Gareth Davis – Chief Executive

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

For those of you who don't know me, I'm Gareth Davis, Chief Executive of Imperial Tobacco and I am joined here today by Bob Dyrbus our Finance Director and Alison Cooper, who is currently Chief Operating Officer but some of you might have seen that we announced last week that she will be taking over from me in May next year when I will be retiring.

Over the next twenty minutes I'd like to talk about our approach to sustainable growth and our 2009 preliminary results, which we announced last week.

Significant Value Creation – our 13 year track record

Our track record of value creation has been impressive over many years and has been driven by the successful application of our strategy – to grow our operations organically and through acquisitions.

Imperial has been transformed in the last thirteen years since our demerger from Hanson, from a UK and Irish business with 29 people in the International department, 2,800 employees and ranking as the number 14 tobacco company in the world, to a truly global enterprise selling products in over 160 countries, employing 38,000 people and ranking number four in the world.

We aim to deliver long-term sustainable value for our shareholders via three core objectives – sales growth, cost optimisation and effective cash utilisation.

These are hallmarks of Imperial, and they will continue to be key growth drivers in the future.

Over the last 13 years, since we first listed on the London Stock exchange, consistent organic progress, supported by value creating acquisitions, has delivered compound annual growth of 18 per cent in profits from operations, 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 over 90 per cent of this 15 billion pounds into cash.

We focus on growing our top line through a combination of volume gains and price increases, which coupled with effective cost optimisation and cash utilisation, should enable us to extend our track record of annual organic earnings growth of mid to high single digits consistently over the long-term.

Total Shareholder Return – delivering shareholder value

The successful application of our growth strategy has created significant value for our shareholders over the years, and will continue to do so in the future.

These returns have been supported by disciplined cash utilisation with excess capital being returned either 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 13 years ago would now be worth 1,080 pounds compared to just 202 pounds invested in the FTSE all-share index, an outperformance of more than nine times.

Total Tobacco – balanced comprehensive portfolio

Our strategy has also transformed Imperial into the most total tobacco company in the world.

By that, I mean that through targeted investments we have developed the most comprehensive and balanced brand and product portfolio in the industry, which considerably enhances our growth opportunities.

Our international strength in cigarette is supported by world leadership in cigar and fine cut tobacco, papers and tubes, and a small but growing snus business.

Our portfolio includes strong local, regional and international brands with comprehensive representation across all key price segments within individual markets.

Geographic Balance – enhancing our position

In our mature markets we have strength across our product categories and a focus on profitability.

Last year in the EU we sold over 134 billion cigarettes, 23,000 tonnes of fine cut tobacco and nearly a billion cigars, growing net revenues by 19 per cent to 3.8 billion pounds and profits by 20 per cent to over 1.8 billion pounds which resulted in an increase in the adjusted operating margin to 48.3 per cent.

In the USA we are investing to further develop our established cigarette, fine cut tobacco and cigar positions and our businesses in Australasia consistently deliver high margins and profit growth.

Our emerging markets accounted for 51 per cent of our cigarette volumes in 2009, up 13 per cent, and our margin grew by 200 basis points. Our 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.

Highly Cash Generative – effective cash allocation

This slide shows the key areas of focus within our international footprint.

While the US market is clearly very mature, we have a relatively small but expanding position and see plenty of opportunities for future growth.

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

There are challenges for the entire industry in Central Europe but we still see growth potential and will continue to ensure that we support our strong market share positions and drive future profitability.

We are making good progress in Eastern Europe. We see further significant potential for increasing 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.

Our performance in this region has been excellent and we will continue to support growth with targeted investment.

We have another strong position in Asia 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.

Our organic investment focus in existing markets is enhanced by opportunities for further deals and strategic alliances.

FY09 Cigarette Highlights – key brand performances

We are a sales led business and our revenue growth is a result of our ability to successfully leverage our total tobacco portfolio across our geographies, as shown by our cigarette advances in 2009.

At the top end of the portfolio we grew volumes of our premium brand, Davidoff, by 12 per cent with very strong gains in our Rest of the World region.

In mainstream, Gauloises Blondes delivered 1 per cent growth with progress particularly in Spain, Africa, and the Ukraine and West, although down year-on-year, had a strong recovery in our second half particularly in its core market of Germany and across our Central and Eastern Europe regions. At the value end we have achieved an 11 per cent increase in JPS, with growth in all regions in which it was sold.

We continue to grow these leading brands and they now account for over 25 per cent of our cigarette volumes, with an even balance between emerging and developed markets.

These brands are complemented by a number of strong regional cigarette brands which make significant contributions in their own markets.

Highlights this year include Maxim, our bestselling brand in Russia, where we capitalised on the growth in the low price sector with in-market volumes up 10 per cent. We also delivered 21 per cent growth in Fine volumes with good performances in a number of markets in the sub- Saharan region of Africa.

Sales Orientation – excellence in execution

In order to be truly consumer responsive and be able to react swiftly to evolving market dynamics we must optimise our supply chain and deliver excellence in trade marketing.

Successful trade marketing is becoming increasingly important as markets get darker and is geared around making our brands available, impactful and appealing to consumers.

Philosophically, our trade marketing approach is simple – “putting the right product in the right place at the right time” – which is not as easy as it sounds, and is certainly much more than a salesperson driving around with a computer terminal visiting retail outlets.

For us, trade marketing 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, to name but a few.

With this analysis we then plan for effective and efficient market coverage.

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 and category development are all key to making the shopper choose our products.

Enhanced Sales Focus – brand rejuvenation and investment

This approach to trade marketing will further enhance our focus on driving sales, ensuring that our versatile brand and product portfolio continues to be aligned to changing consumer preferences – impacted by regulation and the economic environment.

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 we are likely to see more downtrading with consumers looking for value choices.

FY09 Results Summary – strong performance

Now turning to our 2009 preliminary results.

This was a particularly good year for Imperial, we grew profits in our mature markets and made great advances in emerging markets, a terrific achievement considering the difficult economic backdrop.

In terms of headlines, we increased our global cigarette volumes by 10 per cent to 322 billion sticks, driven by a combination of a full year of Altadis and many good brand and market performances.

Our adjusted profit from operations was up 32 per cent to just under 3 billion pounds and given that our second half is the first period on which we can do a like-for-like comparison, we grew organic profits by 7 per cent over this timeframe.

With our strong cash generation coupled with a significant reduction in our working capital, we were able to reduce our debt position by 2 billion pounds, excluding the impact of foreign exchange, a terrific result.

For the year, our adjusted earnings per share were 161.8 pence, an 18 per cent increase on 2008 or 12 per cent excluding foreign exchange benefits.

The Board is proposing a final dividend of 52 pence per share, bringing the total for the year to 73 pence per share which represents growth of 16 per cent.

FY09 Integration – a year of achievement

Whilst driving the operational performance of the business we remained focused on the integration of Altadis and made excellent progress in the year, both in terms of our specific European projects and the ongoing alignment of our processes and systems.

Our programme has delivered slightly ahead of our original plan enabling us to report cumulative synergies of 190 million euros, 10 million ahead of our target.

Our progress also allows me to reaffirm with confidence our previously announced targets of 300 million euros of cost synergies for 2010 and 400 million euros for 2012.

We are also firmly on track to deliver net revenue synergies of 60 million euros by 2011.

H209 Financial Performance – adjusted profit from operations

As we acquired Altadis in January last year, the financial results for the second half of 2009 are the first like-for-like comparatives from which you can assess our underlying performance. In this period, our cigarette volumes declined 2 per cent, outperforming our tobacco peer group, with good underlying growth offsetting the effects of economic conditions in Spain, the FET increases here in the USA and Central European market reductions.

We delivered organic growth in tobacco net revenues of 5 per cent and after adjusting for foreign exchange, we delivered second half operating profit growth of 10 per cent and after further adjusting for synergies it was 7 per cent.

In the UK, where balancing share and sustainable profit growth is our key objective, we performed well with both cigarette and fine cut tobacco volumes benefiting from a reduction in the purchases of UK brands abroad as a weaker economy and currency reduced overseas travel.

In Germany, we increased our prices across our portfolio in June and minimum pack sizes increased from 17 to 19 cigarettes in July. JPS continues to grow market share and is now the second largest cigarette brand in this market.

In Spain, we were pleased with our domestic blond share performance with overall profits being higher with the benefit of price increases in January and June, despite declining market volumes as a result of the particularly difficult economic conditions.

The Rest of EU region suffered from volume declines in a number of markets.

However in France, our most profitable market in the region, the cigarette market was up 3 per cent, reflecting a reduction in EU cross-border flows. Our performance in the blond segment was particularly good and we increased our share to just under 24 per cent, with gains from JPS, News and Fortuna.

The USA showed the benefit of pricing despite lower industry volumes. Although our second half was affected by significant competitor discounting, our share is now on a positive trend and we would expect revenues to continue to be strong, and although the cigar market remains in a state of flux, a combination of price increases and strict cost management means the business continues to perform in line with expectations.

The Rest of the World continued to produce excellent results with cigarette volume growth of 13 per cent and share gains in the majority of markets.

And finally, within Logistics, despite the recessionary impact, we were able to report organic profits down only 4 per cent in the second half as a result of cost saving initiatives especially in the non tobacco activities.

Cash and Financing – strong cash generation in 2009

Now turning to cash and financing in 2009.

I am particularly pleased with the working capital savings of just under a billion pounds, which on top of our strong underlying cash generation, resulted in a conversion rate of 128 per cent and, as I mentioned earlier, allowed us to reduce our net debt by two billion pounds before the impact of foreign exchange.

During the financial year, we successfully raised just under 4 billion pounds through the debt capital markets which leaves us with no refinancing requirements until July 2012, and committed facilities in place at the year end of around 15 billion pounds.

Key Growth Drivers – building blocks of our business

All in all, 2009 was another year of considerable progress and achievement for Imperial. It's a challenging environment but we see many opportunities to build on our momentum.

Our 2009 results demonstrated that our enhanced sales focus is delivering results, aligning our local portfolios to specific market and consumer dynamics is helping to develop sales of our international and regional cigarette brands. And we'll be supporting this growth momentum with increased investment in priority markets and brands.

Fine cut tobacco market volumes are rising and we'll be working hard to capture our share of that growth with further innovative developments.

Active cost management across the business remains an inherent part of our day job, not only managing the impact of increased leaf costs, but also consolidating our cigar and logistics divisions which have been particularly affected by economic conditions.

We've made excellent progress on integration, we remain focused on delivering the balance of synergies and see further opportunities beyond the Altadis integration for cost initiatives across the business.

We have a strong track record on cash generation, a combination of driving high margins and working capital discipline; this is an ongoing priority and has enabled us to make significant headway in reducing debt and strengthening our balance sheet.

Driving sales, optimising costs and effectively utilising the cash we generate are hallmarks of Imperial and continue to underpin our strategy.

These growth drivers and the strength and capabilities of our management team leave us well placed to create sustainable value for our shareholders for many years to come.

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