

## Geoff Good – Global Brand Director Imperial Tobacco Group PLC

Good morning ladies and gentlemen.

The subject of organic growth in volume for any tobacco company is not easy.

With tobacco duty increases in many countries, smoking bans becoming more prevalent and cross-border movements and counterfeit products reducing duty-paid sales, many markets are in decline, albeit slowly.

Therefore, growing volume is becoming more difficult for all manufacturers.

Despite this background, we were pleased to announce in our recent results presentation for the year ended September 2006 that our cigarette volumes grew by 7%.

### Agenda

One of the ways we achieved this volume growth is by having brands in all segments of any given market and to-day I will give you some examples of how we have increased our market shares by developing brands in the premium, mid price and value (but not rock-bottom) segments.

I will start by looking at the success of our super premium brand, Davidoff, in Greece and then move on to Lambert & Butler in the UK and JPS in Germany.

I will finish by showing how we have driven growth in Italy by developing our Other Tobacco Products.

### Davidoff – Greece

Our overall Davidoff volumes grew by 6% in our 2006 financial year and by 20% in Greece.

### Davidoff – Greece – evolution of price (vs. Marlboro)

Although the gap in price between Davidoff and Marlboro in Greece has reduced between January 1997 and September 2006, by selectively following Marlboro price increases, we have always ensured that the brand is at premium pricing.

Today, we are at €3.20 for 20, a premium of 20 cents.

### Davidoff – Greece – evolution of sales, MS & ranking

The increase in sales and market share of Davidoff has been dramatic.

From annual volume sales of less than 100mn cigarettes 10 years ago, the brand has achieved double-digit growth every year and reached over 1bn sticks in 2006.

The market share progression has been consistent, reaching 3.7 % last year and the spot share in September rose to 3.9%.

Finally, the brand has increased its ranking in the Greek market, and now has become the ninth largest brand – and this at premium pricing.

## Davidoff – Greece – evolution of SoV vs SoM %

Most importantly, we have invested in the brand. This chart shows that our Share of Voice – that is the brand's share of total advertising spend, has been consistently more than its share of the market.

Our share of total advertising spend has been consistently around 5%, even when our share was below 1% of market. To make premium brands work in the long-term, you have to invest for the future.

## Davidoff – Greece – awareness figures

The result has been that the spontaneous brand awareness, which is the top-of-the-mind awareness of brands by smokers in Greece, has steadily increased to 26% over the last six years.

Total brand awareness, which asks smokers' knowledge of brands from a list of those available, has increased to almost total awareness at 96%.

Finally, advertising awareness – i.e. have you seen the ads from stimuli shown to smokers, has also increased to 34%.

## Davidoff – Greece – outdoor/print

Importantly, the advertising has been consistent over the years, and the “masculine hero” style works well in Greece.

In 2005, we made a slight change of pace by introducing black-and-white advertising, and introduced rejuvenated pack designs in 2006.

## Davidoff – Greece – cinema

The outdoor and print advertising is supported by cinema commercials.

## Davidoff – Greece – permanent display program

The sales force in Greece has been solidly supporting the brand as its N°1 priority.

Weighted distribution, which adjusts shop distribution by sales volume, has steadily increased to 99%, so that at least one version of Davidoff is in virtually all outlets of the country.

And the brand is highly visible at the point-of-sale.

## Davidoff – Greece – flagship outlets

This is a Carrefour in Athens.

## Davidoff – Greece – flagship kiosks

And a totally branded Kiosk.

## Smokers 18 – 24 – male and female

Finally, the profile for the brand is excellent. 73% of the brand users are in the 18-34 age group, and its market share in the 18-24 group is 18.5%

As you will have hopefully seen in this brief presentation on Davidoff in Greece, all aspects of the marketing mix have been consistently positioned to support the premium nature of the brand.

The fact that we have 18.5% share of market amongst younger smokers, compared with approximately 4% of total market, leads us to believe that the market share will continue to increase.

## Lambert & Butler – UK

Turning now to the mid-price segment of the market; I've chosen to talk about Lambert and Butler the UK's N° 1 cigarette brand with 16.2% market share in our last financial year.

## Lambert & Butler – UK – 2003: The “Dark” market

The reason I've chosen L & B is that the UK is now a Dark Market

In 2003 we saw the introduction of the Tobacco Advertising & Promotions Bill, which effectively banned us from promoting all tobacco products and means there is no main media advertising, no point-of-sale advertising (apart from one A5 size notice), no direct marketing and no promotions.

In this challenging environment, the marketing team have to become more creative.

## Lambert & Butler – UK Pack Designs

We therefore decided to look at the pack design. Although Lambert and Butler was clearly N° 1 brand in the UK with a perfectly good design, given the limitations, in 2004 we decided to research a new version which would celebrate the fact that the brand has been on the market for 25 years.

## Lambert & Butler –UK - research

The research surprised us.

We looked at various alternative designs, and all the packs were rated very highly by smokers. However, the pack which became known internally as the “Celebration” pack, was the winner – indeed it was the most positively received pack change we have had from consumers in the life of the brand.

## Lambert & Butler – UK – November 2004 - Celebration Packs

Therefore, in November 2004, we introduced the Celebration packs across all the Lambert & Butler variants which were on sale in the UK at that time.

They were introduced as a 4-month special edition, replacing the original pack until February 2005.

## Lambert & Butler – UK – share gain

The effect was very positive.

Already the N° 1 brand, our share grew by over 0.4% during this period - that may not sound a lot but it was worth over £60 million in additional turnover and a significant profit improvement.

Often in marketing, it is difficult to isolate the effects of individual parts of the mix. But in this case, because the UK had become a dark market, the pack design was the only part of the mix that was changed, and therefore we knew the cause and effect.

## Lambert & Butler – UK – 2006: Permanent Design

As a result, we then had the confidence to make this a permanent design change in early 2006. The packs are more modern, and more impactful on the shelf.

## Lambert & Butler – UK – new additions to range

We also then added to the range, and launched one new King-Size variant, and two 100mm versions in 20's and 10's.

These new introductions have added a further 0.37% share gain for the Lambert & Butler house.

## Lambert & Butler – UK – today

And today, the brand is in a much stronger position. It is the UK's biggest FMCG brand with over £2bn in turnover. It has a 16.2% share of the UK cigarette market, and most importantly, proved that we can add value to a brand even in a very dark environment.

## JPS Germany

Turning now to the low price segment of the market, I've chosen JPS in Germany as this brand has led the development of what has become known as the 4th price tier in Germany – which I will explain later.

## John Player Special – 70s & 80s – Formula 1 sponsorship

Perhaps surprisingly I've started with this image. Two black and gold John Player Special Formula 1 cars, coming first and second in Grand Prix in the 70's and 80's, driven by Ayrton Senna, Nigel Mansell, Mario Andretti etc.

This memory is still strong in Europe and gives the brand both heritage and credibility.

## JPS Germany – pack design progression

So from this Virginia blend parentage in black and gold, we developed a range of red and blue American blend cigarettes for Germany.

Crucially we price-mark the packs on the rayophane, so that consumers can clearly see the attractive price of €3.30 for 17 or €4.50 for 24 on the shelf, but it is removed in use when the top part of the rayophane is discarded on opening the pack.

The combination of strong imagery with low price provides good value to the German consumer.

## JPS Germany – communication strategy

We support the brand with press and poster advertising to ensure that the brand is not merely sold on price alone, as many private label brands are in Germany.

## JPS Germany – volume growth

The results have been excellent. JPS volume has risen dramatically from virtually nothing in mid-2004 to total sales in our 2006 financial year of over 3.4bn sticks – a 98% increase on the prior year.

## German Low Price Sector – main brands and shares

By way of background, in early 2004, the German branded cigarette market operated in a very narrow price range, with Marlboro at €3.20 for a pack of 19 at the top and West at €3.00 at the bottom. There was then a 50 cent gap to private label at €2.50.

Given the Terror Tax increases in 2002 and 2003 and the price difference to branded cigarettes, it was hardly surprising that private label's market share grew rapidly, reaching 16.7% in March 2004.

With the introduction of the first of the Health Tax increases on 1 March 2004, we created a fourth price segment, or low price sector, with the launch of JPS, priced at 20 cents above private label.

In response, BAT launched Pall Mall nationally, which had only been available in East Germany, and Philip Morris launched Next. By positioning JPS in the low price sector, supported by its well known name and advertising, we were able to grow its share rapidly, so that in September 2006 it had a 5% spot share of the total cigarette market – and makes an impressive net contribution to the business.

By the way, private label now has a market share of 13.4% and falling.

## JPS – Germany – value for money

Finally, we have then used JPS for value-for-money offerings in Other Tobacco Products for roll-your-own, make up your own, eco-sticks and most recently, single tobacco, whereby consumers can make 17 sticks for €1.45.

## Other Tobacco Products - Italy

Mentioning OTP moves me onto the last example of growth through segmentation, which is the growing opportunity for OTP in Italy.

## Italian Market – retail selling prices

This has been brought about by the Italian government introducing minimum pricing for cigarettes in August 2005 at €3.00 for 20, and subsequently increasing this to €3.30 for 20 currently.

Incidentally, minimum pricing is regarded as illegal by the European Commission on the grounds of restricting competition. The Commission has raised objections and we shall have to wait and see the outcome.

This has resulted in a widening of the price gap between value cigarettes and the roll-your-own brands. When this happens, as world leaders of the OTP category, we see the opportunity to grow the sector.

### **Italian Market – RYO development**

From low beginnings (and Italy has no tradition of rolling-their-own cigarettes), the RYO market is showing good growth rates.

Although 639 tonnes represents only about 1% of what we call the “white-stick” market (that is, the combination of cigarettes and OTP converted into sticks), we believe this trend can continue.

### **Rest of Western Europe – regional leader in fine cut tobacco**

In fine cut tobacco, we maintained our leadership in the region, but our shares declined reflecting downtrading, as well as increased competition from cigarette brand extensions.

However, in the Netherlands, by far the largest fine cut tobacco market in the region, our market share has stabilised at 51.1%, underpinned by Zilver and Evergreen’s growth.

In France, the second largest market, our market leading brand Interval maintained its share at just under 15%, despite a number of competitor launches, with our overall share at 28%.

In other markets there are a number of initiatives underway to support our significant share positions.

And during the year, we grew our Rizla volumes in the region, benefiting from a number of line extensions and our sponsorship of the Rizla Suzuki MotoGP team.

### **Italian Market – Imperial RYO brands**

Furthermore, Imperial’s brands are performing well. Golden Virginia, the world’s leading roll-your-own brand has nearly 30% of market, at a premium price for the sector. Although the other Imperial brands are beginning to suffer from low price introductions, we still have over 50% of this growing category.

One of the advantages of roll-your-own tobacco for us is that consumers need to buy cigarette papers as well.

### **Italian Market – Rizla papers volume**

This gives us a second opportunity to increase our revenues with the sale of Rizla papers – the world’s N° 1 rolling paper.

As you can see, there has been rapid growth in sales and we now sell almost 2bn leaves in Italy.

### **Rizla Sponsorship**

We support Rizla in many ways, including sponsorship of the Rizla Suzuki team in the MotoGP World Series. There is a race in Italy in June 2007.

## Rizla Accessories

And we also have a third opportunity to make money from the growth of this category. This newly-designed range of machines and filter tips sell well in Italy – and in the case of the machines, act as a permanent brand reminder of Rizla.

Therefore, growth of the OTP category is as important for Imperial as the growth in market share for the brands. Our brands of Golden Virginia, Drum and Rizla are very strong and very profitable.

## Summary

So – in summary, we have a broad brand and product portfolio covering all parts of the market. Growth is difficult, but not impossible, even in dark markets.

The brands we have in Davidoff, West (not looked at today), Lambert & Butler, JPS, Golden Virginia and Rizla are powerful, and give me confidence for the future.

## Investor Relations Department

Thank you ladies and gentlemen.