauloises centenary packs, West Superslims and further pack innovations. But our local and regional value-for-money portfolios are also critical to manage in an environment where consumers are looking for value choices.

Brand Equity – opportunities for our regional brands

Clearly, we have other key cigarette assets such as Fortuna, R1, Style and JPS where we see further opportunities.

Building on the Spanish heritage of Fortuna, R1's focus on light cigarettes and Style's expertise in slims and superslims, and we continue to successfully grow JPS's franchise with ongoing success in markets such as the UK and Germany starting to be replicated by Australia where JPS grew to a 1.2 per cent share in December 2009 within 7 months of its launch in May 2009.

Brand Equity – optimising our fine cut portfolio

Utilising the opportunities offered by our total tobacco portfolio, our initiatives in fine cut have increasingly focused on strengthening our position in the value segment to respond to changing consumer preferences, such as the launch of Golden Virginia Yellow in the UK.

In other markets traditional fine cut tobacco products are no longer meeting evolving consumer preferences. In Spain, for example, we have re-aligned our portfolio to reflect these consumer shifts with the launch of Fortuna and Ducados Rolling, and our new natural offering, Origenes. Fortuna Rolling has also been launched in Italy.

In Central Europe, make your own products have become increasingly popular, we saw the opportunity and we have been active in developing the category via a number of brands including Paramount, and in a number of markets including Czech, Hungary and Poland.

Across the business, it's a blend of local insight within the global strategic framework that drives smart portfolio choices to optimise the potential of our assets in each market.

Brand Development – Davidoff in Saudi Arabia

Let me show you an example of the success of our brand development initiatives by looking at Saudi Arabia, which has become one of the most important markets for Davidoff.

Davidoff growth in Saudi Arabia has been outstanding, compounding at 51 per cent since 2003 resulting in a market share that is now close to 10 per cent, and still growing.

The opportunity stemmed from our Saudi team's extensive research into the local consumer, which identified the potential of Davidoff, and has been crystallised by our distribution strength coupled with brand innovation, limited editions and a strong consumer franchise.

Davidoff's success in the region is providing tangible results with Middle East profits, helped by a 12 months contribution from Altadis, more than doubling in 2009 in local currency.

Market Footprint – volume split

Following the Altadis acquisition, we have considerably stronger positions in both mature and emerging markets, and this balanced operating platform provides stability and creates future opportunities to maximise the potential of our brands.

In our mature markets we have strength across our product categories and a focus on profitability whereas in our emerging markets the focus is on driving further top line growth with investment priorities in Eastern Europe, Africa and the Middle East.

In all our markets, local insight is key to maintaining our growth momentum, and we continually seek to align our local portfolios with evolving consumer preferences in order to maximise our sales potential.

Market Footprint – strong positions

Scale needs to be considered in the context of individual market positions. We have a number one or two positions in many markets across the world and we believe we have the brands, products and people to grow these large profit pools in the future.

Elsewhere, we have strong number three or four positions in a number of markets including Australia, Cambodia, Greece, Poland, Russia, Saudi Arabia, Taiwan and Ukraine.

Market Footprint

In terms of future opportunites, the US is currently a highly competitive market and we have a relatively small share. Nevertheless, over the long-term we see opportunities for future growth and are expanding our sales force and distribution capabilities.

Moving across into Europe, our core markets of the UK, Germany, Spain and France, all provide growing sustainable cash flows which we re-invest in those markets and internationally.

In Central Europe we see growth potential and will ensure that we support our strong market share positions and drive future profitability with fine cut continuing to offer potential.

We are making some good progress in Eastern Europe. We see further significant potential to increase our profitability and continue to invest in this region.

Imperial and Altadis had very complementary businesses in Africa and the Middle East and we now have a very powerful operating platform in the region, with particular strength in Morocco, sub-Saharan Africa, the Levant and the Gulf States.

We have performed well in this region and we will continue to support growth with targeted investment.

In Asia we have strong positions in markets like Taiwan, Vietnam and Laos, although not our prime focus, we continue to evaluate expansion opportunities in order to extend our presence further in the region.

Delivering Sales Growth

Going forward, in order to maximise the potential of our assets, we look to leverage them and support our sales growth agenda via a combination of: our consumer centric focus, execution excellence and our focus on building solid future foundations for our business.

Smart Leverage – consumer centric

Let me expand on each of these, starting with consumer centric.

To be successful we have to really understand our consumers. This not only means understanding the impact that the regulatory and economic environment has on them but also their needs and preferences.

Our brand and product portfolio is the key asset we leverage to drive sales, and we ensure that individual markets have the flexibility to align their local portfolio to specific local market and consumer dynamics, within a Group strategic framework.

Much is made of our strength in value for money brands and products – and there's no doubt that this provides competitive advantage in the current climate.

But there's more to Imperial than value offerings. Our total tobacco focus has created a versatile portfolio, which includes a broad range of top end and mainstream brands and products allowing us to be present in the key price points and product categories in any one market.

However, our portfolio approach is only part of the story – in order to be truly consumer responsive and be able to react swiftly to evolving market dynamics we must achieve excellence in areas such as trade marketing and supply chain.

Smart Leverage – execution excellence

To be successful we have to drive execution excellence in order to align our business to satisfy consumer and customer needs.

A number of areas are critical in this process, not least of which are trade marketing and supply chain where we seek to build, maintain and consistently improve our processes, making them robust and flexible, and delivering to the changing needs of the business.

Focusing on trade marketing, which for us begins with extensive trade research and planning, considering a whole range of variables including shopper behaviour, account profitability, margin chain analysis and working capital implications.

A strong, well trained and motivated field force supported by effective account management creates the sales excellence we demand in order to maximise our potential with the trade.

And, we have to be influential in the shopper's decision making process, merchandising, in-store furniture, space planning, category development and understanding the shoppers psyche are all key to making the shopper choose our products.

Smart Leverage – future foundations

The last area of focus for sales growth is an area we refer to as "future foundations".

Our ongoing commitment to manage our business responsibly is fundamental to our long-term success.

We proactively reinforce our legitimacy and that of our consumers by regular dialogue, where we can, with governments and regulatory authorities.

Our anti-illicit trade activities are key to ensuring we maximise our future sales opportunities and we are increasing our head count and overall resource in this area.

Finally, as we look ahead, we must ensure we understand the drivers of future consumer preferences to enhance our growth opportunities

Cost Optimisation

Having looked at sales growth, our second core objective is to optimise our cost structure.

As I mentioned earlier, by maintaining or reducing our cost base in real terms in the mid to long term and with the benefit of synergies from the Altadis acquisition, we expect to generate an additional one to two per cent in annual earnings growth.

Cost Optimisation – integral to the business

Cost optimisation means we seek maximum returns from our spend, focussed on efficiency improvements and supporting sales, increasing investment where we believe it adds value.

It's often been said that cost optimisation is part of our DNA and from Day One of the enlarged Group we have been instilling this across Altadis.

We've always been ahead of the game in terms of our cost and efficiency programme but that doesn't mean that there's nothing more to go for.

Our current priority is to achieve our integration synergy targets whilst driving business simplification initiatives and productivity improvements across the enlarged Group.

The review of our global manufacturing portfolio is also ongoing. We will maintain a particular focus on addressing surplus capacity whilst ensuring that we remain agile and responsive to changing consumer demands.

We are often asked whether we will increase the Altadis synergy target, and we immediately point out that we have already lifted the target once, from 300 million Euro's by 2010 to 400 million Euro's by 2012, a fact that many people seem to have forgotten.

As regards anything more, there are further opportunities to optimise costs but these will be integral to the ongoing development of the enlarged group, and not separately reported.

Leaf inflation will lead to an increase in our costs this year. Though subject to a number of variables, we believe we will also see an impact on our costs in 2011 and 2012. Leaf is primarily a US Dollar denominated commodity and we typically hold leaf stocks for around a year. Accordingly this year we will also see a negative foreign exchange impact as we use leaf bought in 2009 at unfavourable rates compared to the leaf bought the previous year.

Cash Utilisation

The final building block of our business is effective cash utilisation where we expect to generate a further two to three per cent of annual earnings growth.

Cash, Debt & Working Capital – strong cash generation

We focus on all aspects of working capital and current examples include ongoing alignment of finished goods stocks to trade demand and optimising tax stamp levels on a market by market basis.

Working capital is a key component and variable of any company's cash flow, but is also one that can be overlooked as it does not impact operating performance, and that's why we now link our management incentive schemes to both profit delivery and working capital reduction, thus helping ensure that cash remains a key focus of the business.

Overall our business is highly cash generative, a combination not only of effective working capital controls but also of disciplined capital expenditure, as well as management of tax and interest costs to ensure cash flows are optimised.

Our annual cash conversion is normally over 90 per cent, however last financial year we achieved 128 per cent as a result of targeted working capital savings.

By maintaining a geared capital structure we are able to add to the operational returns our business offers shareholders.

We have traditionally positioned ourselves at the "efficient" end of investment grade, and we see no reason for that to change.

Clearly the market's view of what is efficient will change with the macro environment and we will adapt accordingly, but the basic principle of running an efficient balance sheet remains.

Effective Cash Utilisation – supported by deals and alliances

Our short term focus is on debt pay down, however we also continue to make disciplined investments across the business to enable us to continue to deliver sustainable growth.

In the last 13 years we have invested more than 17 billion pounds in acquisitions, from transformational deals such as Reemtsma and Altadis to smaller bolt-ons. Acquisitions are something we are very good at and we are keen to do more.

While debt reduction is an immediate priority following the acquisition of Altadis, given our very strong cash flows we will have the headroom for further value creating deals within a reasonable timeframe.

Given the structure of the industry today, these are likely to be bolt-on product or market specific acquisitions rather than multi-national deals of any great scale.

Additionally, strategic alliances offer further growth opportunities in the short to long term.

We are a trusted partner and have a strong track record of developing many successful strategic alliances and joint ventures over the years – not just with our industry peers but also with other parties around the world.

We have a good working relationship with PMI and last year signed an agreement for the manufacture, distribution and merchandising of their brands in Morocco, complementing our long-standing distribution agreement in the UK.

We have equally good relationships with other companies. BAT has manufactured product for us in Australia since we acquired our business there, and we have been working with JTI in Australia and Senegal.

Elsewhere, we have an alliance with Yuxi Hongta in China. We signed the first ever combined production and sales joint venture agreement in Vietnam with Vinataba, and were the first international tobacco company to be granted permission to build a cigarette factory in Taiwan.

Only last month we announced that we have enhanced our growth potential in Asia with two agreements, both signed in January.

The first being a licence for the manufacture and sale of Davidoff in South Korea by KT&G and the second a framework agreement to establish a collaboration in cigars between China Tobacco Chuanyu Industrial Corporation and our American cigar business, Altadis USA.

It is this track record and our ability to build strong relationships whilst still competing effectively that gives us a strong position as a partner of choice within the tobacco industry. We see scope for further partnering opportunities and will be focussing on leveraging these to mutual advantage.

The Virtuous Circle – investment and sustainable growth

In building on our successful track record we will continue to focus on our sales growth, cost optimisation and cash utilisation.

Sales excellence combined with optimising our costs has created some of the highest margins in the industry.

High margins provide the opportunity for strong cash generation and our focus on cash has ensured we have delivered on that potential.

In turn, we have used our cash for targeted investment to generate returns above our cost of capital.

Taken together our business model provides a virtuous circle of investment and sustainable growth, and one that has consistently delivered strong returns to our shareholders.

Our environment continues to evolve - offering new challenges, but always opportunities.

We pride ourselves on the total tobacco nature of our business – as well as our agility, our local market insight and flexibility and efficient execution, a great platform from which to take maximum advantage of the opportunities as they arise, ensuring that we continue to drive returns and strengthen the long-term sustainability of the business.

Thank you ladies and gentlemen. I am happy to take any questions.