

## Preliminary Results Presentation

01 November 2011

### Iain Napier, Chairman

#### Imperial Tobacco Group PLC

Good morning ladies and gentlemen. To those of you here in the room, and everyone watching via our webcast, welcome to our 2011 preliminary results presentation.

#### Who's Presenting

I'm Iain Napier, Chairman of Imperial Tobacco and I'm here today with our Chief Executive, Alison Cooper and Finance Director, Bob Dyrbus as well as a number of Imperial's senior management team.

#### Creating Value

We delivered a good set of results this year as we continued to focus on maximising returns for our shareholders. We grew sales across our portfolio in many markets whilst effectively managing our costs and optimising our cash flows.

We continued to drive growth through our Total Tobacco portfolio increasing tobacco net revenues by two per cent as a result of gains in EU and Non-EU markets.

Tobacco operating margins were once again above 42 per cent driven by positive pricing and ongoing cost optimisation. Free cash flow was strong at 1.6 billion pounds, and we continued to reinvest in the business, both in supporting our brands and in our manufacturing capacity.

Adjusted earnings per share increased 5.4 per cent to 188 pence and the Board is proposing a final dividend of 67 pence per share, bringing the total dividend for the year to 95.1 pence per share. This is an increase of 13 per cent, taking the payout ratio to slightly over 50 per cent.

We are well placed to build on our sales growth momentum, which supported by our ongoing focus on costs and effectively using our cash, will enable us to continue creating significant value for our shareholders.

I would now like to hand you over to Alison.

### Alison Cooper, Chief Executive

#### Our Strategy

Thanks Iain and good morning.

There have been two key areas of focus for Imperial in 2011, as always it has been about delivering the results, and I'll come on to those shortly, but it's also been about gearing up behind our sales growth agenda.

There's been a huge amount of activity across the business looking at how we maximise the potential of our assets, and this has included work on our four sales growth drivers, our focus for excellence. Our sales growth drivers are:

- portfolio management which is our drive for more consumers in more markets on more occasions

## Preliminary Results Presentation

01 November 2011

- innovation which is about delivering new products based on consumer needs
- pricing, how we model pricing strategies and manage excise to maximise revenue growth, and
- customer engagement, partnering with our trade customers and enhancing advocacy and the availability of our products.

These growth drivers are supported by our three key enablers where our focus is to continue developing better consumer insights, further aligning our operations behind our sales growth agenda, and proactively engaging with stakeholders to shape our environment.

The team have made fantastic progress with our strategic agenda this year, some are here today and many are watching via the webcast, thank you.

### FY11 Highlights

Against a tough economic backdrop I'm pleased with our performance this year as we've continued to drive sales and profits through our unique Total Tobacco portfolio. This portfolio gives us access to, or the ability to create, consumer growth segments in every market, and we're capitalising on these portfolio opportunities.

In the EU our operating model continues to deliver, including good profit growth in Germany and Rest of the EU markets. Consumers are seeking value, we've continued to make gains in our cigarette portfolio and our excellent performance in fine cut tobacco reinforces our world leadership in this growing category.

I'm particularly pleased with our Non-EU performance where we delivered strong results in emerging markets, with profits up ten per cent. Growth was driven by our key strategic cigarette brands, complemented by a great performance from our luxury cigar portfolio.

Cost optimisation remains a core strength and despite facing leaf cost pressures during the year, our disciplined approach to investment delivered group tobacco operating margins above 42 per cent, and in non-EU markets margins were up 150 basis points. We continue to drive efficiencies across the business including a 3 per cent productivity improvement.

Cash conversion was strong at 88 per cent and we generated 1.6 billion pounds of free cash flow, an excellent result given our increased capital investment. And we're increasing returns to shareholders, we grew the dividend by 13 per cent and also bought back shares worth 181 million pounds.

### Sales and Profit Momentum

When looking at our performance, I'll be referring to constant currency numbers.

Our performance this year was impacted by the exceptional circumstances in Spain as well as the change in trade buying patterns in the UK. As at the half year, I've highlighted our performance excluding these impacts to give you a better sense of how the business is performing.

With these adjustments our group stick equivalent volumes were flat, whilst tobacco net revenues were up 4.5 per cent and tobacco adjusted operating profit was up almost six per cent, reflecting the very strong performance in our Non-EU markets.

## Preliminary Results Presentation

01 November 2011

### Growth through Total Tobacco

Our total tobacco approach has been key to our growth.

Our key strategic brands, Davidoff, Gauloises Blondes, West and JPS, had another excellent year with overall stick equivalent volumes rising four per cent.

We also delivered another excellent performance with fine cut tobacco, growing volumes four per cent, complemented by five per cent growth in papers and nine per cent growth in tubes.

Our premium cigar business, Habanos, grew by four per cent in non-EU markets, US premium cigars were up nine per cent and in the EU, mass market cigar volumes rose eight per cent.

We also had a strong year in snus with volume growth of 30 per cent.

Let's look at brand and product performances in a bit more detail.

### Davidoff – +6 per cent to 18 billion

We increased Davidoff volumes by six per cent due to another impressive performance in Non-EU markets.

Continued growth in its core classic line, after last year's brand rejuvenation, and new variant launches in key growth segments led to increased volumes in eight of its top ten markets.

Highlights included growth of nine per cent in Saudi Arabia, 11 per cent in Taiwan, 12 per cent in Ukraine and 33 per cent in Russia, elsewhere, in South Korea we continue to make encouraging progress following last year's launch.

### Gauloises Blondes – +2 per cent to 29 billion\*

Gauloises Blondes growth of 2 per cent reflects strong underlying momentum impacted by sanction compliance in the Middle East.

We have expanded distribution and we grew volumes by 12 per cent in the brand's top 5 markets, and there was an exceptional performance in North Africa, up by 28 per cent, with gains in Algeria and Morocco.

### West – -2% to 25 billion\*

West volumes declined two per cent primarily due to market weakness in Poland and Turkey, but we have been making good progress in consumer growth segments in the emerging markets of Eastern Europe and Asia. The consumer trend to value has been the driver of growth in Taiwan, and in Eastern Europe, where volumes grew eight per cent in Russia, it's also been about value trends combined with slimmer variants.

### JPS – +12% to 24 billion\*

JPS had another excellent year with volumes reaching 24 billion compared to just 9 billion 6 years ago, a tremendous achievement reflecting the way we have developed the brand in line with consumer trends.

\*stick equivalents

## Preliminary Results Presentation

01 November 2011

The brand is growing in seven of its top ten markets, highlights included 8 per cent cigarette volume growth in Germany, 34 per cent in the UK, and in Australasia volumes more than doubled.

### **Fine Cut Tobacco – +4% to 41 billion\***

Fine cut tobacco continues to grow, particularly in the EU, where it is a great value proposition for consumers. Fine cut tobacco now accounts for more than 110 billion stick equivalents in the EU, more than one in every six stick equivalents smoked in the EU is a fine cut tobacco product, and we continue to capture growth in this dynamic category.

We grew overall fine cut tobacco volumes by 4 per cent largely due to the outstanding growth of Route 66, which was up 49 per cent, achieving great results in Germany, the Czech Republic and in Poland.

West was up 16 per cent with strong growth in the Netherlands, whilst JPS grew 14 per cent boosted by its successful launch in the UK and Australia. In Spain, we positioned Ducados Rubio make your own to meet consumer value trends with great results, we've increased the brands share to over 16 per cent, making it Spain's number one fine cut tobacco brand.

### **Habanos**

Habanos brands are without question the world's leading luxury cigars and luxury products are also increasing in demand with non-EU volumes up 4 per cent reflecting excellent momentum in high growth markets such as Brazil, Russia and China.

Our successful launch of new exclusive editions during the year meant sales grew ahead of volumes at 5 per cent, and twelve per cent outside the EU.

### **EU and Non-EU Performance**

If I look at our Total Tobacco performance across our market footprint it is clear that in the EU there is a strong value dynamic and we have capitalised on this by responding to changing consumer preferences.

In addition, we've increased prices, supporting profitability in all price segments.

Our EU volumes were down 4 per cent and sales declined slightly, largely as a result of the 13 per cent decline in the Spanish market, adjusting for this and UK trade buying patterns, volumes were only down 1 per cent and sales increased 4 per cent.

Outside the EU, value is also the key consumer driver in the USA, whereas our Rest of the World region has seen growth in both value and "premium and above" products.

We delivered a strong performance in emerging markets driven by Davidoff, Gauloises Blondes and West, leading to an overall 1 per cent growth in our non-EU volumes and a 5 per cent increase in sales.

\*stick equivalents

## Preliminary Results Presentation

01 November 2011

### Logistics

Turning now to our Logistics business where our profits were up 4 per cent reflecting the great resilience of the business given the economic and competitive environment.

In tobacco logistics we offset the impact of significant volume declines in Spain by delivering strong performances in France and Italy whilst driving cost efficiencies and benefitting from increased distribution fees. And in other logistics we've been active in restructuring a number of businesses during the year which has resulted in stable sales, a pleasing result against a difficult backdrop.

Let me now hand over to Bob to take you through our results in more detail.

### Bob Dyrbus, Finance Director

#### Group Results

Thank you Alison and good morning everyone. I'll start with an overview of the results.

This table includes a reconciliation between reported and constant currency numbers and I will be focusing on constant currency analysis in all of my comments.

Tobacco net revenues were up two per cent with positive price/mix offsetting volume declines, whilst Logistics distribution fees declined slightly.

Tobacco adjusted operating profit increased by 1.3 per cent and Logistics adjusted operating profit was up four per cent, giving combined growth at a Group level of 1.3 per cent.

After tax being charged at an effective rate of 24.3 per cent, adjusted earnings per share grew by 5.4 per cent.

Results have been adjusted and presented on our usual basis, as usual details of the main differences are in the appendices.

#### EU Adjusted Operating Results

In the EU, the operating model continues to deliver.

In the UK we maintained our market leadership although volumes were down due to market softness following the VAT increase and the excise tax changes in the budget. Sales and operating profits declined, impacted by the change in trade buying patterns. Excluding this factor both sales and profits were up.

We had a very strong performance in Germany. Profits grew seven per cent with volume growth, higher prices and higher margins all contributing.

Profits in Spain declined 25 per cent, in line with our recent guidance. We have recently increased prices across our portfolio and all products are now priced at, or above, the levels at the start of the calendar year.

We outperformed the market in our Rest of EU region with our stick equivalent volumes declining 1 per cent against a regional market decline of 2 per cent. Sales increased over 4 per cent and profits were up over 3 per cent.

#### Non-EU Adjusted Operating Results

In our Non-EU markets sales increased by over 5 per cent, and we delivered

## Preliminary Results Presentation

01 November 2011

excellent overall profit growth of 10 per cent.

In the Americas, and principally the US, our profits declined 1 per cent reflecting a stable cigarette share and unfavourable mix.

Turning to our Rest of World region, volumes in Eastern Europe were broadly flat but grew 2 per cent excluding Balkan Star in Russia, and sales were up over 10 per cent.

Volumes in Asia-Pacific have again been strong, growing 5 per cent and we have gained share in most of our key markets with sales increasing 14 per cent, an outstanding result.

In Africa and the Middle East we grew volumes and revenue driven by a number of strong global and regional brand performances.

Demand for our luxury Cuban cigars continues to grow in emerging markets with volumes, sales and profit all increasing.

Overall we increased profits in our Rest of the World region by fourteen per cent with profits in Eastern Europe, Asia-Pacific and Africa and Middle East regions growing by 21 per cent, 27 per cent and 8 per cent respectively.

### Financing and Cost of Debt

Our average all-in cost of net debt rose slightly to 5.7 per cent, partly as a result of refinancing at higher rates and because our cash flow can only be used to repay the relatively low margin revolving credit facilities.

The net interest charge fell almost 40 million pounds to 562 million pounds as a result of reduced debt levels while our interest cover improved to 5.5 times, up from 5.1 times.

The appendices contain further detail on our interest rate fixings and debt maturities.

### Adjusted Net Debt

Turning to the financing of the business.

Our closing adjusted net debt for this year was 8.8 billion pounds.

Working capital was stable year on year, a pleasing result given the unwinding of the 100 million pound Italian logistics benefit we had in 2010.

Net capital expenditure increased by 85 million pounds as a result of greater investment in machinery to support our growth and innovation pipeline, and our cash conversion was 88 per cent, another excellent result despite the increase in capital expenditure.

Tax payments increased 164 million pounds, whilst interest payments were down as we continued to reduce our debt. The impact of foreign exchange movements was minimal.

### Actively Managing Debt Profile

Following the acquisition of Altadis in 2008, the Group has actively paid down debt and undertaken a series of bond issues. This has seen our maturity profile improve significantly. In June 2008, the profile was front end loaded and heavily reliant on bank debt, but today we are more weighted towards bonds, and the average maturity has

## Preliminary Results Presentation

01 November 2011

increased from 3.1 years to 5.2 years.

In December 2010 we refinanced a new 2.5 billion pounds five year bank facility and issued two bonds with long dated maturities, and we will continue to manage our maturity profile, further reducing refinancing risk.

### **FY12 Financial Outlook**

Guidance for our average cost of debt for financial year 2012 is around 5.8 per cent.

Our tax rate will remain at around 24.5 per cent.

Our capital expenditure will remain slightly higher reflecting our ongoing investment in capacity to meet demand in some of our growth segments and to continue building our innovation pipeline.

### **FY12 Operational Outlook**

Looking ahead we expect the EU consumer to remain focussed on value and we are well placed to capitalise on this given our Total Tobacco portfolio.

Outside the EU we see opportunities across our portfolio in value and in “premium and above” and will build on the excellent results we have delivered through, Davidoff, Gauloises Blondes, West and our luxury Cuban cigar portfolio.

So far this financial year we have already raised prices in the UK and France and we will see a full years’ benefit from price increases implemented last year in a number of markets including Germany, Spain, USA, Russia, and Taiwan.

In the UK we expect moderate market volume declines and a continued trend towards value products and are focused on reinforcing our position as market leader through various initiatives including the national launch of GlideTec Lambert and Butler.

In Spain we expect market volumes to be down by a high single digit percentage, and will continue driving the momentum of our value focussed portfolio in cigarette, fine cut tobacco and cigar.

In the USA, whilst the market remains competitive we have maintained our share and the integration of our cigarette and mass market cigar businesses will strengthen our position.

And finally in our Logistics business we will continue to identify opportunities to grow the business whilst maintaining our cost discipline.

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

### **Alison Cooper, Chief Executive**

#### **Our Strategy**

These pleasing results highlight the growth momentum in the business and our strong platform for future success. Like any other business we face economic challenges but also the regulatory pressures prevalent in tobacco.

We’ve a strong track record of successfully managing these pressures and continue to fight disproportionate regulation.

The economic environment remains uncertain in many markets but tobacco is a

## Preliminary Results Presentation

01 November 2011

resilient category and we are well placed with our Total Tobacco portfolio. We're realising our top line potential through our focus on our 4 sales growth drivers.

Through Total Tobacco we have the portfolio to grow sales by meeting the needs of more consumers in more markets on more consumption occasions. This has been key to our results in 2011, we're not just about cigarette, we are growing in fine cut tobacco, cigar and snus. We're positioned to capitalise on consumer value trends whilst also driving growth in premium through Davidoff, Gauloises Blondes and luxury cigars.

And as we get an even better understanding of consumers we will further develop our sales opportunities.

Consumers are increasingly demanding value, quality and innovation, and we are further developing our pipeline of scalable innovations based on consumer needs. GlideTec is a great example of this; national rollout in the UK is ongoing and we're finalising plans to scale this exciting initiative across other markets, whilst progressing a number of other innovations to add to our sales growth potential.

And with pricing a key component of revenue growth, we're enhancing the way we develop our pricing and excise strategies, focusing on opportunities by brand, pack size and sales channel.

Delivering excellence in customer engagement is critical to the success of our innovations, as well as other portfolio initiatives, and we are developing even stronger connections with our retail partners to maximise the advocacy and availability of our brands and products.

The work that's been done over the past year in these four areas has been excellent, supported by great progress in deepening our consumer understanding, doing even better at joining up our operations with our sales agenda and proactively shaping our environment, and this gives me real confidence in our ability to realise the full growth potential of our business.

### **FY11 Highlights**

We've made strong progress this year, with a continued focus on driving growth through our Total Tobacco portfolio.

We've been alert to consumer dynamics, enabling us to capitalise on both value seeking consumer trends in the EU, as well as the growing demand for our global brands and products in Non-EU emerging markets.

Our margin performance and strong cash conversion demonstrates how we are reinforcing our cost and cash credentials. We will continue to make disciplined investments to support our sales agenda, including further M&A if it satisfies our strategic criteria and creates additional value for our shareholders.

Imperial's DNA has always been strong in relation to our cost and cash disciplines – a great basis to which we have added our passion for sales growth. The positive momentum in the business is tangible. We're very focussed on delivering sustainable returns for shareholders and I am excited by the growth opportunities that lie ahead for us in the coming year.



## **Preliminary Results Presentation**

01 November 2011

### **Imperial Tobacco Group PLC**

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

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