



# **JT International Investor Field Trip**

## **Russia Market**

**St. Petersburg**

**September 28, 2010**

quality commitment innovation synergy



This presentation contains forward-looking statements about our industry, business, plans and objectives, financial conditions and results of operations based on current expectations, assumptions, estimates and projections. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of operational results and financial condition and state other forward-looking information.

These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors that could cause our actual results to differ from those suggested by any forward-looking statement. We assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- 1) health concerns relating to the use of tobacco products;**
- 2) legal or regulatory developments and changes; including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, governmental investigations and privately imposed smoking restrictions;**
- 3) litigation in Japan and elsewhere;**
- 4) our ability to further diversify our business beyond the tobacco industry;**
- 5) our ability to successfully expand internationally and make investments outside of Japan;**
- 6) competition and changing consumer preferences;**
- 7) the impact of any acquisitions or similar transactions;**
- 8) local and global economic conditions; and**
- 9) fluctuations in foreign exchange rates and the costs of raw materials.**

This presentation contains packages of our brands in some slides. Those slides have been developed to explain JTI's performance to our investors. And they are not intended to promote the purchase of our products

# Kevin Tomlinson

**Russia**  
**General Manager**

- Introduction
- Economy and Tobacco Market Overview
- JTI Strategy & Performance
- Conclusions

**- Introduction -**



## Russian Market

17.1 million sq. km

142 million people

Male/Female 46%/54%

Urban population 73%

Smoking Incidence 40%<sup>(1)</sup>

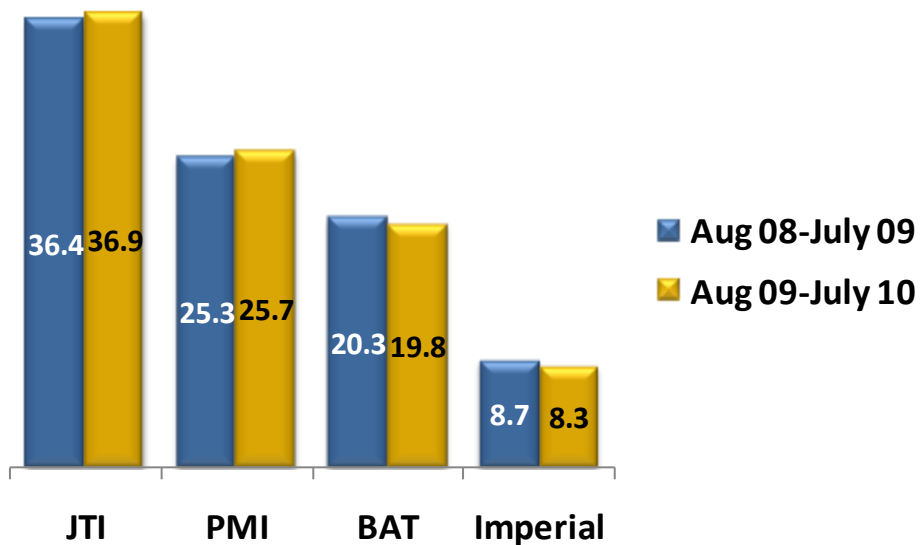
390 billion cigarettes<sup>(2)</sup>

- Largest JTI Market
- 28 Sales Divisions employing 2,300 people<sup>(3)</sup>
- Strategic partnership with the largest distributor in Russia, shared with key industry players

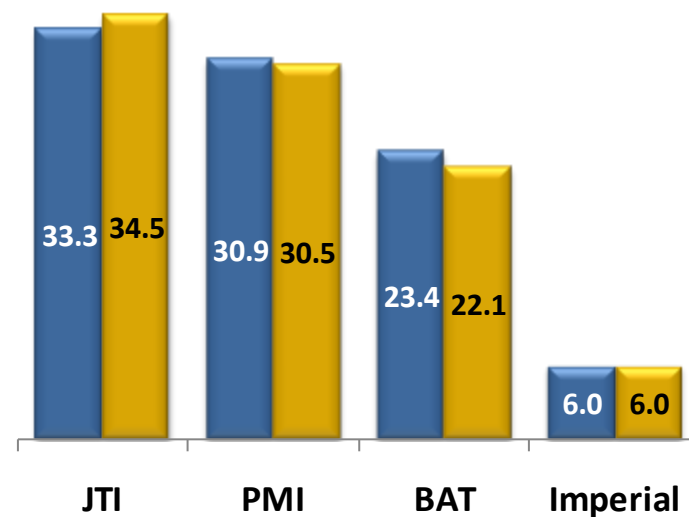
(1) consumption: 1+ cigarettes a day ; (2) FY 2009; (3) Headcount as of May 2010

Source: Rosstat Jan-2010, TNS Global consumer study 2010 , JTI Estimates

## Share of Market (%)



## Share of Value<sup>(1)</sup> (%)

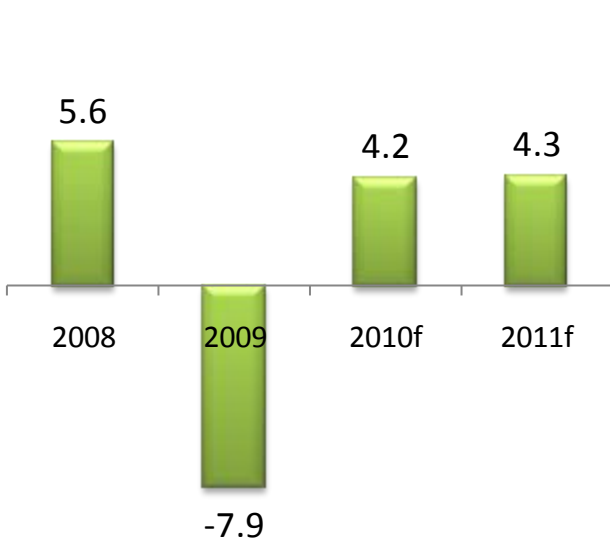


➤ JTI is the market leader in Russia both in terms of Share of Market and Share of Value

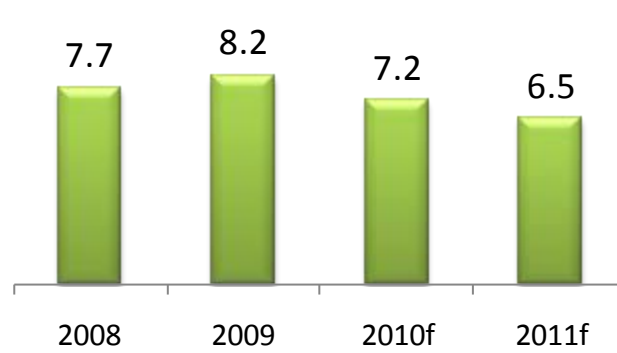
(1) Share of value based on retail selling price  
Source: A.C. Nielsen

**- Economy & Tobacco Market Overview -**

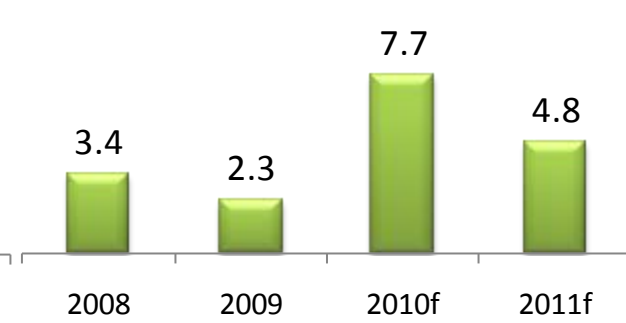
### Real GDP growth, %



### Unemployment, %



### Growth of real disposable income, %



- Severe economic crisis impact in 2009, but economic forecasts point to a gradual recovery

Note: 2010 and 2011 figures are forecasts

Source: IHS Global Insight, Economist Intelligence Unit

- ❑ New tobacco regulations (enforced since July 2010) set product and packaging requirements compliant with the FCTC:
  - ❑ Enlarged health warnings
  - ❑ Ingredients reporting
  - ❑ Reduced levels of tar and nicotine
  - ❑ Notation on products with “lights” and “mild” descriptors
- ❑ Legislative discussion ongoing regarding smoking in public places and further restrictions on advertising

➤ The Russian market is increasingly regulated

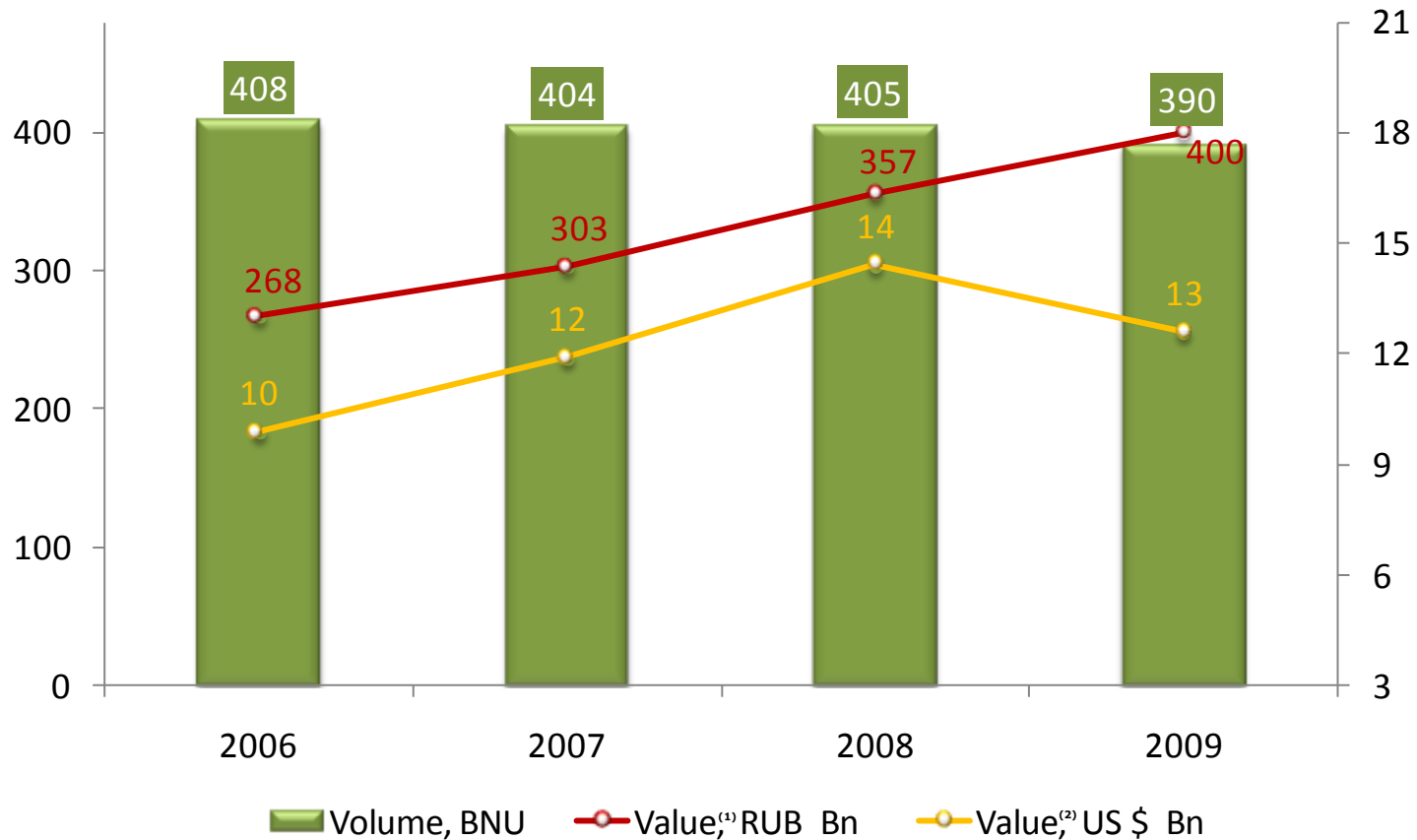
- ❑ Three-year excise schedule in place since 2007
- ❑ Average 2008-2010 growth rates at 25-30%
- ❑ Anticipated tax increase in 2011-13 in the range of 30-40% annually
- ❑ Current excise incidence for Winston is 19% of the retail price

	<b>Ad Valorem,</b> (% of MRP)	<b>Specific,</b> (Rub / M)	<b>Minimum Excise Tax,</b> (Rub / M)	<b>Winston Excise Burden</b> (Rub / pack)	<b>YoY increase</b>
2007	5.0%	100	115	3.07	
2008	5.5%	120	142	3.72	21.3%
2009	6.0%	150	177	4.74	27.4%
2010	6.5%	205	250	6.21	31.0%

- Predictable excise tax environment in Russia supports steady development of government tax revenue and business
- The next tax schedule to 2013 is currently under discussion

(1) MRP: Minimum Retail Price

Source: Russian Ministry of Finance, JTI Estimates

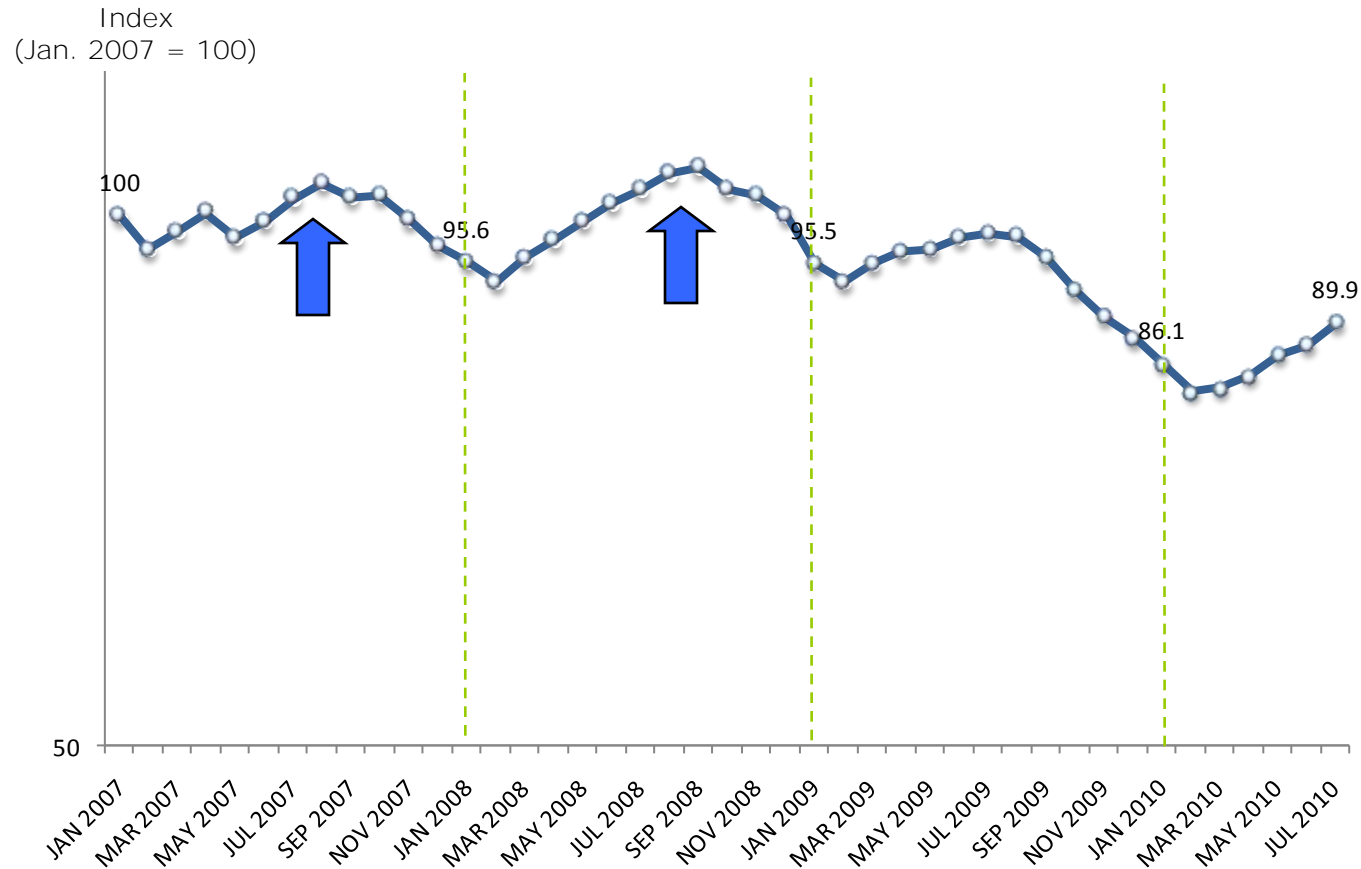


- The industry contracted sharply in 2009 as a result of the economic crisis, both in terms of volume and value
- Industry value declined in US\$ terms in 2009. However, RUB value continued to increase driven by tax and price increases

Note: Value based on retail selling price, at average US\$ FX rate

(1) RUB value: left-hand scale; (2) US\$ value: right-hand scale

Source: Central Bank of Russia, JTI Estimates

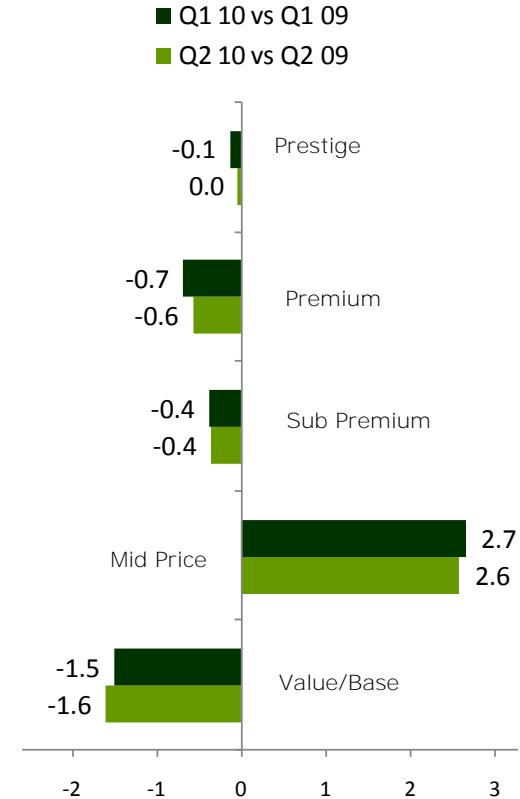
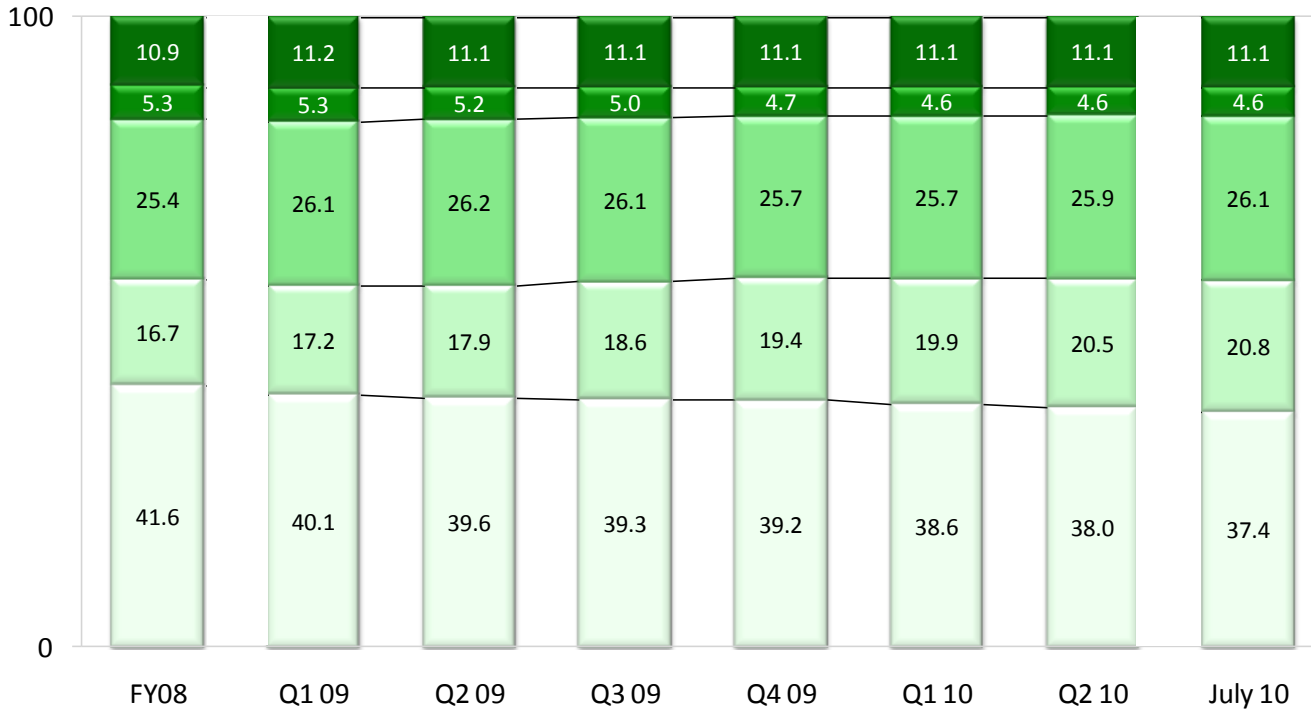


- After the severe contraction of 2009, we are observing a return of the historical pattern of higher consumption during summertime
- Off-take data, although only available with 6 months' delay, shows a Q1 market contraction of 7%, less than the 11% reported by A.C. Nielsen

# Down-trading is slowing down

Share of Market, %

Value/Base    Mid-Price    Sub-Premium    Premium    Prestige

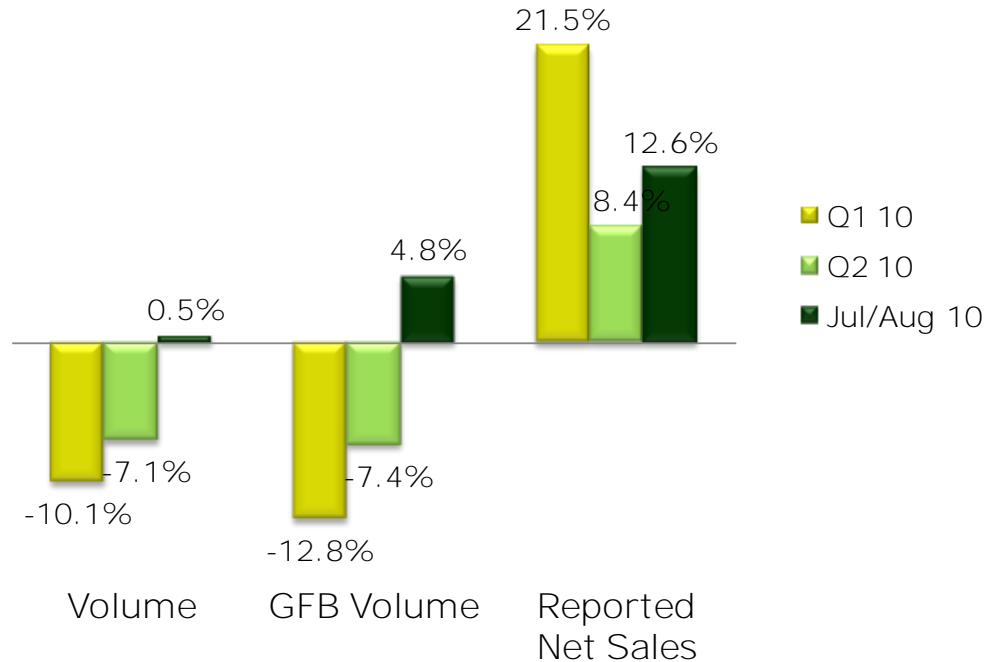


- July data confirms the trend of return to growth of Sub-premium that we have seen since Q2 10
- The effect of the June price increase cannot yet be seen in the July data

- ❑ Economic forecasts point to gradual recovery and resumption of up-trading
- ❑ FCTC will continue to drive regulation
- ❑ Excise tax regime is expected to remain predictable
- ❑ Industry volume contraction expected to slow down by year end, with FY contraction at circa. 3%

**- JTI Strategy & Performance -**

## Volume and Net Sales 2010 Net change vs. same period in 2009 (%)

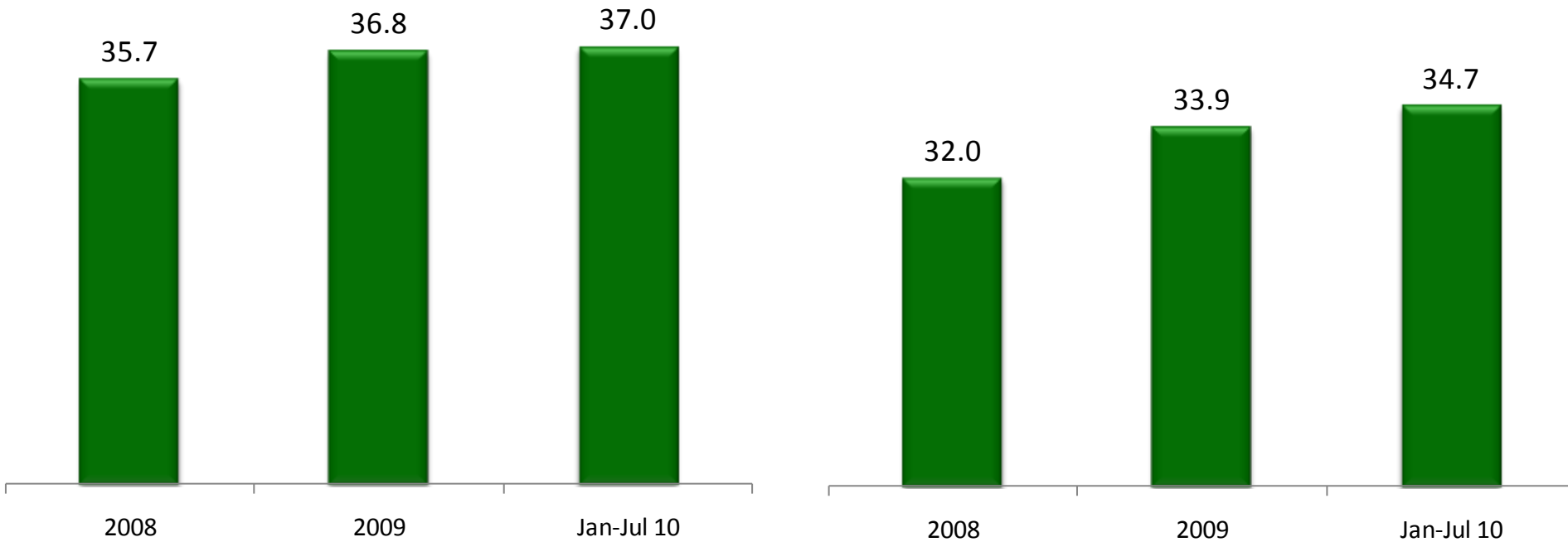


- During July/August, total volume grew slightly, mainly driven by slowing market contraction and SOM gains.
- GFB volume grew strongly in July/August, mainly driven by Winston and LD
- RUB strength had a positive impact on net sales comparisons, especially in Q1 10. The different timings of price increases (March 2009 vs. June 2010) impacted Q2 10 net sales.

- ❑ Leveraging our scale to increase profitability by seizing pricing opportunities
- ❑ Focusing investment behind GFB and portfolio premiumization through innovative new launches and extensions, to capture opportunities from up-trading in the mid- and long-term
- ❑ Continuing to manage our strong non-GFB portfolio
- ❑ Strengthening our leadership in visibility in Modern & Traditional channels as a platform for consumer activities
- ❑ Reinforcing our standing as a good and responsible corporate citizen through our philanthropy programs
- ❑ Attracting, retaining and developing top talent on the market

Share of Market

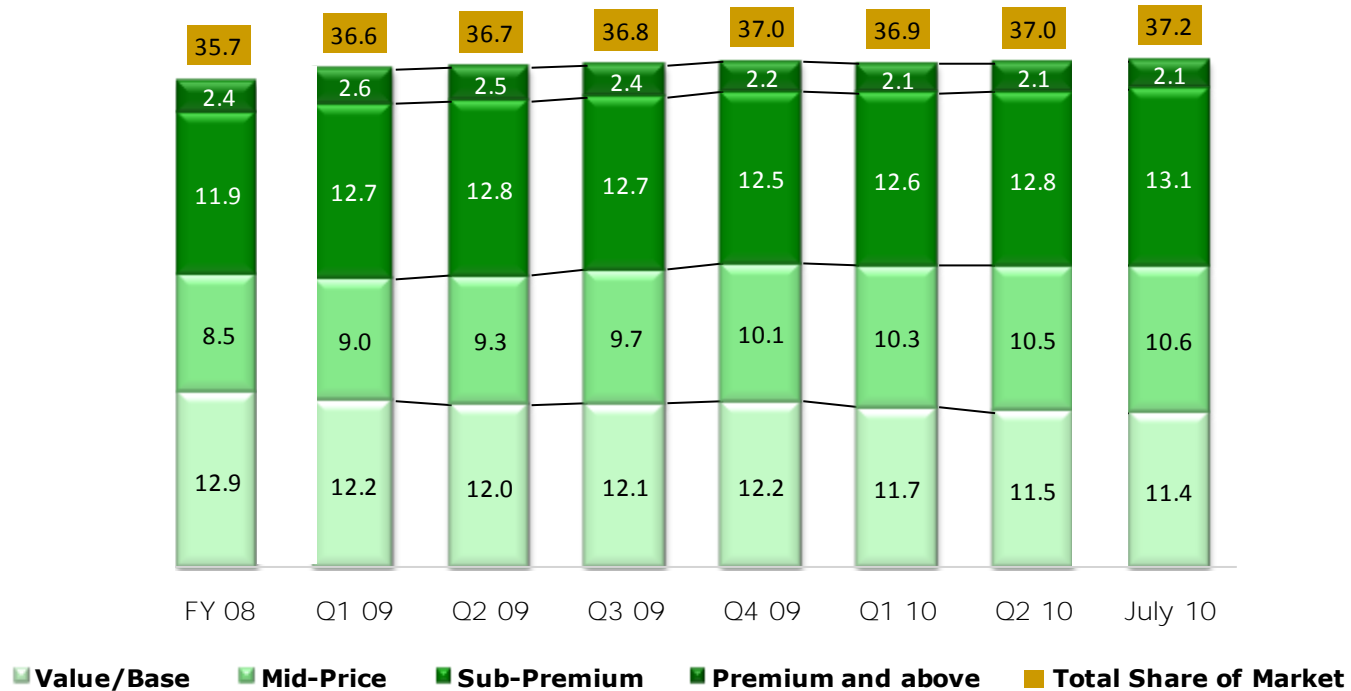
Share of Value <sup>(1)</sup>



- Strengthening leadership, with accelerated gains in SOV driven by pricing strategy

(1) Share of value based on retail selling price  
Source: A.C. Nielsen

**JTI Share of Market by Price Segment  
2008-July 2010<sup>(1)</sup>, (%)**

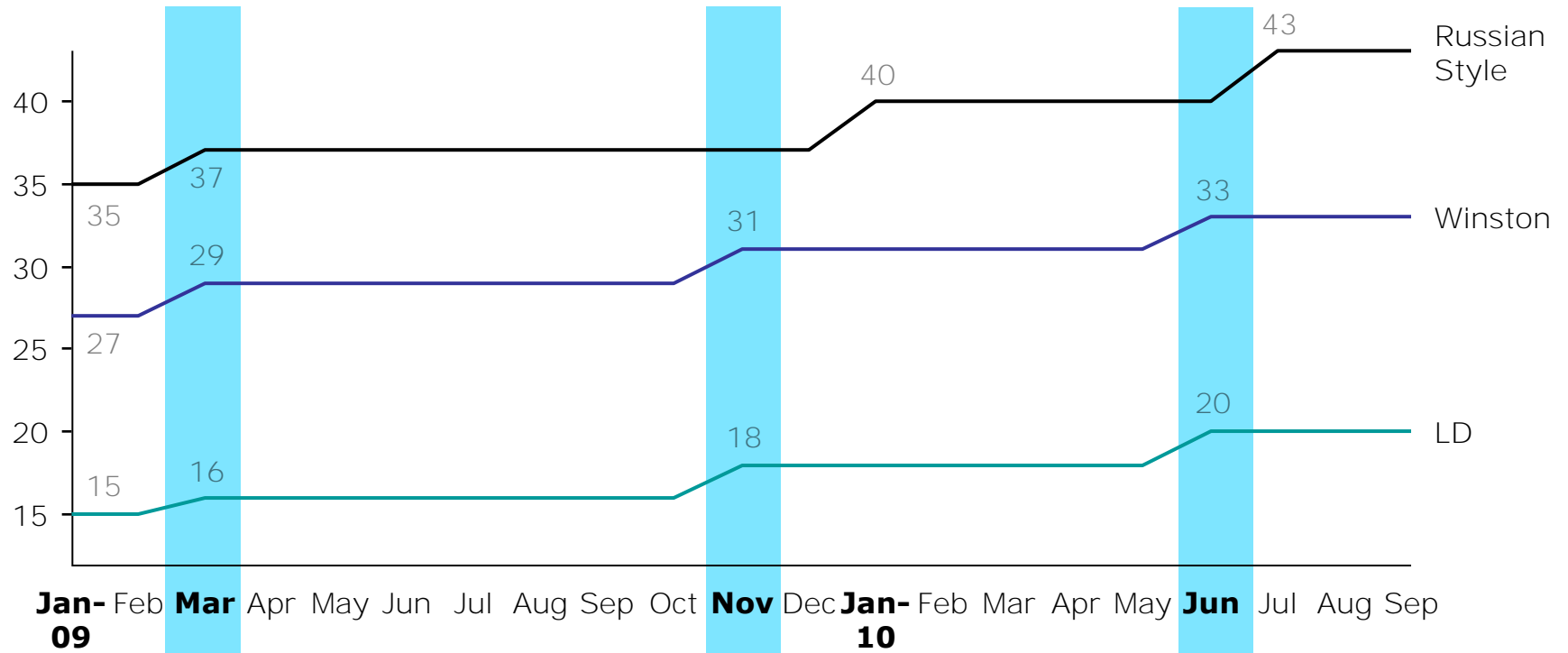


- JTI Share of Market is growing driven by GFB development and up-trading into the Mid-Price+ segments

(1) January to July 2010  
Source: A.C. Nielsen

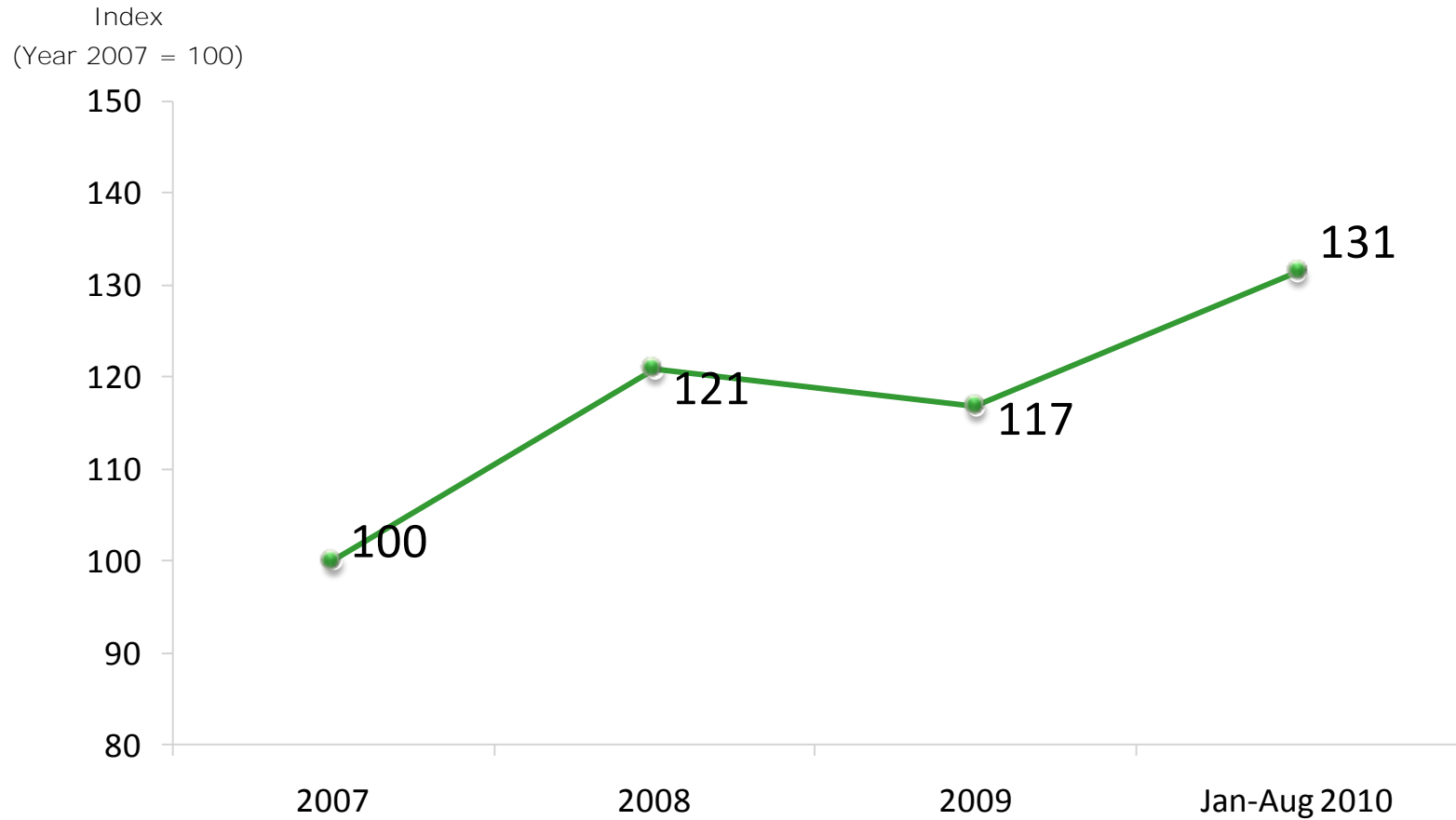
**Pricing evolution 2009-2010** (RUB/20 pack)

Pricing first announced by JTI



- JTI as the leader in the market has a consistent track record of seizing pricing opportunities

# Reported net sales per '000 evolution (indexed)

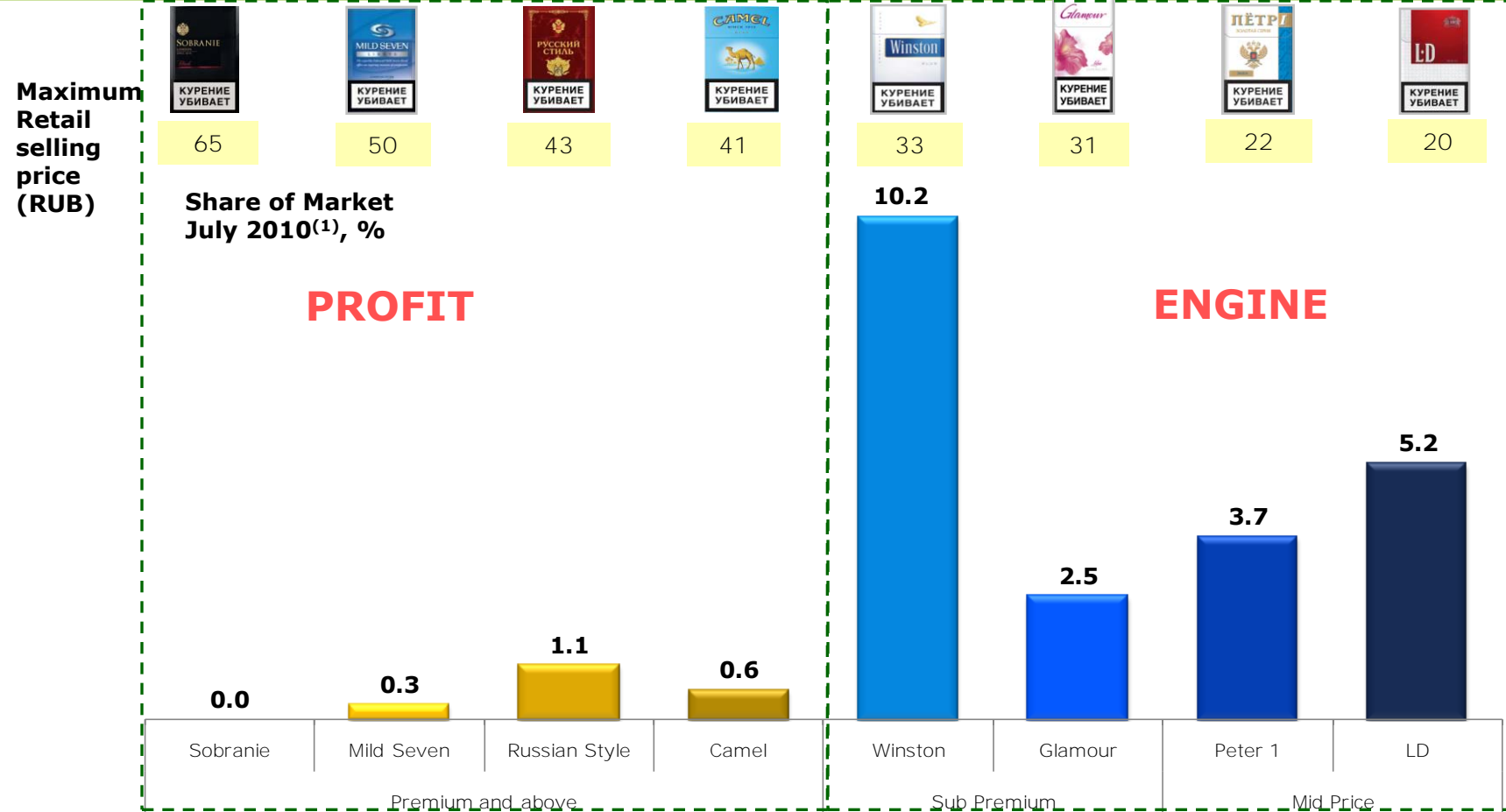


- Sustainable strategy to improve reported net sales per '000, reflecting pricing and mix improvement

# Our volume is driven by strong brands



THIS SLIDE HAS BEEN DEVELOPED TO EXPLAIN JTI'S PERFORMANCE TO OUR INVESTORS.  
IT IS NOT INTENDED TO PROMOTE THE PURCHASE OF OUR PRODUCTS.



Winston: #1 Brand (10.2%), Glamour #1 in Super Slims (2.5%)

Leading in Sub-Premium (49% SOS<sup>(2)</sup>) & Mid-Price (52% SOS). Strong #2 position in Premium (32% SOS). Opportunity in Prestige (6% SOS).

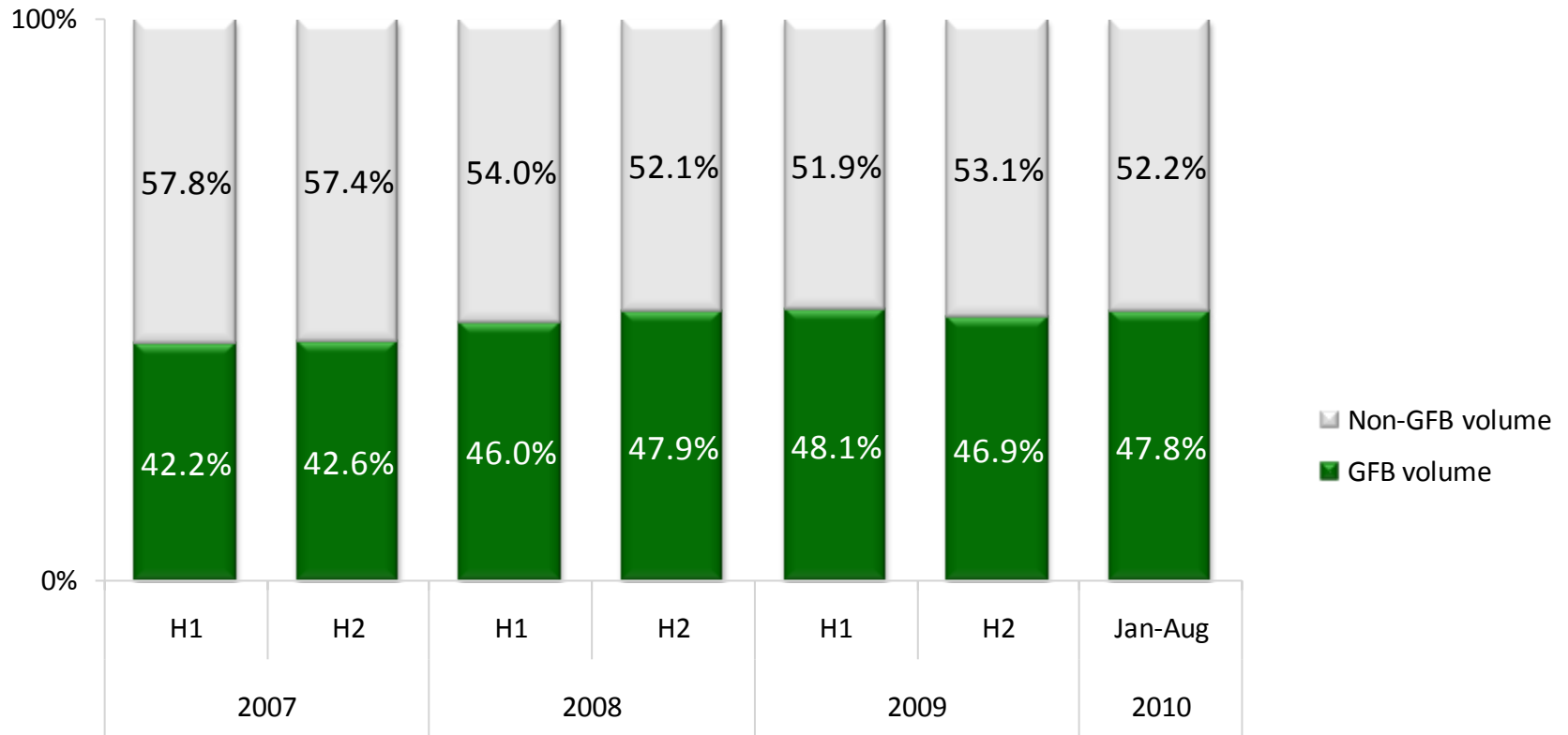
Strong local brands (Russian Style & Peter I)

(1) 12-month rolling average to July 2010 ; (2) SOS: Share of Segment

Note: Sobranie, Mild Seven, Camel & Russian Style: prices as of July 2010; Winston, Glamour, LD and Peter I: prices as of June 2010

Source: A.C. Nielsen

# GFB/non-GFB volume evolution



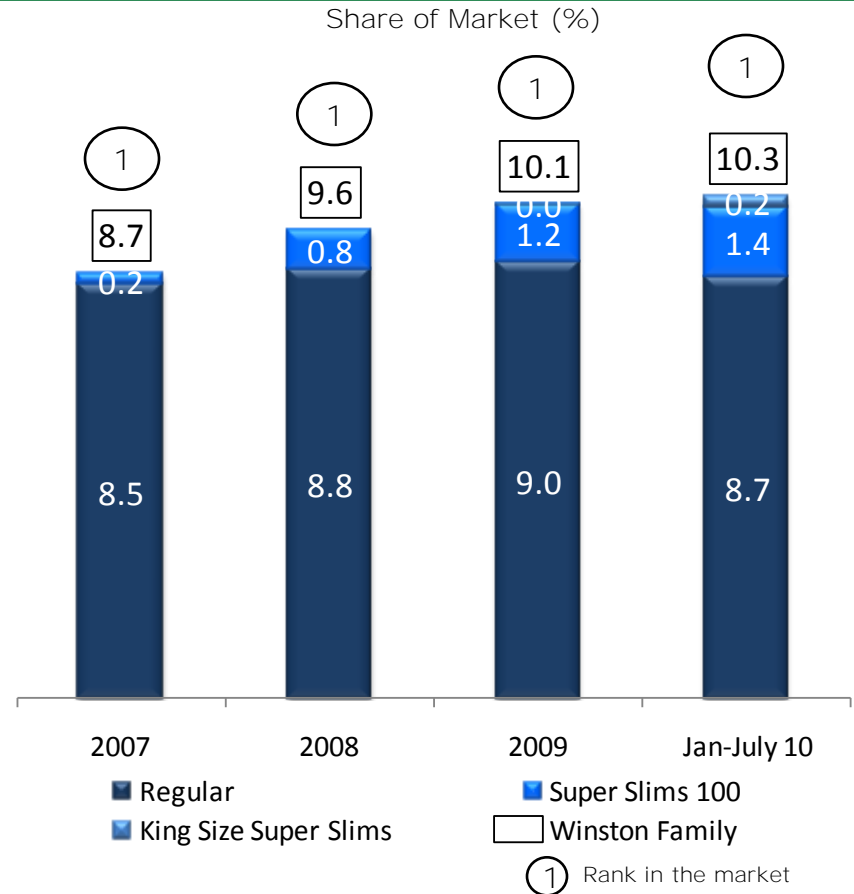
➤ We are focused on driving GFB volume growth

# Winston is the No1 brand in Russia, its leadership is constantly strengthened by innovative propositions



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- Winston Super Slims & XS drive family growth despite down-trading
- Following first signs of market recovery, recent performance of Winston Regular is encouraging

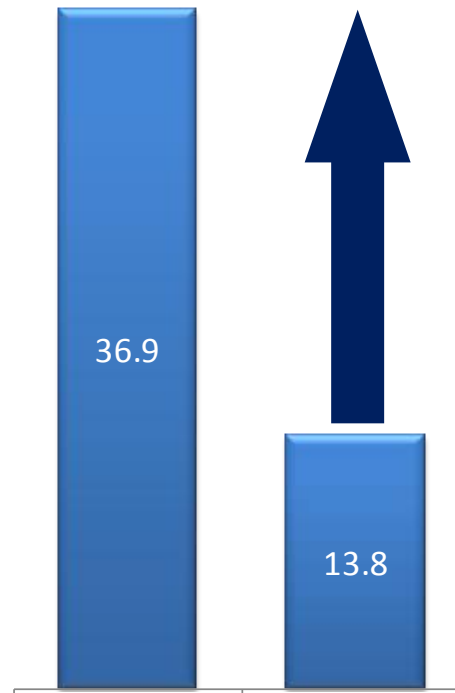
Note: 2007 figures include pro-forma Gallaher

Source: A.C. Nielsen

# Opportunity for innovative development in Premium and above

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Share of Volume (%)  
July 2010<sup>(1)</sup>



JTI Share of Market    JTI Premium and above price segment share



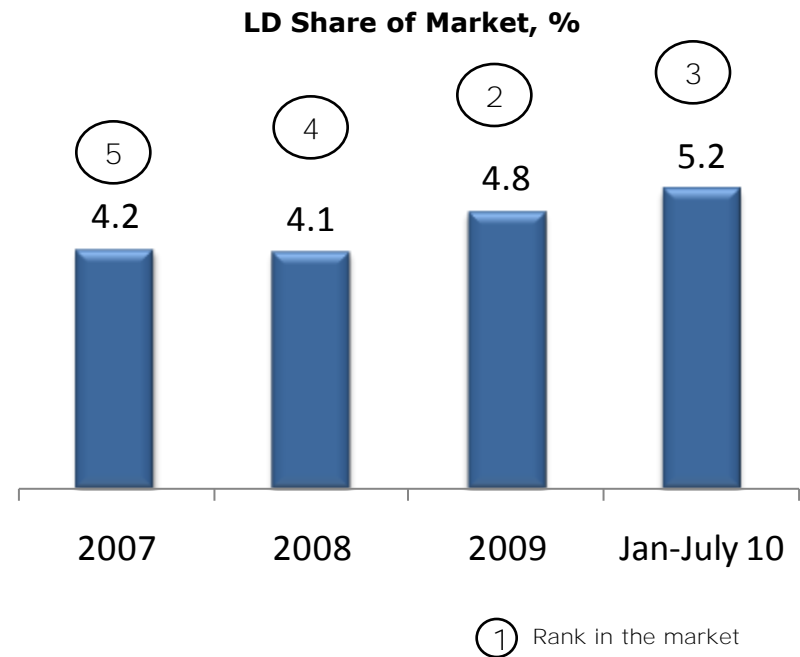
- Compared to our overall SOM, we are under-represented in Premium and above segments; this is a significant opportunity for JTI
- Investing into innovative formats & technologies and image driving Limited Edition Packs, with the aim to drive share of segment gains in Premium and above

(1) 12-month rolling average to July 2010

Source: A.C. Nielsen

# LD Striving for No1 position in Mid-Price

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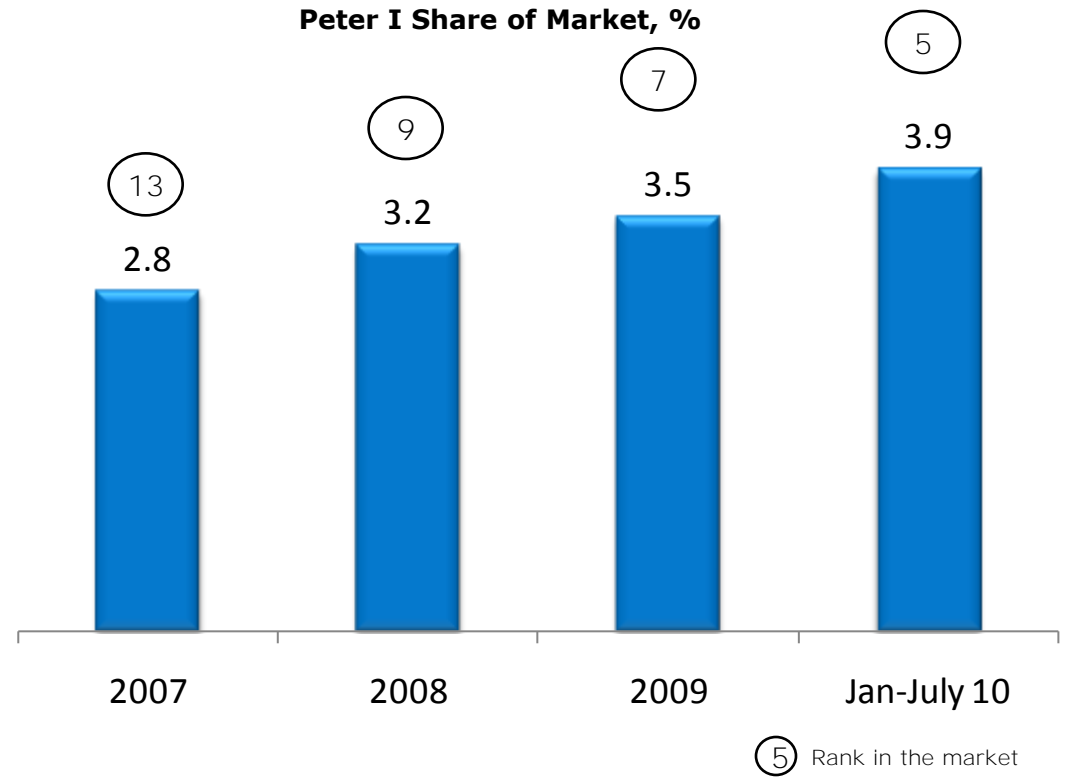


- International proposition in Mid-Price segment, capitalizing on innovation (Super Slims & King Size Super Slims available)

# Peter I is among the top 5 brands in the market

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- Strong heritage proposition with ongoing growth in SOM

# Continuous improvement: integrated processes for Trade Marketing Excellence



TME is an advanced system allowing better trade-related data storage, access & usage by all the parties involved, thus driving efficient and effective solutions across all trade channels & within the JTI Consumer & Trade Marketing organization

# Continuous improvement: innovation at Points of Sale

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## Total Universe in Russia at 386,000 POS



- JTI is strengthening its leaderships at Point of Sale through innovative initiatives



- ❑ US\$2.8 million invested in philanthropy activities in 2009
- ❑ Strategic approach
  - ❑ Sustainable projects relevant for the communities
  - ❑ Adequate geographical spread of projects in Moscow, St. Petersburg and regions
  - ❑ Balance between cultural and social programs
  - ❑ One umbrella for all philanthropy activities in Russia – JTI SOCIAL PARTNERSHIP
- ❑ Key projects
  - ❑ Support of culture:
    - ❑ The Mariinsky Theater
    - ❑ The Bolshoi Theater
    - ❑ The Moscow Chekhov Artistic Theater
    - ❑ The Pushkin Museum of Fine Arts
    - ❑ The Hermitage Museum
    - ❑ Promotion of Japanese culture in Russia
  - ❑ Charity - support of the elderly people:
    - ❑ Good-neighborhood programs in Moscow and St. Petersburg
    - ❑ A national program of support to elderly people was launched in 2010

➤ Corporate philanthropy programs help strengthen the company as a good corporate citizen in Russia

- ❑ JTI Russia is the fastest-growing organization in the region:
  - ❑ In 2006: 3478 employees, 3 factories
  - ❑ In 2010: 5540 employees, 4 factories
- ❑ JTI in Russia offers attractive working conditions:
  - ❑ Our pay policies and practices are among the most competitive on the marketplace
  - ❑ We pioneered the implementation of private pension plans in Russia early 2007
  - ❑ Our medical plan is one of the best in the market, covering employees and their dependants
- ❑ We develop people both locally and internationally:
  - ❑ Local talent runs the business: 5,524 local employees vs. 16 International Assignees
  - ❑ We support people development at all levels in the organization: Local Career Path program is in place since 2006 to develop successors for key positions
  - ❑ We export Russian talents to help develop the greater JTI: 33 people transferred to 13 different locations since 2008

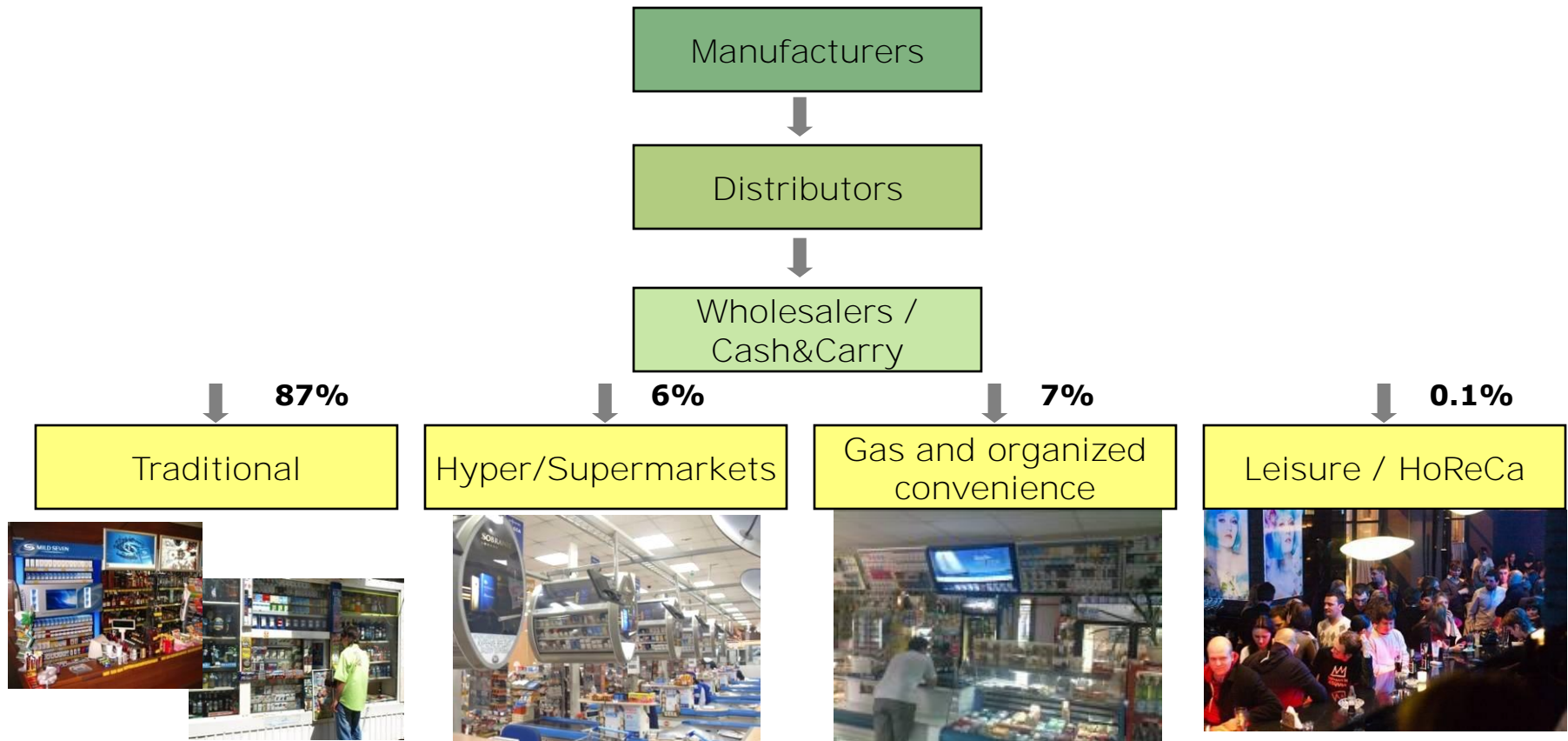
➤ **JTI's standing as an employer of choice in Russia is a cornerstone of its future growth**

**- Conclusions -**

- ❑ We are seeing initial signs of recovery, evidenced by more stable industry volumes and signs that down-trading is slowing. We expect a 3% market contraction in 2010.
- ❑ As leaders on the market, we pursue pricing opportunities to increase profitability
- ❑ We will continue to invest in our brands with a particular emphasis in the Sub-Premium and above segments in preparation for the resumption of up-trading
- ❑ Continuous improvement and innovation in products, at point of sales and in business processes

**- Appendix -**

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- Approximate number of outlets: 386,000
- Traditional channel is a key volume driving channel
- Share of hypermarkets and supermarkets is constantly growing