Annual General Meeting

02 February 2011

Iain Napier – Chairman

Good afternoon, ladies and gentlemen. I am delighted to welcome you to Imperial Tobacco Group's 2011 Annual General Meeting.

A quorum of shareholders is present, so I declare the meeting open.

I'd like to start by introducing your Board. I am Iain Napier, the Chairman of your Company.

On my very far right is Berge Setrakian a Non-Executive Director, then Michael Herlihy also a Non-Executive Director.

Moving in next to Michael is Pierre Jungels, Senior Independent Director, then Graham Blashill, Sales and Marketing Director.

Next to Graham is Alison Cooper, our Chief Executive.

On my immediate left is Matthew Phillips, Company Secretary, then Bob Dyrbus, Finance Director.

Next to Bob is Mark Williamson, Non-Executive Director, then Susan Murray, Non-Executive Director and then finally on my far left is Ken Burnett, a Non-Executive Director.

You might like to know that today's proceedings are being recorded.

If you wish to ask a question on any of the resolutions, please go to the Question Registration point at the rear of the room.

I'll start the meeting with an overview of our 2010 financial year, Alison will give a more detailed operational review and we'll then turn to the more formal business of the meeting.

Our Strategy

2010 was a significant year for Imperial – one in which we shifted our strategic focus. At the heart of our strategy is our sales led agenda.

This is complemented by our ongoing focus on cost optimisation and cash utilisation.

We build long term growth across our business and create sustainable shareholder value by effectively leveraging our market footprint, our unique total tobacco approach, our brands and our people to drive sales.

Our results in 2010 demonstrated the success of our strategy, with cigarette and fine cut tobacco gains in both mature and emerging markets and significant progress made in reducing our debt.

FY10 Highlights

Tobacco net revenues were up by 3 per cent to £7.1 billion and benefited from strategic cigarette brand gains, excellent fine cut tobacco volumes and strong pricing.

Good revenue growth supported by ongoing cost optimisation grew adjusted operating profits by 5 per cent to £3.1bn.

Adjusted earnings per share rose by 11 per cent to 178.8p, a strong performance in what was a challenging environment in some of our key markets.

Our continued focus on cash generation further reduced our level of adjusted net debt – down by £1.5bn to £9.3bn.

Your Board proposed a final dividend of 60p per share, bringing the total for the year to 84.3p per share, an increase ahead of earnings per share at 15 per cent.

FY10 Overview

Looking at cigarette and fine cut tobacco volumes together as stick equivalents provides a more accurate assessment of our performance – and on this basis our volumes were down by just 2.9 per cent.

Cigarette volumes were down 4.2 per cent in the year – largely as a result of declines in Russia, Spain and the USA with strong growth in fine cut tobacco which was up by almost 9 per cent.

Our global strategic cigarette brands – Davidoff, West and Gauloises Blondes - represent 22 per cent of our total cigarette volumes and are a growing part of our business.

We grew Davidoff volumes by three per cent and West volumes by two per cent, with both brands performing particularly well in Eastern Europe.

Volumes of Gauloises Blondes recovered in the second half, improving by four per cent.

Our key regional brand, JPS had another excellent year, growing 13 per cent in the high margin markets of Western Europe and Australasia.

Our total tobacco portfolio ensures our brands and products continue to evolve in line with consumer requirements. We made excellent progress with our fine cut tobacco portfolio notably in Central Europe where volumes grew strongly.

I'll now hand over to Alison to take you through more details on our operational performance.

Alison Cooper – Chief Executive

Our Strategy

Thank you. 2010 was a year of progress for Imperial and I was pleased to report a strong set of full year results which demonstrated the success of our strategy.

The essence of our enhanced sales strategy is a continual focus on growing our topline supported by effective cost optimisation and cash utilisation.

We use our assets - our brands, our total tobacco portfolio, our broad market footprint and our people to build sales.

Applying Our Strategy: Consumer Centric

We have three particular areas of focus when applying our strategy: consumer centricity, execution excellence and future foundations.

Consumer centric is about understanding what drives our consumers and making the right portfolio choices in line with their evolving preferences.

Applying Our Strategy: Execution Excellence

Execution excellence is ensuring a fast and flexible business focused on delivery.

Enhancing our growth potential includes the strong and lasting partnerships we build with retailers and industry partners.

Applying Our Strategy: Future Foundations

Building future foundations that underpin our sales strategy and enhance our long-term sustainability is fundamental to the way we manage our business.

Our People

We drive responsible behaviour throughout the Group, which is encapsulated for employees in our code of conduct.

Our people have responded very positively to our enhanced sales focus with our global team fully aligned behind the sustainable sales growth agenda.

Last year we conducted research into our current skills and capabilities and benchmarked them against other FMCG companies.

These results combined with feedback from our global management engagement survey conducted at the end of last year are shaping our people agenda.

Our priority is to ensure that our people continue to develop and have the right skills and capabilities to support our sales growth strategy.

Our Responsible Approach

We recognise the controversial nature of tobacco and believe it is essential that tobacco products are manufactured and sold by legitimate, responsible businesses.

In 2010, we further increased our focus on anti-illicit trade activities and last September announced that we signed an agreement with the European Commission and the EU Member States to further tackle illicit trade.

This is an important alignment of resources addressing an issue that benefits no one but the criminals involved, adversely affecting governments, consumers, retailers and the legitimate tobacco industry.

We continued to engage with and influence our partners to improve the social and environmental standards in our supply chain.

All of our tobacco suppliers are now included in our Social Responsibility in Tobacco Production Programme.

To further embed high standards of conduct and behaviour throughout the Group, we revised and enhanced our existing Code of Conduct last year and this is being rolled out across the business.

Our commitment to managing our business responsibly has once again been recognised externally by Business in the Community with a gold award rating.

Let’s now look at last year’s performance in our regions.

UK Performance: FY10

In the UK, we grew our cigarette share to 45.4 per cent. Consumers are continuing to economise and we have responded by leveraging the strength of our key value brands JPS Silver and Windsor Blue.

Both brands gained share during the year and together they now account for around 41 per cent of the growing economy sector.

In fine cut tobacco, we achieved further strong volume gains from Golden Virginia Yellow and Gold Leaf.

Germany Performance: FY10

In Germany our overall cigarette share was just under 27 per cent. JPS continued to go from strength to strength, holding just under 10 per cent market share at the end of the financial year.

Gauloises Blondes was incorporated into our distribution network last April and we subsequently extended its distribution and improved brand share against the first half of last year.

Our total fine cut tobacco share in Germany was up to 18.2 per cent, with JPS and Route 66 the key drivers of growth.

Spain Performance: FY10

In Spain, we focused on maintaining profitability by leveraging our market leadership position and our total tobacco portfolio.

In cigarette, we launched Fortuna Red Line as a brand extension to support the Fortuna brand family, Nobel delivered a resilient performance and Ducados Rubio increased its market share.

Last June we extended the Ducados Rubio brand franchise with the launch of the first expanded make your own product in the market.

Rest of European Union Performance: FY10

In our Rest of European Union region we delivered strong growth in a number of markets.

In France, a key market for us in this region, our domestic blonde share was 23.6 per cent with News, JPS and Fortuna all performing well.

Elsewhere, we grew cigarette share in Austria, Czech Republic, Hungary and Portugal with good performances from a number of regional and local brands such as JPS, Route 66 and Golden Gate.

Regional fine cut tobacco market volumes were up five per cent and we made share gains in all the Central European markets in which we operate with particularly strong performances in Poland, Czech Republic and Hungary.

Americas Performance: FY10

In the USA, consumers continued to search for value following the significant tobacco tax increases in 2009. We maintained our cigarette share at just under 4 per cent, and our brand portfolio remains well-positioned in the discount sector.

In addition, we rejuvenated our two main brands USA Gold and Sonoma and further extended their distribution.

Rest of the World Performance: FY10

We continued to focus on driving sales growth across the emerging markets of our Rest of the World region.

We performed well in Africa, increasing our share in a number of markets and we made further good progress with Gauloises Blondes in Morocco.

In our Middle East region, we again grew our total share across the region and in a number of markets, notably in Saudi Arabia with Davidoff and Turkey with West.

In Eastern Europe we grew our sales by 7 per cent, with Davidoff performing particularly well in Russia and Ukraine.

We delivered an excellent performance in Asia-Pacific with market share, volume and profit growth in most markets.

In Australia, we grew our cigarette share to 17.5 per cent driven by the ongoing success of JPS and in Taiwan, further gains from Davidoff and West helped to improve our share to 11 per cent.

We also increased our share in Laos and Cambodia and with our partner KT&G, we launched Davidoff in South Korea last May.

Logistics Performance: FY10

And finally our logistics business, which performed robustly with operating profit remaining stable in spite of current economic conditions.

Despite tobacco market volume declines in Spain, tobacco distribution was resilient, offsetting lower volumes with price increases and cost savings.

France also performed well with market volumes broadly stable and in Italy our results benefited from price increases.

In other logistics, our focus was on maintaining our profitability through improving revenues and managing costs.

We continued to gain share in French wholesale distribution grew revenues by almost 20 per cent in our pharma division and maintained sales in our transport activities despite a difficult operating environment.

Overall, we delivered a good performance last year with strong financial results, cigarette and fine cut tobacco gains in mature and emerging markets and significant progress made in reducing our debt.

We have the strategy, the assets and the capabilities to build on this success going forward and this remains our priority.

Outlook for 2011

We have continued to build on this positive momentum in the first quarter of our current financial year.

I can confirm that the overall operational performance and financial position of the Group for the financial year to 30 September 2011 is in line with the Board's expectations.

More details on our trading performance are available in our interim management statement issued this morning, copies of which are available at the information point at the back of the room and on our website.

Thank you and I'll now hand back to Iain.

Chairman – Iain Napier

Thank you, Alison. In addition to our interim management statement this morning, we've announced today that as part of our Board and Committee succession plans, Michael Herlihy will take over from Pierre Jungels as Chairman of the Remuneration Committee.

In December we announced that Graham Blashill is retiring today as Global Sales and Marketing Director after 42 years with Imperial.

During that time he has managed our operations in a number of key markets.

He has helped to develop our brand and product portfolio into arguably the most versatile in the industry and played a key role in making Imperial the company that it is today.

I would like to thank Graham for his outstanding contribution to our success and wish him a long and happy retirement.

Two external sales and marketing appointments have been made to our Operating Executive to further drive our sustainable sales growth agenda.

Arthur van Benthen, formerly Customer Management Director of the Metro Group will join Imperial as Group Sales Director from 1 March 2011.

He will work closely with Roberto Funari, formerly of Reckitt Benckiser who was appointed Group Marketing Director in November.

Finally, I would also like to thank my colleagues on the Board, our senior management team and our employees worldwide for their contribution to our success in 2010.