Gareth Davis – Chief Executive

Good morning ladies and gentlemen. To those of you here in the room, and everyone watching via our webcast, welcome to our 2010 half yearly results presentation.

Who's Presenting

I'm joined today by Alison Cooper, currently our Chief Operating Officer, who will be taking over from me on the 13 of May as Chief Executive, and Bob Dyrbus our Finance Director. In addition, Iain Napier, our Chairman is here as well as a number of other key Imperial executives.

HY10 Overview – growth in a challenging environment

In the first half of 2010, we again demonstrated the resilience of our business and the success of our enhanced sales strategy, achieving further gains with our strategic brands and delivering 16 per cent growth in adjusted earnings per share, an excellent performance in a challenging economic environment.

Cigarette volumes in the half were down 3.7 per cent. Three-quarters of this decline can be attributed to two markets, Spain and the United States, where market volumes have fallen significantly, but our performance is improving rapidly with second quarter volumes only down 1.4 per cent.

Our fine cut tobacco volumes were up 9.5 per cent, which combined with our cigarette volumes, gives a total white stick equivalent decline of only 2.1 per cent, a pleasing performance.

Tobacco net revenues were up four per cent to 3.4 billion pounds whilst our total adjusted operating profit grew by six per cent to 1.5 billion pounds.

In accordance with our stated practice, the Board is proposing an interim dividend of one-third of last year's total dividend amounting to a 16 per cent increase to 24.3 pence per share.

HY10 Achievements

There were a number of highlights in the first half with our enhanced focus on the top line delivering growth in our global strategic brands with Davidoff up 4 per cent.

As previously mentioned, there has been some temporary supply disruption in the Middle East which has affected volumes of Gauloises Blondes, which were down 16 per cent as a result. Adjusting for this, underlying growth of Gauloises Blondes was 6 per cent.

West continued its strong performance growing by 8 per cent.

Our excellent fine cut tobacco performance reflects improvements in our leading shares in numerous markets in the EU.

And we saw strong net revenue growth in the UK, Germany, the Rest of the EU and our Rest of World region.

Our partnering credentials are well known, and we recently signed three further strategic agreements, the manufacture and sale of Davidoff in South Korea by KT&G, the manufacture and sale of Davidoff and West in Mexico with Philip Morris International, and the cigar collaboration framework in China.

As ever, cost optimisation remains central to our business and I can confirm that the cost synergies, as well as the revenue synergies, from the Altadis integration are on track.

This, combined with our ongoing focus on business simplification and productivity improvements, has helped increase our Tobacco margins by fifty basis points to 40.5 per cent, even with additional investment in the business.

Before I hand over to Alison I would like to say that it's been a privilege to lead Imperial and I am particularly grateful for the tremendous support I have received. I would like to thank my colleagues past and present in our now global workforce, our investors, and even some analysts for making my time as Chief Executive so immensely enjoyable and rewarding.

I am more than proud to be leaving Imperial in very capable hands. I wish Alison and everyone else all the very best, and on that note, over to you Alison.

Alison Cooper

Thanks Gareth and good morning ladies and gentlemen.

Focusing on the Top Line – HY10 tobacco net revenue

We made good operational and financial progress in the first half, and I am particularly encouraged by our success in driving top line growth, reflecting our enhanced focus on leveraging our brand and product portfolio across our geographic footprint, aligned to local consumer preferences.

Tobacco net revenues rose four per cent with price increases and improving market shares in cigarette and fine cut tobacco in a number of key markets, offsetting Spain and the US.

HY10 White Stick Equivalent Volumes – resilient performance

We are a revenue rather than a volume driven company but volumes are clearly an important component of revenue growth, and I'm pleased with our overall performance in the first half.

This chart combines our cigarette and fine cut tobacco volumes for each reporting segment to show the change in white stick equivalent volumes.

The growth in the UK and Rest of EU reflects resilient cigarette and rising fine cut tobacco volumes whilst in Spain, the decline is the result of the difficult economic climate.

In the US, volumes have been impacted by last year's Federal Excise Tax increases.

The tougher economic conditions in Russia and Ukraine, and the temporary supply disruption in the Middle East which is now resolved, has meant that our Rest of the World region as a whole saw volumes down 3.5 per cent.

However, as the previous slide showed, organic net revenues were up eight per cent in the region, illustrating the volume/revenue dynamic.

Our volume development reflects a number of good performances from our comprehensive portfolio of global, regional and local brands and products.

Davidoff - enhanced design

Let me first look at the performance of our global strategic brands, where additional investment has supported top line growth, and where we have updated all three pack designs and brand franchises to reflect evolving consumer preferences.

Davidoff continued its impressive track record and grew volumes by four per cent with particularly good performances in Central and Eastern Europe and the Middle East.

We recently started to introduce the new packs in the Middle East and Ukraine. The new design and supporting advertising, some of which you can see here, coupled with new formats such as Superslims have provided further impetus to the brand and we are extending this roll out into other markets in the coming months.

Davidoff Volumes – 6.1% CAGR 2003-2010

Given the macro environment and Davidoff's super premium position, the brand's continued growth is highly encouraging, and it is worth just spending a moment to consider what we have achieved with this brand since 2003, the first full year of control following the Reemtsma acquisition.

In total, volumes have grown fifty-one per cent at an annual compound rate of just over six per cent. The Middle East has been a strong growth region for Davidoff but we have also achieved success in a number of other regions, notably Eastern and Central Europe. Davidoff has also been a key driver of our recovery in Taiwan and further increased its share in the first half.

Davidoff has a great track record and we see opportunities to build on this further, maximising the brand's potential.

Gauloises Blondes - updated design

Gauloises Blondes is our biggest selling brand and achieved excellent growth in Morocco and the Levant markets of Jordan, Lebanon and Syria.

Gauloises continues to evolve with a one milligram variant now available and special edition packs and events to support its 100th anniversary this year, which will add further momentum to the brand's growth potential.

West - modernised brand franchise

West is our second largest brand by volume and in recent years the franchise has been extended into other tobacco products to great effect.

We achieved strong growth from West in the second half of 2009, and have maintained this momentum increasing cigarette volumes by eight per cent in the first half.

Central to this growth has been the brand modernisation and the launch of a number of new variants such as Superslims and King Size Superslims.

Regional and Local Brands

Complementing our global strategic brands is our versatile portfolio of regional and local cigarette and fine cut tobacco brands.

JPS cigarette was again strong, with very good performances in the UK, France, Germany and Australia taking overall volumes up by 13%.

Notable local brand performances from our first half in cigarette include Fine and Excellence in Africa and Maxim in Eastern Europe, and in fine cut tobacco, Paramount and JPS in Central and Western Europe.

Market Share Performance (1) – spot cigarette shares

Our growth momentum is further highlighted in the following slides.

In the UK, our spot share has been on a rising trend since July and in Germany we have been increasing our share since October as the competitive dynamics around the change from 17 to 19 cigarettes per pack last year have diminished.

In Spain the market has been more volatile. Our spot share is above the average for the half year and we are continuing to evolve the portfolio to drive further share growth.

Market Share Performance (2)– spot cigarette shares

In France, our domestic blonde cigarette spot share has been consistently above 23 and a half per cent with the current spot at 23.7 per cent, whilst in the USA, our market share has been stable since October and we are encouraged by the ability of our brands to compete successfully in such an intense environment.

Rest of the World – market shares

The upward trend of our share development in mature markets is complemented by similar success in the emerging markets of our Rest of the World region.

In nine of these twelve key markets we have increased cigarette share. Ukraine is flat and share is down in Russia and Morocco as a result of declines in our local value brands offsetting gains in our international brands.

Fine Cut Tobacco – aggregate market share in EU top 10

The markets of the EU dominate global fine cut tobacco and we had a very strong performance in the first half.

Taking the aggregate of the EU's ten largest markets, representing over 90 per cent of EU volumes, we grew our market share by almost two percentage points in the period, and also grew our volumes by thirteen per cent.

We maintained market share in the largest market, Germany, where our volumes grew by nine per cent. We also increased our share in The Netherlands, the region's second largest market, as well as in Belgium, Poland and Hungary.

This is an excellent achievement, reflecting the success of initiatives to recover share and our ability to anticipate changing consumer preferences.

Let me now move on to the individual reporting segments.

UK

In the UK, annualised cigarette market volumes were flat. Downtrading appears to be accelerating following the VAT increase in January and we have continued to leverage our portfolio to capitalise on this consumer dynamic.

We are improving our cigarette share, with JPS Silver and Windsor Blue achieving a combined spot share of around 40 per cent of the growing economy sector compared to 29 per cent last year, and in fine cut tobacco our volume growth was driven by Gold Leaf and Golden Virginia Yellow, which we launched just over a year ago.

Earlier this month, the Office of Fair Trading imposed a fine on Imperial, Gallaher and a number of retailers for allegedly restricting competition. We strongly reject this and will be appealing the Decision to the Competition Appeal Tribunal, as part of our appeal we will request that the fine is quashed in its entirety.

Yesterday we announced that we are challenging the Government's plans to ban the display of Tobacco products, which is a further example of the unreasonable and disproportionate approach to regulating our products and if implemented would simply fuel the growth in illicit trade and adversely impact retailers.

Germany

In Germany, duty paid cigarette market volumes were down one per cent whilst volumes of fine cut tobacco products grew by eight per cent.

Again, downtrading is a key dynamic and we continue to focus on developing our JPS brand franchise to build sales, launching a soft pack variant in November. JPS is now up to nine per cent of the total cigarette market and 30 per cent of the value sector.

JPS has also been a key driver in maintaining our leadership in fine cut tobacco and along with Route 66, delivered an excellent performance in the first half.

Spain

Spain has been severely hit by the economic downturn with cigarette market volumes falling 11 per cent in the first half with fine cut tobacco market volumes down one per cent.

Our volumes were down more due to our leading position in travel retail and the dark segment, which declined ahead of the total market.

Our cigarette brand Ducados Rubio continued to perform well and I'm pleased with the progress Origenes is making in the growing "natural" fine cut tobacco segment since its launch in October.

Rest of EU

In the Rest of EU, we estimate regional cigarette market volumes were down one per cent.

In France, our domestic blonde share was up and we also improved share in a number of other markets including Greece, Hungary, Poland, Norway and Sweden.

Regional fine cut tobacco market volumes were up by seven per cent, and, as you saw previously, we made good gains in the Netherlands and Central Europe.

Americas

Market conditions in the US remain difficult in the aftermath of the Federal Excise Tax increases last April.

Cigarette market volumes were down 11 per cent whilst our volumes were down 18 per cent as a result of lost share from aggressive discounting and brand repositioning by the major domestic competitors.

Our share is four per cent and has remained stable in recent months, supported by increased promotional investment.

In cigar, the timing of the Federal Excise Tax increase affected the half year comparison because of some trade stocking in March 2009. The tax rise contributed to downtrading into lower value and smaller cigars but our price increases have offset this.

We have gained share in the premium segment and we continue to perform well in the mass market natural wrapper category with our leading brand, Dutch Masters.

Rest of the World – a growing contribution

As a result of organic growth, acquisitions and strategic alliances, the profit contribution of our Rest of the World region has grown rapidly in recent years, just three years ago 16 per cent of tobacco adjusted operating profits were generated by the region compared to 23 per cent today.

Rest of the World

Africa and the Middle East remain key growth areas for Imperial.

In Africa we have a strong leadership position in Morocco, with Gauloises Blondes increasing our share of the international brand segment.

We grew share in a number of other African countries, and in the Middle East. Davidoff continued to make gains which will be enhanced by the introduction of the modernised pack.

Cigarette market volumes in Russia and Ukraine have declined 10 per cent and nine per cent respectively. However, Davidoff and West performed well in Russia and we also saw further growth from Davidoff in Ukraine.

We delivered a strong performance in Asia-Pacific, improving our cigarette share with JPS in Australia and West in Taiwan, as well as growing share in a number of other countries in Indo-China.

We are also seeing signs of recovery in our Habanos cigar volumes in some key Western European, Asian and Middle Eastern markets, with positive pricing and better sales mix driving revenue and profit growth.

Logistics

Our Logistics operations were resilient despite the weak economic trends from 2009 continuing.

Manufacturer's price increases in Spain, France and Italy have compensated for cigarette volume declines, resulting in profit growth in Tobacco logistics.

In Other logistics, a number of our businesses have suffered from the difficult economic climate, particularly in Spain, but an ongoing cost reduction programme has ensured only a modest decline in profits, and as a consequence, logistics as a whole has shown profit growth on last half year.

Thank you. I'll now hand over to Bob to take you through the financials before rounding up with our outlook.

Bob Dyrbus

Thanks Alison and good morning ladies and gentlemen.

Group Results – 16% EPS growth

I'd like to start with an overview of the Group results, and as usual you will find further detail in the appendices.

As already mentioned, our tobacco net revenues were up four per cent to 3.4 billion pounds and our Logistics business performed well with distribution fees increasing three per cent to 480 million pounds.

Tobacco and Logistics adjusted operating profits grew by six per cent and 12 per cent respectively. Tobacco margins rose by 50 basis points despite increased leaf costs and further investment in the business, and the Logistics distribution margin was up 140 basis points.

The combined result is an increase in adjusted operating profit of six per cent to 1.5 billion pounds.

A lower level of average net debt coupled with favourable interest rates benefiting the floating portion of our debt resulted in the interest charge falling 19 per cent to 302 million pounds.

After tax being charged at an effective rate of 26 per cent, adjusted earnings per share grew by 16 per cent to 83.2 pence, or 17 per cent excluding foreign exchange effects.

Results have been adjusted and presented on our usual basis with the main differences to reported results being amortisation of acquired intangibles of 231 million pounds and fair value gains on derivative financial instruments of 96 million pounds, there are further details in the appendices.

Group Results – revenue and adjusted operating profit

Looking at the results in more detail we can see that excluding the impact of foreign exchange, tobacco net revenues rose 3.4 per cent and logistics distribution fees declined by less than one per cent.

The impact of foreign exchange was minimal at the adjusted operating profit level for both tobacco and logistics.

At the group level, including eliminations, adjusted operating profit grew by over six per cent.

HY10 Adjusted Operating Profit

Tobacco profits grew by six per cent to 1.4 billion pounds, reflecting excellent results from the UK, Germany and the Rest of the EU region.

Despite lower revenues, our Spanish business increased profits three per cent through strong pricing, synergies and a minor benefit from foreign exchange.

Taken in aggregate our European Union business was very strong with total EU profits growing 11 per cent.

Profitability in the Americas was impacted by a very competitive market, where heavy discounting and promotional activity was intense, as well as by further investment and a negative foreign currency impact.

In the Rest of the World, additional investment in Eastern Europe and the Middle East has contributed to a strong underlying profit performance from the business, partly offset by adverse foreign exchange effects.

Logistics had a strong first half benefiting from cigarette price increases in each of its three main markets, additional cost savings and foreign exchange benefits.

Group Results - financing and EPS

Turning now to financing and EPS.

The successful refinancing of just under 4 billion pounds in 2009 through the debt capital markets meant that at the end of March we had committed facilities in place of around 14.2 billion pounds.

Our average all-in cost of debt was down to 5.2 per cent, which resulted in a net interest charge of 302 million pounds, and interest cover on an adjusted basis of 4.8 times.

Excluding foreign exchange effects, our adjusted EPS would have been up 17 per cent at 83.7 pence.

Net Cash Flow & Restructuring

Moving to cash flow and restructuring, pre-tax operating cash flows were 601 million pounds, down on last year primarily due to an increased working capital outflow for the half year.

At our preliminary results last November, I announced that we had reduced our working capital by almost a billion pounds in 2009 and that I expected to broadly maintain that level at the end of the current financial year. That remains the case.

I also said we would retain our cash flow pattern with outflows in our first half being unwound in the second half, and the first half has seen the expected outflow.

At the end of March, our working capital was negative 538 million pounds, being 788 million pounds lower than at the same time last year but still an 819 million pounds outflow against the year end position.

This was mainly due to pre-production ahead of duty increases in a number of countries and the timing of leaf purchases. We expect these stock levels to unwind quickly through the second half generating substantial cash flows and ending the year with a broadly stable working capital position.

Measured over the last 12 months and thereby capturing the full business cycle, cash conversion was 116 per cent.

We paid tax of 172 million pounds and 387 million pounds of net interest in the half year. Net capital expenditure was 109 million pounds.

Cash outflows in the half year in respect of the European integration activities were 68 million Euros, or about 60 million pounds, bringing the total to date to 206 million Euros.

Adjusted Net Debt Movement

Turning to net debt, our adjusted net debt increased from 10.8 billion pounds last September to 11.4 billion pounds, primarily as a result of the working capital outflow with tax and interest being an outflow of 600 million pounds and our final dividend being 500 million pounds.

Unlike recent reporting periods, foreign exchange has not been a material influence on our net debt position when compared to September 2009.

Altadis synergies – on track

And finally, I would just like to reiterate that the Altadis integration remains firmly on track.

We generated incremental synergies of 54 million euros in the first half and we remain highly confident of generating cumulative synergies of 300 million Euros in the current financial year rising to 400 million Euros by 2012.

FY10 Financial Outlook

Looking ahead to the remainder of the year, trading remains in line with our expectations, leaf inflation remains an issue and EU leaf subsidies are scheduled to be removed next year, but we are working to mitigate the impact.

We expect our interest cost to average around 5.5 per cent for the full year and our tax charge to remain at 26 per cent.

As I mentioned, the Altadis synergies are firmly on track and we expect strong cash flows in our second half such that the first half working capital outflow will unwind resulting in a cash conversion rate of between 90 and 100 per cent.

Thank you ladies and gentlemen, I will now hand you back to Alison to conclude the presentation.

Alison Cooper

Thanks Bob.

Priorities for H2 and beyond

As a global company with sales in around 160 countries there will inevitably be challenges in some markets, particularly given the current economic climate, but these results demonstrate both the resilience of our business and the successful application of our enhanced sales strategy.

Our balanced operating platform, total tobacco portfolio and renewed focus on sales is yielding results, we currently expect our second half volumes to be stable against the second half of 2009, and I see many further growth opportunities ahead.

Our global strategic cigarette brands, Davidoff, Gauloises Blondes and West, and many of our regional and local brands, are performing well and all have the opportunity to develop much further.

Our monthly spot cigarette shares are rising and we are also making gains in fine cut tobacco in the EU.

Maintaining this growth momentum in both mature and emerging markets is our priority.

Key to our success is embedding the new sales strategy and consumer focus across the business, and I'm very pleased with the response so far, both in terms of our results and the enthusiasm and commitment from our people.

Continued market investment will support top line growth by enhancing our sales force capabilities and developing brand and product innovations, ensuring that our portfolio remains relevant to local consumer preferences.

Spain and the USA are key markets and therefore particular areas of focus in the current environment, and we are already taking action, addressing our domestic blonde cigarette share in Spain with positive early indications; and increasing investment in the US to extend our brand coverage.

Cost optimisation is a hallmark of Imperial and remains a priority. We continue to drive business simplification and efficiency improvements across our tobacco operations, while our ongoing focus on reducing costs in our logistics business will help strengthen our competitive position.

Effective cash utilisation creates significant additional value for shareholders and, as Bob said, we expect a cash conversion rate for the year of between 90 and 100 per cent.

Illicit trade is an issue for our industry and we have further invested in our anti-illicit trade activities and remain committed to working with Governments worldwide to tackle this problem.

We always seek constructive working relationships with Governments but will continue to robustly challenge ill-conceived regulation, such as product display bans and plain packaging, which not only undermine commercial and consumer freedoms – but also fuel the growth of illicit trade.

Our focus on long-term sustainable revenue and profit growth, underpinned by effective cost and cash management, is key to creating value for our shareholders and I am confident that we are well placed to build on our long track record of success.

Before we take any questions, I would like to take this opportunity to offer Gareth my very best wishes for a long and happy retirement, to take Imperial from a largely UK based business to the fourth largest international tobacco company in the world has been an incredible achievement.

He was recently ranked the 13th best performing Chief Executive in the world, ahead of all other UK and Western European CEOs. I'm delighted to be succeeding him, thank you Gareth for all you've done and very best wishes for the future.

Thank you ladies and gentlemen, we will now take any questions you may have.

The presentation is being recorded so I should be grateful if you would wait for a microphone before speaking and then give your name and organisation.