Annual General Meeting

05 February 2014

Iain Napier - Chairman

Good afternoon, ladies and gentlemen and welcome to Imperial Tobacco Group's 2014 Annual General Meeting.

A quorum of shareholders is present so I declare the meeting open and as usual, I'd like to start by introducing your Board.

I'm Iain Napier, the Chairman of your Company.

On my very far right is Berge Setrakian, a Non-Executive Director who will be stepping down from the Board after today's meeting.

Next to him Michael Herlihy Chairman of the Remuneration Committee, and then our Deputy Chairman Mark Williamson, who will succeed me as Chairman following today's meeting.

Next to Mark is Corporate Affairs Director Matthew Phillips and next to me is Alison Cooper, our Chief Executive.

On my immediate left are John Downing, Company Secretary, and Oliver Tant, Finance Director.

Next to Oliver are Malcolm Wyman, Non-Executive Director and Chairman of the Audit Committee, followed by Non-Executive Directors Susan Murray, David Haines and Ken Burnett.

Today's proceedings are being recorded.

FY13 Summary Results

I'll give you a brief overview of our 2013 performance, Alison will provide a more detailed review of the year and we'll then turn to the resolutions that are set out in your notice of this meeting.

In 2013 we created further value for our shareholders, delivering a robust performance in what was a tough operating environment for many businesses.

We achieved this through the consistent application of our strategy and made significant progress in transitioning the business to strengthen our future growth potential.

From a financial performance perspective, tobacco net revenue declined 1 per cent, adjusted operating profit was up 1 per cent and we grew adjusted earnings per share by 6 per cent.

Your Board proposed a final dividend of 81.2 pence, bringing the total dividend for last year to 116.4 pence, up by 10 per cent and increasing our dividend payout ratio to 55.2 per cent of adjusted earnings per share.

I'll now handover to Alison to update you in more detail.

Alison Cooper – Chief Executive

Thanks Iain and good afternoon.

In 2013 our strategic transition agenda focused on realigning our market footprint and optimising our portfolio and cost base.

I'll explain each of the three areas over the next few slides.

Growth and Returns Markets

In realigning our footprint we now characterise our markets as Growth and Returns Markets and manage them on the strategic role they play, rather than their geographic proximity.

Growth Markets have large profit and/or volume pools. We tend to have shares below 15 per cent and see considerable opportunities for share and profit growth over the long term.

Our Growth Markets include the USA, Italy and Russia and selected markets in Eastern Europe, Asia and the Middle East.

In Returns Markets we have an established presence and a relatively high share, mostly above 15 per cent. Volumes in these markets are typically in decline and our objective is to maximise returns over the long-term by growing profits, whilst actively managing our share.

Our Returns Markets are split into two divisions - North and South. North includes the UK, Germany, Netherlands and Australia; South includes Spain, France, Morocco and Algeria.

This new approach is enhancing the way we allocate resource to markets and improving the consistency of our growth focus across our footprint

Growth and Specialist Brands

In optimising our portfolio we've re-classified our most important brands into Growth Brands and Specialist Brands.

Growth Brands are high quality brands with strong consumer appeal and well-established positions in key markets.

We've developed a number of these brands into total tobacco offerings, providing consumers with both cigarette and fine cut tobacco options.

Our Specialist Brands reflect our unique total tobacco focus - they have strong positions in their own categories, appealing to specific consumer groups.

They consist of heritage cigarette brands, traditional fine cut tobaccos, papers, cigars and a smokeless tobacco brand.

The rest of our portfolio consists of local and regional brands that fulfil a variety of roles. Some have the capacity to continue adding to our revenue momentum; others will add greater value by being migrated into Growth Brands and we're progressing a number of these migrations this year.

Cost Optimisation

Portfolio optimisation means we can reduce complexity and product costs, and this is a core element of our cost optimisation programme. The programme will deliver savings of 300 million pounds a year from September 2018.

Last year we delivered 30 million pounds of these savings and in 2014 we expect to deliver further savings of around 60 million pounds.

So that's an insight into our transition achievements in 2013; I'll now move onto how we performed.

Growth and Specialist Brands

Our Growth Brands outperformed the market with market share increasing 30 basis points. Net revenue increased 2 per cent, and we drove a further improvement in the quality of our volume and revenue with Growth Brands now accounting for 41 per cent Group of volumes and 39 per cent of tobacco net revenues.

We also achieved an excellent performance from our Specialist Brands, growing net revenues by 5 per cent with these brands accounting for 12 per cent of Group revenues.

Growth Markets

We performed well in our Growth Markets with revenues, adjusted operating profits and margins all increasing.

We delivered strong results in Russia, Taiwan and Turkey. We were also pleased with our performance in the USA, where we increased profits following a strong recovery in the second half of the year.

Returns Markets

Trading conditions were tough in Returns Markets South, particularly in Spain, France and Morocco, but strong results in Returns Markets North - led by Germany and Australia - mitigated the overall impact.

Adjusted operating profits declined just one per cent and we maintained margins at 49 per cent.

Logistics

Our logistics business is one of the largest of its kind in Europe and performed well against a backdrop of weak industry tobacco volumes.

Distribution fees were 850 million pounds and adjusted operating profit was 176 million pounds. Excluding the impact of the timing of a VAT increase in Italy, operating profits increased 2 per cent.

Before rounding up, I'd like to share two other highlights of the year; first, Fontem Ventures.

Fontem Ventures

This is a new and exciting standalone subsidiary of Imperial Tobacco dedicated to developing innovative non-tobacco products in lifestyle consumer goods categories.

Fontem's immediate focus is to develop e-vapour offerings.

E-cigarettes are the most common e-vapour products and Fontem will be launching its own brand this year.

Last year Fontem completed the acquisition of e-vapour assets from Dragonite International, one of the pioneers of e-cigarette technology. As part of the deal, Hon Lik, the acknowledged inventor of the e-cigarette, joined our team further enhancing our sector potential.

Corporate Responsibility

My final highlight is the continued progress we're making with our Corporate Responsibility agenda.

Managing our business responsibly is integral to the success of our sales growth strategy and we continue to focus on improving our performance in the four key areas set out in our responsibility framework: being responsible with products, creating a rewarding workplace, respecting natural resources and reinvesting in society.

Our people take great pride in living our values and supporting our CR agenda and our achievements continue to be recognised externally.

Business in the Community again awarded us Gold status in the 2013 Corporate Responsibility Index and we achieved our highest ever score of 79 per cent in an assessment for the Dow Jones Sustainability Index.

FY14 Outlook

2014 is another key year in our transition journey; as we focus on further strengthening our portfolio and footprint, we're backing growth and building resilience.

Backing growth is about increasing investment in Growth Brands, Growth Markets, Fontem Ventures and our people.

We're building resilience through our cost programme and a stock optimisation programme which will reduce trade inventories and improve our supply efficiency and sales growth driver initiatives.

Our goal is to create a stronger portfolio, a stronger footprint and a stronger platform for sustainable quality growth.

This is underpinned by the work we do to combat illicit trade and to encourage proportionate regulation, based on sound evidence. Too often tobacco's not regulated in this way; this can lead to extreme measures such as display bans - and, in the case of Australia, plain packaging - which only serve to further fuel illicit trade.

Our first quarter trading update will be issued next week, on 13th February. Against a relatively strong comparator we expect headline volume and revenues to be impacted by our stock optimisation programme, with underlying numbers giving a much better reflection of the performance of the business.

Going forward we remain focused on maximising our long-term growth potential and the actions we'll be taking over the coming year will provide us with a strong platform for growth in 2015 and beyond.

Before handing back, I'd like to thank Iain for the contribution he's made to Imperial over many years. Iain joined the Board in 2000 and was appointed Chairman in 2007; Iain, on behalf of the Board, thank you for your support and best wishes for the future.

Iain Napier – Chairman

Thank you Alison.

I would like to thank my colleagues on the Board, our senior management team and our employees worldwide for their contribution to another successful year in 2013.

Before standing down as Chairman, I'd like to wish Berge all the best for the future and to thank all my Board colleagues for their support over the years.

It's been hugely enjoyable to serve as Imperial Tobacco's Chairman and I wish my successor, Mark and everyone else continued success in the years ahead.