Imperial Tobacco

Proposed acquisition of Altadis - 18 July 2007

Gareth Davis – Chief Executive

Good morning ladies and gentlemen and welcome to today's presentation.

I'm delighted to have this opportunity to present to you our proposed acquisition of Altadis.

I'm joined by Bob Dyrbus, our finance director, and Alison Cooper, our corporate development director, who has recently been appointed to the Board. I'm also joined by several other key Imperial executives.

I'm sure this announcement has seemed a long time in coming for many of you and I can assure you that it has been the same for all of us at Imperial!

Disclaimer

Before I go into a summary of the transaction, I'd just like to draw your attention to this disclaimer relating to any forward looking statements made in the presentation. I'll leave you to read it at your leisure.

Transaction Summary

So let's start with an overview of the transaction.

We've made a proposed offer for the whole of Altadis at €50 per share, giving an equity value of €12.6 billion – or £8.5 billion. When existing net debt and minorities are included, it represents an Enterprise Value of €16.2 billion, or £11.0 billion.

I'm pleased to say that the Altadis board believes that this is an attractive offer and will recommend it to its shareholders, and this is reflected in the terms of a written agreement between Altadis and Imperial.

The proposed acquisition will initially be financed through new debt facilities and an equity bridge, which will be refinanced, in part, by a rights issue following completion of the deal.

As you know, our previous proposal was based on publicly available information. We have now been able to improve our offer following meetings with Altadis management and after reviewing certain additional information provided by them.

This information has confirmed that there is material additional value to Imperial from the proposed acquisition, predominantly in the areas of operational efficiencies and non-core asset divestments, with some further limited value through tax structuring.

We see revenue benefits and substantial cost savings arising from the Enlarged Group, and expect to be able to generate annual operational efficiencies of approximately €300 million, such that the proposed acquisition is expected to deliver a post-tax return on investment in excess of our weighted average cost of capital by the second full financial year of ownership.

Strategic Rationale

Altadis and Imperial are undoubtedly a great strategic fit. The deal meets our established criteria and will strengthen our position as the world's fourth largest international tobacco manufacturer.

The acquisition of Altadis provides us with a significant enhancement to our operating platform and scale with increased presence in profitable mature markets as well as improved opportunities in emerging markets.

The Enlarged Group will also have a stronger and more diversified brand and product portfolio.

And combined with the revenue benefits and substantial cost savings we expect to achieve, we believe this is an excellent deal for Imperial that will create significant value for our shareholders.

Process – considerations

The key elements of the process from here are driven by the Spanish takeover laws, which will change on 13 August as a result of Spain's implementation of the EU Takeover Directive.

We filed our offer document with the Spanish regulator, the CNMV, earlier today.

If, as expected, our offer document is approved after 13 August, hopefully in September, we will be under the new rules, although these won't be fully implemented until the new Royal Decree is enacted, which is expected to be in September at the earliest.

Of course, the proposed offer must be approved by our shareholders and we will be posting our circular to shareholders later today and seeking their approval at an EGM in Bristol on 13 August.

There are also the usual mandatory EU Commission and US Hart-Scott-Rodino anti-trust clearance requirements. We are confident that any undertakings required to remedy any competition issues will not have a material adverse effect on the operational and financial performance of the Enlarged Group.

The relevant clearances are likely to be obtained before completion of the acquisition.

We have provided details of the estimated timetable in the appendix to this presentation. As things stand, we expect the transaction to close in the first quarter of our next financial year.

Funding

Moving onto the funding.

We have agreed new bank facilities of £9.2 billion in order to refinance existing Imperial and Altadis facilities, as well as to provide additional debt funding for the acquisition.

Post completion, we will have a larger proportion of debt in euros but, despite pressure on underlying rates, we don't expect our average all-in cost of debt to change materially.

Since the proceeds of the rights issue will not be available on completion, an equity bridge facility of £5.4 billion has been put in place for this part of the consideration.

The rights issue will be launched within the next 12 months, estimated to be at around £5 billion. It will be sized at that time to ensure that we issue the minimum amount of equity needed to maintain an investment grade credit rating, to which we remain committed.

Key Financials

Based on Altadis' reported results for the year ended 31 December 2006, the offer price of €50 per share represents an Enterprise Value to EBITDA multiple of 14.2 times, taking into account Altadis' net debt and the interests of minority shareholders.

If the synergies and related costs are taken into account, the multiple reduces to 11.1 times.

The offer price also represents a premium of 32% over the closing price of €37.84 per Altadis share on 12 March, 2007, the last trading day before market speculation in relation to our initial approach to Altadis took hold.

Since this time, shareholders have also received dividends worth €1.10 per share.

And as I mentioned, the deal is expected to deliver a post-tax return on investment in excess of our weighted average cost of capital by the second full financial year and a return approaching our weighted average cost of capital by the first full financial year of ownership. It will also be earnings enhancing in the first full financial year and deliver more favourable returns than buybacks.

We expect the Enlarged Group's adjusted tax rate to be around 26.5%.

Operational Efficiencies

As I indicated, we expect to generate operational efficiencies of €300 million per year by the end of the second full financial year following completion.

This is over and above the unrealised savings of €70 million that Altadis previously announced in 2003 and 2006 as part of its restructuring plans, but it does include our evaluation of the information presented to investors by Altadis on 23 April 2007.

Around 50% of the €300 million will come from savings in production and purchasing, with the balance coming from a combination of sales and marketing synergies and rationalisation of corporate overheads.

No account of revenue benefits have been included in the operational efficiencies of €300 million.

Once we complete the deal and begin the integration process, we will be in a much better position to give clearer guidance on the specifics of the cost savings.

The related one-off cash cost associated with these savings is estimated at €470 million, predominantly incurred in the first two financial years.

In addition, we also expect to benefit from disposals of non-core assets valued by Altadis at €650 million. These were announced by Altadis earlier this year, with around half due to come from property and the remainder from other asset disposals, including the sale of Logista's stake in Iberia.

We have a strong track record of integrating acquisitions and delivering targeted cost savings within the anticipated timeframe and we intend to integrate the two businesses rapidly, following completion.

A senior management team with representatives from both companies will work together to prepare a detailed integration programme.

Altadis - Overview

Let's now look at Altadis itself.

This will be relatively brief given that it is a public company and already very familiar to many of you.

Altadis was formed in 1999 when the Spanish and French tobacco companies, Tabacalera and Seita, were merged.

The Group holds strategic positions in its three core businesses: cigarettes, cigars and logistics.

Altadis has a number of very well known cigarette and cigar brands, which fit well with our own multi-product portfolio, and they also have a broad international presence which complements our own geographic profile.

Altadis has around 27,400 employees and 27 manufacturing sites. These sites produce cigarettes, cigars and fine cut tobaccos, and are mainly in Europe and the Americas.

And the Altadis litigation profile is similar to our own in that it has never settled a tobacco litigation case or received a final adverse decision.

Altadis – revenues and profits

In the year ended 31 December 2006, Altadis had economic sales of just under €4 billion and earnings before interest, tax, depreciation and amortization of over €1.1 billion.

Whilst cigarette makes up almost half of the profits, the balance is split fairly evenly between cigars and logistics. The "Other" element mainly relates to the holding in Aldeasa, the Spanish airport retail operator, less the allocation of some central overheads.

Altadis – cigarette (1)

In its 2006 financial year, Altadis sold 112 billion cigarettes. This figure excludes the Altadis fine cut tobacco volumes and also some cigarette brands which are licensed to Imperial, such as Fine in a number of African markets. Together, these account for an additional 7 billion stick equivalents.

Almost 70% of its volumes come from four markets - Spain, Russia, France and Morocco.

Altadis has a number of long established cigarette brands, Gauloises is the most popular, accounting for 22% of total volumes, followed by Fortuna and Balkan Star in Russia and Marquise in Morocco.

Altadis – cigarette (2)

Gauloises, an iconic French brand, has both dark and blonde variants. Blonde is by far the most popular with sales of more than 21 billion sticks in the last financial year.

The major markets for Gauloises blonde are France, Germany, Austria and the Middle East.

Whilst volumes fell in 2006, there was some recovery in the first quarter of Altadis' current financial year, notably in France, following its repositioning, as well as in the Middle East.

Volumes of Fortuna last year were over 15 billion sticks, with sales predominantly in Spain, Morocco, France and Italy.

Volumes were sharply down on the previous year, largely as a result of the price war in Spain, but they have since recovered to some degree following an increase in the minimum incidence of duty in November 2006.

These trends will clearly be a key focus for us and we will be targeting to build on these recoveries and maximize the future growth potential of these and other Altadis brands both in current and new markets.

Altadis – cigar

Altadis has the world leading position in cigars and has particular strength in the US, Spain and France.

It is number one in the US cigar market on sales volumes, revenues and profitability. Its premium brands include Montecristo, Romeo y Julietta and H Upmann supported by a number of mass market brands such as Backwoods, Dutch Masters and Phillies.

Altadis acquired a 50% interest in Corporacion Habanos in 2000, and is the only company to offer a portfolio of prestigious Cuban brands. Although none of these can be currently sold in the US due to the Cuban sales embargo, these brands will be a great addition to the Imperial portfolio.

Altadis – logistics

Looking at logistics now, which includes the distribution of tobacco products for Altadis and other manufacturers, as well as a wide range of non-tobacco products and services.

The business services more than 510,000 points of sale in Western Europe and Morocco, and last year tobacco distribution accounted for 47% of the total logistics' revenues.

Altadis has logistics positions in Spain, Portugal and Italy, via its majority holding in Logista, as well as in France and Morocco.

In 2006, just under 80% of economic sales were generated in Spain, Portugal and France.

The Enlarged Group – a stronger no.4 player

As I've said, the proposed acquisition represents a powerful combination which would consolidate our position as the world's fourth largest international tobacco manufacturer - with combined annual cigarette volumes of around 312 billion sticks.

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The Enlarged Group – broadens geographic footprint

The Enlarged Group will become a more geographically balanced international business, with enhanced growth opportunities.

The acquisition will not only bring us greater product diversification from the combined businesses but also a broader spread across the markets in which we both operate.

With our 2006 pro-forma net revenues almost doubling, the proportion of total revenue from our two core markets will be reduced.

The UK and Germany combined currently account for 42% of Imperial's revenues, this will reduce to only 26% in the Enlarged Group.

The Enlarged Group – strong cigarette brand fit

The combination of Gauloises and Fortuna with our own international strategic brands, Davidoff and West, will enhance our competitive position, notably in Western Europe, and strengthen our cigarette portfolio globally.

In addition, Altadis has a number of substantial regional brands such as Ducados, Marquise, Fine and Balkan Star.

We will look to capitalise on brand and product opportunities in existing and new markets.

We are confident that we can leverage the combined brand portfolios, in combination with our sales and marketing expertise, to support Altadis' cigarette sales in its key markets and to further develop Altadis' products and brands in some of our key markets.

The Enlarged Group – strong FMC positions in Europe

This slide highlights the cigarette shares of the Enlarged Group in key European markets.

We will, of course, remain the market leader in the UK with a share of more than 46%, and will strengthen our number two position in Germany, with our share climbing to just under 27%.

In Altadis' two core markets of Spain and France, where Imperial is currently a fairly small player, the Enlarged Group will have stronger positions.

We will have a leading position in Spain with a 36.6% share, and substantially increase our position in France – up to a 28.5% share.

And we will also improve our share in two other key markets, Russia and Italy, where our shares will increase to around 11.5% and 3.0% respectively.

The Enlarged Group – enhanced cigarette shares

Our share will also be enhanced in a number of other markets, particularly in Morocco where we will be the number one player, and also in Poland, Cambodia, Finland, Belgium and Austria.

Altadis' presence in Morocco, where it has been granted monopoly status until the end of 2010, will complement our existing footprint in Africa. Its cigarette market share of 87% is predominantly made up of 59% in the local blond segment and 22% in the local dark segment. The balance of its share is made up of its own international brands.

The Enlarged Group – strong tobacco and cigar brands

Altadis' other tobacco products also fit well with ours.

We are the world leader in fine cut tobacco, with our key brands Golden Virginia, Drum, Van Nelle and Interval, while Altadis is the world leader in cigars with, as I said earlier, particular strength in the US, France and Spain.

In the US, Altadis' cigar business combined with Commonwealth Brands, the planned launch of our own tobacco products and our existing US papers and tubes business, will considerably increase our scale in this highly profitable market.

The Enlarged Group - logistics

Altadis' logistics business is an attractive and complementary addition to Imperial, which we will continue to run on a standalone basis.

With EBITDA margins of 26% in 2006, it's well-managed and profitable - and, like tobacco, is strongly cash generative.

Altadis currently has a shareholding of 59% in Logista, a quoted Spanish logistics company.

Our acquisition of Altadis would trigger a requirement under the new Spanish takeover laws either to make a tender offer to acquire the outstanding Logista shares or to reduce the shareholding in Logista to below 30% within three months of completion.

Our current intention is to review the shareholding in Logista after completion of the proposed acquisition and to take a final decision then, subject to all necessary consents and approvals.

The Enlarged Group - management and employees

Following completion, we intend to add appropriate representation from the Altadis board to our Board.

Antonio Vazquez will be offered an executive position on our Board and an executive role as CEO of the Enlarged Group's cigar and logistics businesses.

We will invite Jean-Dominique Comolli to become our non-executive Deputy Chairman.

In addition, the Altadis board will be requested to submit one of their current non-executive directors to be invited to join our Board as a non-executive director.

The headquarters of the Enlarged Group will be in Bristol, while the cigar and logistics headquarters will remain in Madrid. We will also maintain a substantial presence in Paris.

We take the view that one of the major benefits of the proposed acquisition going forward is that the skills and talent of Altadis' employees will be available to the Enlarged Group.

From the outset, the management team of the combined businesses will be tasked to drive shareholder value by focusing on the swift integration of the two companies and effective market and brand growth strategies, all underpinned by strong financial and productivity controls.

Imperial Acquisitions – a track record of value creation

Our successful track record of acquisitions reflects our insistence that potential deals meet our established investment criteria.

Strategically, we seek acquisitions that enhance our brand equity, increase our geographic footprint and offer the opportunity to reduce costs and extract synergies.

Financially, we seek deals with returns that exceed our cost of capital in the short term, as well as providing over the medium term a more favourable return on investment than alternative uses of funds, specifically our share buyback programme.

Since we listed on the London Stock Exchange in 1996, we've invested £6.2 billion on 14 acquisitions, all of which have contributed to our performance and created very significant value for our shareholders.

Our most recent acquisition in April of this year, Commonwealth Brands, is currently trading in line with our expectations, as is the rest of the Group.

Three months in, we continue to have high expectations for Commonwealth and believe that it will prove to be an excellent value creating deal, and I have no doubt that the acquisition of Altadis will be the same.

Summary

So, in summary ladies and gentlemen, I believe this is an excellent deal for Imperial and an excellent deal for our shareholders.

I'd like to close with a reminder of this slide, which I think sums up all the key benefits this deal delivers.

It's a great strategic fit which meets our established acquisition criteria.

The Enlarged Group will be a stronger world number four.

It provides us with significant enhancements to our operating platform and scale with an increased presence in profitable mature markets as well as improved opportunities in emerging markets.

And we will benefit from a stronger and more diversified brand and product portfolio.

The Enlarged Group will also generate revenue benefits and substantial cost savings, all combining to create significant value for our shareholders.

Thank you ladies and gentlemen. 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 before speaking and then give your name and organisation.