IMPERIAL BRANDS

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Annual General Meeting 2017

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Mark Williamson – Chairman

Good afternoon, ladies and gentlemen and welcome to our 2017 Annual General Meeting.

I'm Mark Williamson, Chairman of Imperial Brands, and I'd like to start by introducing your Board.

On my very far right are Non-Executive Directors Steven Stanbrook and Karen Witts, followed by Senior Independent Non-Executive Director Michael Herlihy, who will be stepping down from the Board after today's meeting.

Next to Michael is our Chief Development Officer Matthew Phillips and next to Matthew is our Chief Executive Alison Cooper.

On my immediate left are John Downing, Company Secretary, and Oliver Tant, Chief Financial Officer.

Next to Oliver are David Haines, Non-Executive Director and Chairman of the Remuneration Committee, Malcolm Wyman, Non-Executive Director and Chairman of the Audit Committee and Non-Executive Director Therese Esperdy.

Today's proceedings are being recorded. I'll start by giving you a brief overview of our 2016 performance, before handing over to Alison for a wider review of the year. We will then deal with the resolutions that are set out in the Notice of Meeting.

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Delivering on our Priorities in FY16

As you can see from this slide, we made good progress against our strategic priorities last year.

Our Growth Brands outperformed the market with volume and share growth, and we continued to invest in e-vapour technology to build the brand equity of blu.

We achieved revenue and profit growth in Growth Markets, prioritised quality volume in Returns Markets, and delivered excellent results in the USA.

We realised more savings from our cost optimisation programme, and our focus on capital discipline delivered another strong year of cash conversion and a significant reduction in net debt at constant currency.

This focus on delivering against our strategic priorities enabled us to grow revenue and adjusted operating profit by 10 per cent. We also increased tobacco operating margins by 60 basis points, and grew earnings per share by 12 per cent.

And for the eighth consecutive year, we delivered dividend growth of 10 per cent and remain committed to maintaining this annual growth rate over the medium term.

So, that's an overview of our achievements in 2016. It was another successful year for Imperial and I'll now hand over to Alison to take you through the detail.

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Alison Cooper, Chief Executive

Thanks, Mark. I'll start by looking at our revenue performance in a bit more detail.

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Strong Revenue Results

The 10 per cent increase in tobacco net revenue reflected a number of good performances, particularly from the US cigarette brands we acquired last year.

Equally encouraging were the excellent results from our Growth and Specialist Brands.

These brands have strong equity and we focus on enhancing the contribution they make to the business.

The proportion of net revenue generated by our Growth and Specialist Brands was up to 61 per cent in the year, and we will continue to focus on increasing this figure in order to further improve our quality of growth.

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Strengthen Portfolio

Our goal is to halve the number of brands in our portfolio and generate 75 per cent of our net revenue from our Growth and Specialist Brands.

To achieve that, we're reducing the number of Portfolio Brands, many of which have weaker brand equity and are therefore either delisted or migrated into Growth Brands.

To date, we've cut the number of brands by a quarter and our migrations have been key to this transition, enabling us to reduce portfolio complexity and build scale in our Growth Brands.

We've completed 49 migrations to date and they have all achieved an excellent consumer retention rate.

Several other migrations are underway and more are planned, as we continue to focus on strengthening the quality and sustainability of our brand portfolio.

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Strengthen Portfolio

We're also investing in new consumer experiences, with a current focus on the blu e-vapour brand, which is managed by our non-tobacco subsidiary Fontem Ventures.

In building the blu brand equity, Fontem has developed a new brand campaign which has been a great success in creating awareness of our second generation product blu Plus+.

blu sales are currently concentrated in the UK, the US, Italy and France – four markets that between them account for around 70 per cent of global e-vapour sales.

We're trialling new consumer engagement activities in the US and UK, designed to drive brand awareness and consumer education…….and we've launched an online consumer loyalty programme called blu Nation.

Our third generation product blu MAX will be launched later this financial year and will further improve the consumer vaping experience.

Turning now to our footprint performance….

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Developing Footprint: Growth Markets

In Growth Markets we focus on maximising long-term growth opportunities. This year we achieved revenue and profit growth while strengthening the portfolio through migrations and the addition of blu.

Revenue grew by more than 4 per cent and excluding Iraq and Syria, was up by 8 per cent.

Operating profit grew over 2 per cent; excluding Iraq and Syria and adverse foreign exchange, profit was up over 14 per cent.

Migrations are benefitting our Growth Brand performance, as I just mentioned. Our overall market share declined with share gains in Saudi Arabia, Italy and Japan offset by declines in Russia, although our Russian share performance stabilised in the second half of the year.

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Developing Footprint: USA Market

We've been very pleased with the first full year performance of our expanded US business. As you can see from the slide, the financial performance was strong and the percentage of net revenue from Growth Brands increased.

Our retailer merchandising programme is delivering enhanced visibility of our brands, better point of sale and promotional support, all of which is driving share growth in our key cigarette brands, Winston and Kool.

We've also made great progress in improving the performance of our mass market cigar brands by introducing a new distribution model.

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Developing Footprint: Returns Markets

Turning to our Returns Markets, where we continued to focus on quality growth and clear investment choices.

Growth Brands performed well, accounting for 54.6 per cent of tobacco net revenue.

In Returns North, Australia and Germany delivered good revenue and profit growth. The UK remains competitive and we continue to invest in the sub economy segment to defend our position.

In contrast, we deprioritised investment in Ukraine to reflect declines in market profitability.

Share declines in Returns North affected the overall share performance of the Returns division.

Results in Returns South benefited from strong performances in markets such as Algeria, which mitigated the on-going challenges in Morocco, while in France and Spain, we again benefitted from brand migrations.

Overall profitability was affected by adverse foreign exchange, EUTPD investment costs and the conclusion of the PMI contract in the UK and Morocco. Excluding these factors, we delivered a robust profit performance, up by 1 per cent.

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Cost and Cash Management

Effective cost and cash management are key drivers of our growth strategy.

We remain on track to achieve our target of £300 million of annualised cost savings by 2018.We've delivered £240 million so far, including £65 million in 2016.

Cash conversion remained strong at 95 per cent and we reduced adjusted net debt by £1 billion, excluding the adverse impact of currency translation, taking the total reduction over the last two years to £2.1 billion.

And as we mentioned earlier, 2016 was the eighth consecutive year in which we delivered a 10 per cent increase in the dividend.

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Corporate Responsibility

In CR we made further progress in the four key areas that define our responsibility framework - being responsible with products, creating a rewarding workplace, respecting natural resources and reinvesting in society.

Our people continue to support our responsibility agenda and an increasing number are getting involved in our annual global volunteering drive, Mobilise for May.

Employees supported over 160 projects in 44 countries last year, exceeding our target of 55,000 volunteered hours.

Pleasingly, our achievements continue to be recognised externally, including a 76 per cent rating in an assessment for the Dow Jones Sustainability Index.

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Next Chapter of our Strategy

Before concluding, I'd like to look to the future.....

During the year, the Board and our senior leadership team spent time reviewing our strategy for creating shareholder value over the next 10 years.

To support the delivery of further quality revenue growth in 2017 and subsequent years we are investing an additional £300 million in our Growth and Specialist Brands in the markets that offer the best opportunities for quality growth.

Investments will be prioritised and focused on areas where we have a track record of generating quality revenue growth, including brand building, customer engagement and sales execution.

This increased investment will be supported by a new phase of cost optimisation, which will deliver additional savings of £300 million per annum by 2020, at a cost of £750 million.

These savings will be generated by implementing further initiatives to reduce complexity and drive operational efficiencies.

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Our Priorities for FY17

In conclusion, 2017 is about driving even more focus on our strategic priorities.

There'll be more focus on strengthening the portfolio and developing our footprint, and the continued delivery of our cost optimisation programme and enhanced capital discipline will support the increased investment I've just outlined.

We have a strong track record of consistent delivery against these strategic priorities and we are well-placed to build on this over the coming year.

Thank you.

(Hand back to Mark)

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Annual General Meeting

Thank you Alison

Before turning to the formal business of the Meeting I'd like to thank my colleagues on the Board, our senior management team and employees around the world for their contribution to another successful year in 2016.

I'd specifically like to thank Michael Herlihy for the contribution he has made over the past nine years and would like to wish him all the very best for the future.

Michael was appointed Senior Independent Director three years ago and during that time he has been an invaluable help to me, Alison and the wider Board. Thank you, Michael.

Let's now turn to the formal business of the Meeting.

The Notice of Meeting includes at resolution 3 a proposal to adopt a new Directors' Remuneration Policy. This policy includes stretching targets that aligned remuneration to our new strategy.

A considerable number of shareholders supported the policy during consultations, but over time views changed and in these circumstances we believe the right course of action is for the Board not to seek shareholder approval for the new policy.

As a result, the Directors' Remuneration Policy and its associated metrics, as approved by shareholders at the AGM held in 2015 will continue to apply.

I, therefore, put the motion to the meeting that resolution 3 be withdrawn.

[Vote]

I declare the motion carried and resolution 3 is withdrawn.

There are now 20 resolutions to be put to the Meeting, all of which are set out and explained in the Notice of Meeting which, with your agreement, I'll take as read.

I intend to take questions in respect of all remaining resolutions now and then ask you to vote on all 20 resolutions, rather than propose each resolution in turn.

Are there any questions please? If you do ask a question, it would be helpful if you would wait for the microphone and let everyone know who you are.

[Q&A session]

Thank you for your questions. We will now proceed to vote on all the resolutions.

All resolutions at our shareholder meetings are decided by polls. Our registrar, Equiniti, is present as the polls' scrutineer to count the votes at the end of the Meeting, and we will announce the results and place them on our website as soon as practicably possible.

The Directors are unanimously in favour of each resolution and recommend that you vote in favour.

Please complete your poll card ensuring that you sign it and then place it in the ballot box by the exit as you leave the room.

I now formally propose that each of the resolutions set out in the Notice of Meeting, and on the poll card, is put to the meeting as a separate resolution. Resolutions 18 to 21 are special resolutions, and will be passed if more than 75 per cent of the votes are cast in favour.

All other resolutions are ordinary resolutions, and will be passed if more than 50 per cent of the votes cast are in favour. For the purposes of such counts, abstentions are not included.

The proxy votes received prior to the Meeting are now being shown on the screen.

Ladies and gentlemen, that completes today's agenda.

Please place your completed voting card in the ballot boxes located at the exits within the next five minutes, at which time the poll will close.

I would remind you that the results of the AGM will not be announced here today. We will announce the results and place them on our corporate website as soon as practicably possible.

My colleagues and I would like to thank you for attending. I hope you all have a very safe journey home.

Thank you.