



# **JT International Investor Field Trip**

**CIS+ Region**

**St. Petersburg**

**September 28, 2010**

quality commitment innovation synergy



# Forward-looking and cautionary statements

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

# Martin Braddock

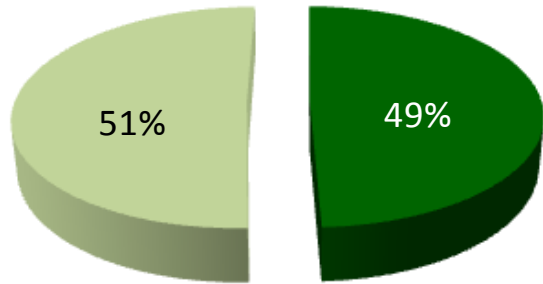
**CIS+**  
**Regional President**

- Introduction
- Macro Environment
- Tobacco Market
- JTI Strategy & Performance
- Ukraine, Kazakhstan, Romania
- Conclusions
- Appendix

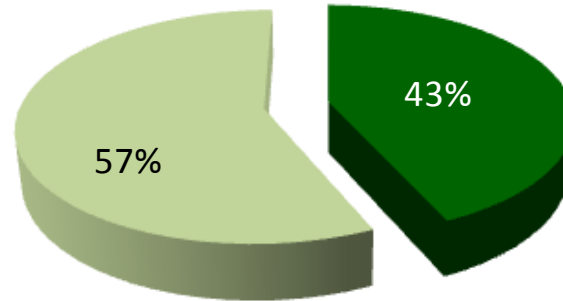
**- Introduction -**

■ CIS+   ■ Rest of JTI

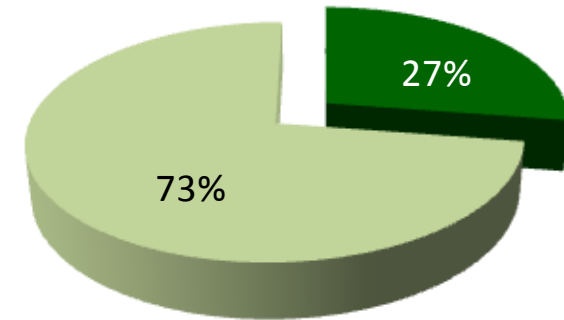
Total Volume



GFB Volume



EBITA



- CIS+ is a major contributor to JTI volume, both in GFB and non-GFB, as well as to profit, providing a strong base for JTI growth worldwide

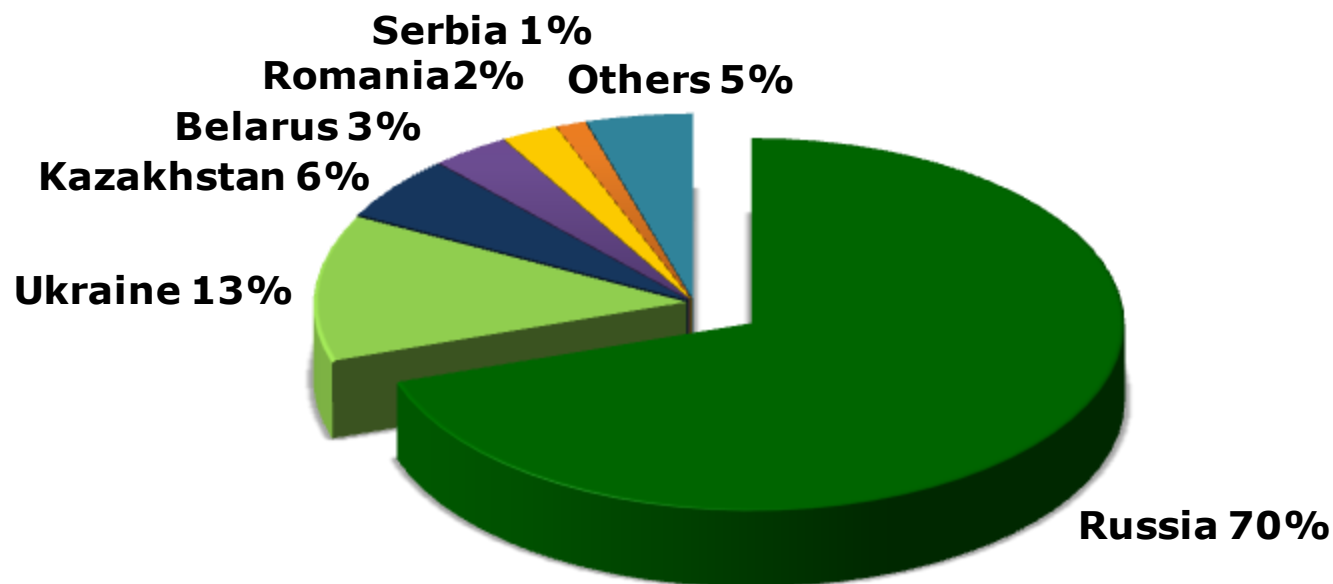
Russia
Ukraine
Kazakhstan
Kyrgyzstan
Mongolia
Romania
Belarus
Moldova
Georgia
Azerbaijan
Armenia
Uzbekistan
Tajikistan
Turkmenistan
Serbia
Albania
Croatia
Kosovo
Macedonia
Montenegro
Bosnia & Herzegovina
Bulgaria



Note: FY 2009 data; (1) CRES: Cut Rolled Expanded Stem; (2) RTS: Reconstituted Tobacco Sheet

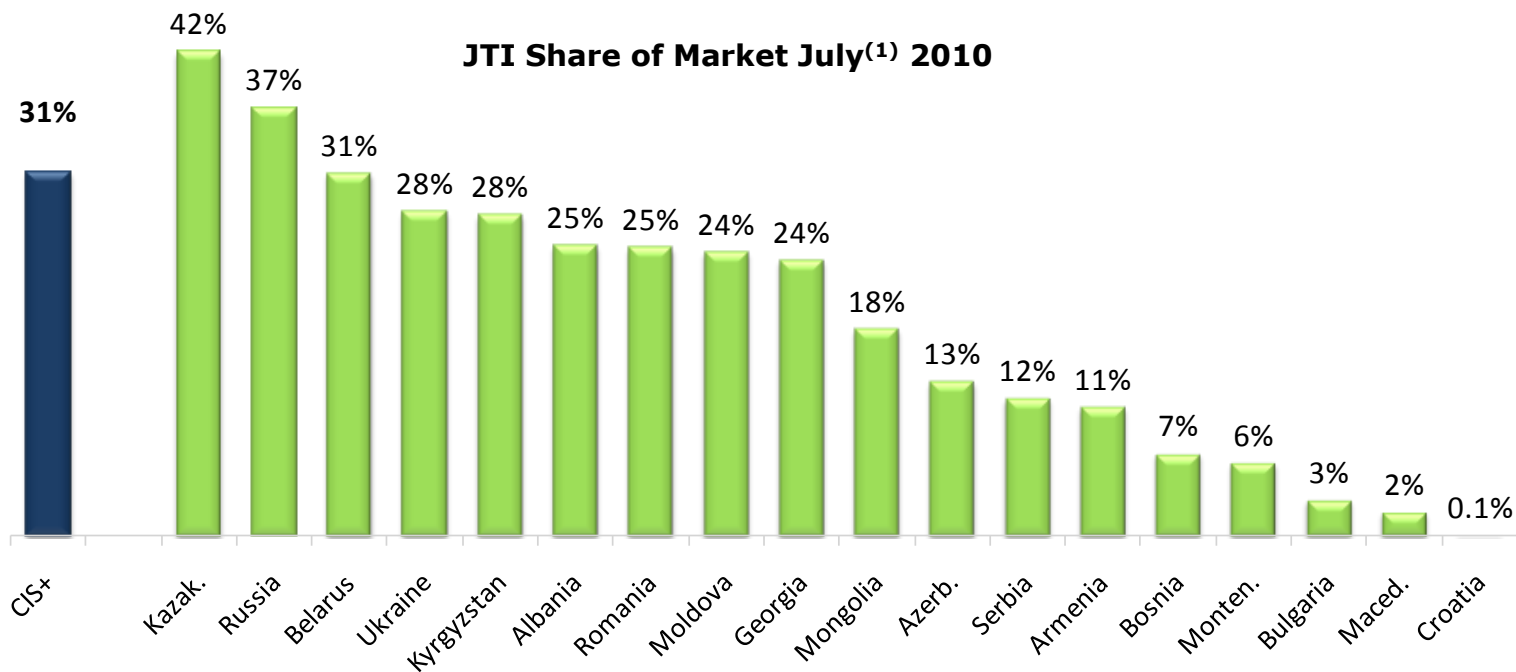
Source: A.C. Nielsen, IHS Global Insight, Business Analytica, JTI Estimates

**Key Markets' Contribution to JTI CIS+ Volume  
Jan-Aug 2010, Percent**



- Russia is the largest contributor by far to JTI volumes in the CIS+ region

Russia Ukraine Kazakhstan Belarus Romania Serbia Others



Note: 12-month rolling average to July 2010, except (1) FY 2008. SOV: Share of Value (as percentage of retail sales).

Source: A.C. Nielsen, Business Analytica, JTI Estimates

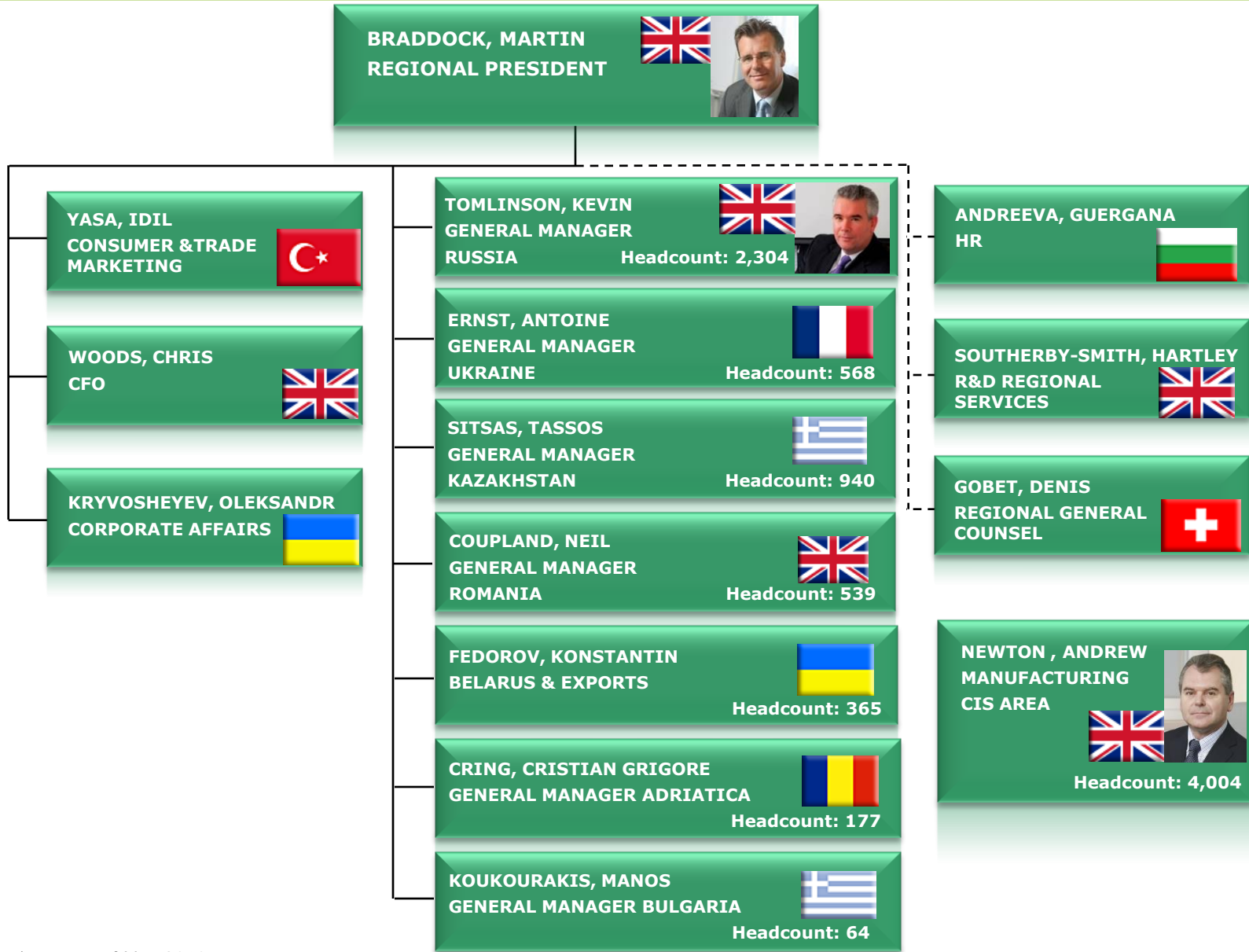
Markets	Market Size FY 09	SOM %		SOV <sup>(1)</sup> %	
		July 10 <sup>(2)</sup>	July 10 <sup>(2)</sup> vs. July 09	July 10 <sup>(2)</sup>	July 10 <sup>(2)</sup> vs. July 09
<b>Russia</b>	<b>390</b>	<b>36.9</b>	<b>0.6</b>	<b>34.5</b>	<b>1.2</b>
<b>Ukraine</b>	<b>88</b>	<b>28.0</b>	<b>-1.3</b>	<b>27.7</b>	<b>-0.3</b>
<i>Ukraine w/o Ronson &amp; St. George</i>		<i>27.5</i>	<i>1.0</i>	<i>27.3</i>	<i>1.1</i>
<b>Kazakhstan</b>	<b>29</b>	<b>41.8</b>	<b>1.9</b>	<b>40.2</b>	<b>1.5</b>
<b>Belarus</b>	<b>19</b>	<b>31.3</b>	<b>-4.1</b>	<b>42.4</b>	<b>-4.2</b>
<b>Romania</b>	<b>29</b>	<b>24.8</b>	<b>-1.1</b>	<b>23.7</b>	<b>-0.5</b>
<b>Serbia</b>	<b>21</b>	<b>11.8</b>	<b>1.1</b>	<b>12.4</b>	<b>1.0</b>
<b>Total CIS+</b>	<b>600</b>	<b>31.4</b>	<b>0.1</b>	<b>26.1</b>	<b>0.5</b>

- SOM growing in 11 markets, GFB SOM growing in 13 markets
- JTI growth in SOV reflects mix improvement
- SOM/SOV growth momentum in Ukraine is confirmed excluding the impact from de-listing Ronson & St. George to combat illicit trade

(1) SOV: Share of Value (as percentage of retail sales); (2) 12-month rolling average to July 2010 and July 2009, respectively.

Note: Total CIS+ refers to entire region, not only the markets shown in the table

Source: A.C. Nielsen, Business Analytica, JTI Estimates

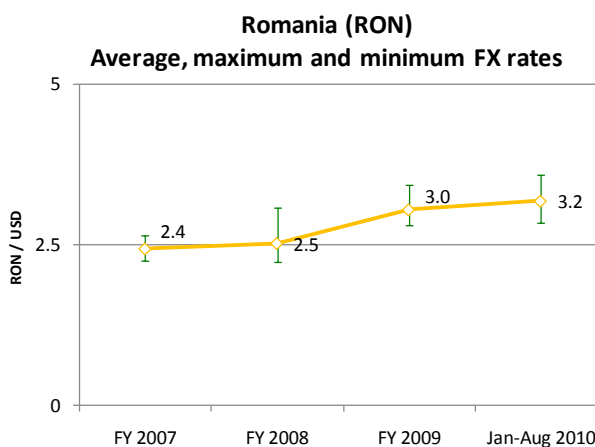
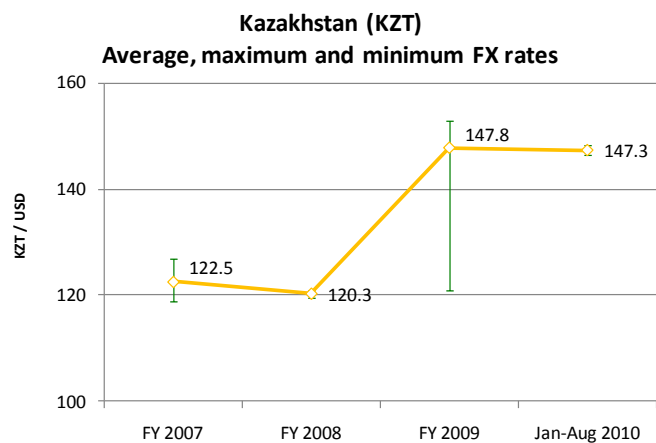
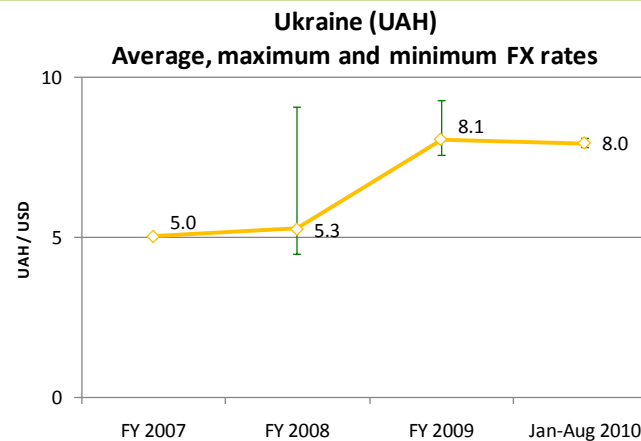
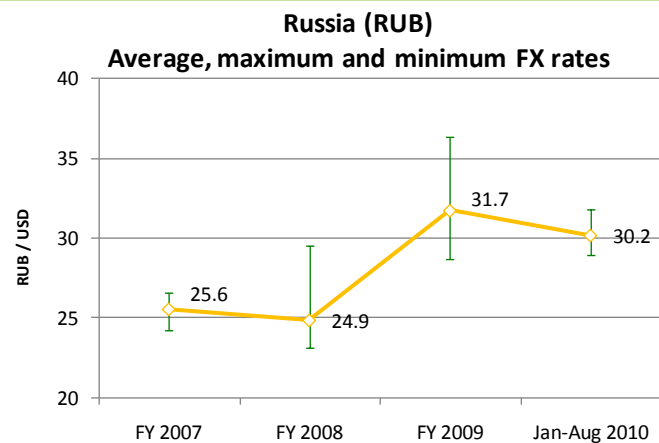


Note: headcount as of May 2010

**- Macro Environment -**

Markets	Real GDP growth, %			Unemployment rate, %		
	2009	2010f	2011f	2009	2010f	2011f
Russia	-7.9%	4.2%	4.3%	8.2%	7.2%	6.5%
Ukraine	-15.1%	4.4%	5.8%	8.8%	8.4%	7.6%
Kazakhstan	1.2%	4.8%	4.9%	6.6%	5.8%	5.0%
Romania	-7.1%	-0.5%	3.7%	6.0%	7.8%	6.7%
Belarus	-4.2%	5.5%	3.5%	0.8%	1.2%	1.2%
Serbia	-3.0%	1.6%	3.8%	14.0%	16.6%	17.2%

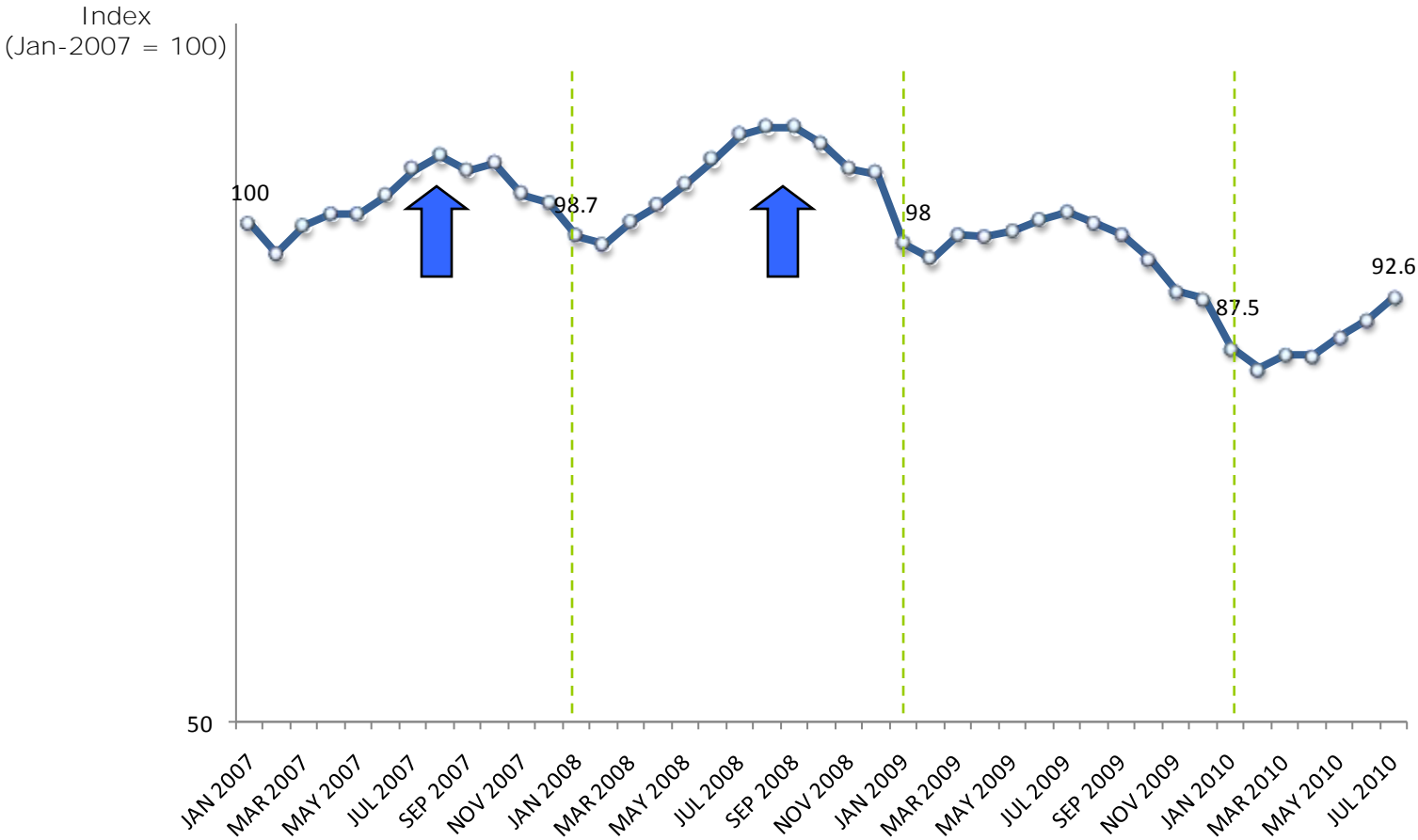
➤ Following significant challenges in CIS+, the economic indicators are forecast to return to modest growth in most markets



➤ FX rates stability is returning after sharp volatility increase in 2008-2009

**- Tobacco Market -**

# CIS+ Total industry volume evolution



- Significant industry contraction started in the summer 2009
- Initial signs of recovery observed, with the return of the historic trend of higher consumption during the summer

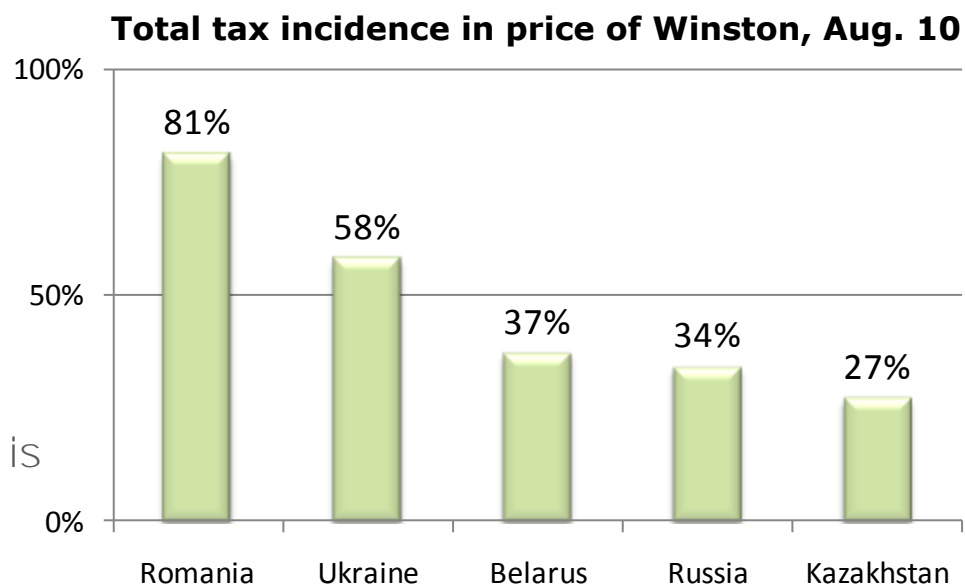
Note: analysis includes Russia, Ukraine, Romania, Kazakhstan, Serbia, Belarus, Bulgaria and Montenegro

Source: A.C. Nielsen, JTI Estimates



➤ July data confirms that the down-trading trend is showing initial signs of reversal, with resumption of growth in Sub-premium and above since Q1 10 and slower growth of Mid-Price

- ❑ Tax incidence in the region remains relatively low and is expected to grow
- ❑ Key markets are introducing long-term planning cycles for excise, providing predictability (Russia, Kazakhstan, Serbia)
- ❑ Tax systems in Bulgaria, Romania, Croatia are defined by EU requirements
- ❑ Customs Union between Russia, Kazakhstan, Belarus will drive harmonization of tax systems
- ❑ Sharp tax increases occurred in Romania and Ukraine due to the economic crisis
- ❑ Inflow and outflow of illicit products is driven by significant tax disparities across markets



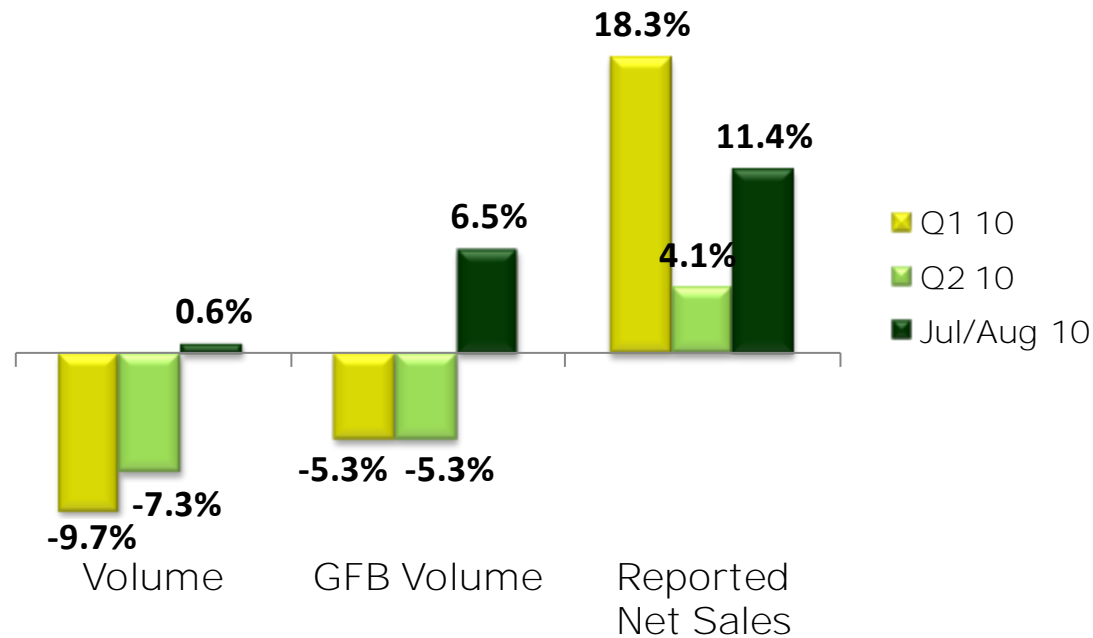
- Tax incidence in the region is expected to grow
- Despite recent shocks, a growing number of governments are adopting a long-term approach of gradual and predictable excise increases

- ❑ Regulatory environment is defined by the requirements of the WHO Framework Convention on Tobacco Control
- ❑ EU regulations set the model for Member States in the region (Romania, Bulgaria) and beyond
- ❑ Most countries in the region have introduced comprehensive tobacco control laws regulation product, packaging, advertising, smoking in public places
- ❑ Countries of the Eurasian Economic Community are developing regional tobacco regulations that will harmonize tobacco control measures in Russia, Kazakhstan, Belarus, Kyrgyzstan, Tajikistan, Uzbekistan

➤ Countries in the region have adopted stringent tobacco control measures in line with recent regulatory trends

**- JTI Strategy & Performance -**

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



- During July/August, total volume in CIS+ grew slightly, mainly driven by slowing market contraction in Russia and SOM gains.
- GFB volume grew strongly in July/August 2010, mainly driven by Winston and LD
- FX evolution positively affected net sales comparisons, especially in Q1 10

## **JTI Mission** Continue role as the profit growth engine of the JT Group

**CIS+ Vision**  
Retain #1 SOM  
Attain #1 SOV

**CIS+ Mission**  
Volume, earnings & talent engine for JTI

**STRATEGIC PILLARS**

- Leverage our scale to improve profitability through pricing
- Focus on GFB, driving 'Winston' and building share in Premium and above
- Further build on trade marketing capabilities and strive for innovation leadership at point of sales
- Recruit, develop and retain talent
- Proactively engage with governments on taxation and regulation

# Strong Portfolio in CIS+: Leading in all segments below premium & increasing focus on premium and above



THIS SLIDE HAS BEEN DEVELOPED TO EXPLAIN JTI'S PERFORMANCE TO OUR INVESTORS.

IT IS NOT INTENDED TO PROMOTE THE PURCHASE OF OUR PRODUCTS.

	Segments	JTI SOS <sup>(1)</sup>	GFB	Non-GFB
Opportunities	Prestige	6%	 	
	Premium	23%		
Strengths	Sub Premium	48% Segment Leader	 	 
	Mid Price	44% Segment Leader		
	Value	29% Segment Leader		    

(1) SOS: Share of Segment

Note: analysis includes Russia, Ukraine, Romania, Kazakhstan, Serbia, Belarus, Bulgaria and Montenegro. Data 12-month rolling average to July 2010.

Source: A.C. Nielsen, Business Analytica, JTI Estimates

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

## Recent innovations & launches

### Winston



Winston further strengthens its equity through consumer-relevant extensions and innovative propositions (i.e. pack rejuvenation, Winston King Size Super Slims)



### Building share in Premium+ and above



Building share in Premium+ with Camel, Sobranie and Mild Seven by leveraging the strong heritage and innovative extensions

### Glamour



Consistent rejuvenation of Glamour mix to strengthen the leadership in the Super Slims segment (e.g. pack design & structural upgrade, new Glamour Aroma extensions)

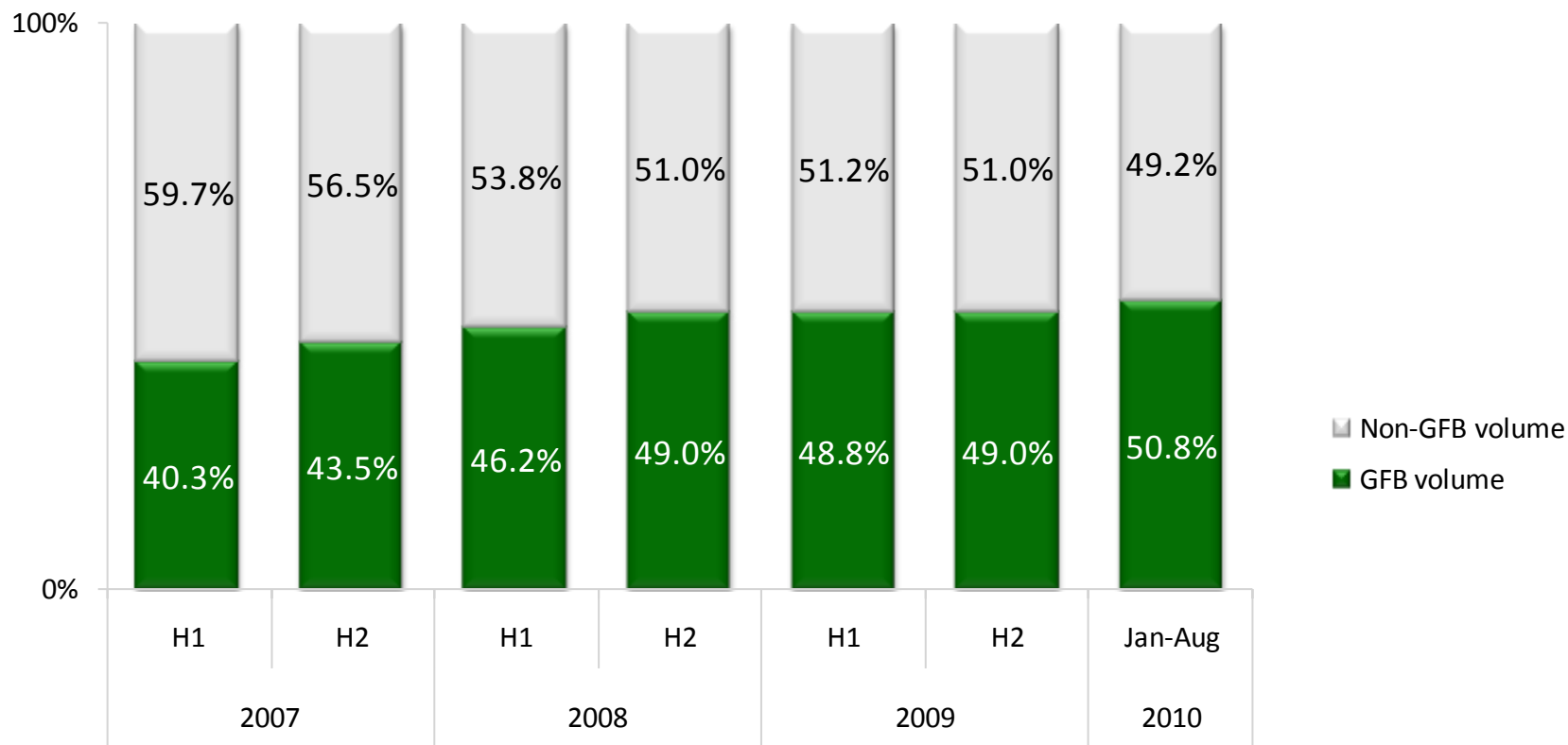
### LD



Expanding and upgrading LD portfolio to further drive share of market growth by tapping into new growing segments (e.g. base family rejuvenation and King Size Super Slims extensions)

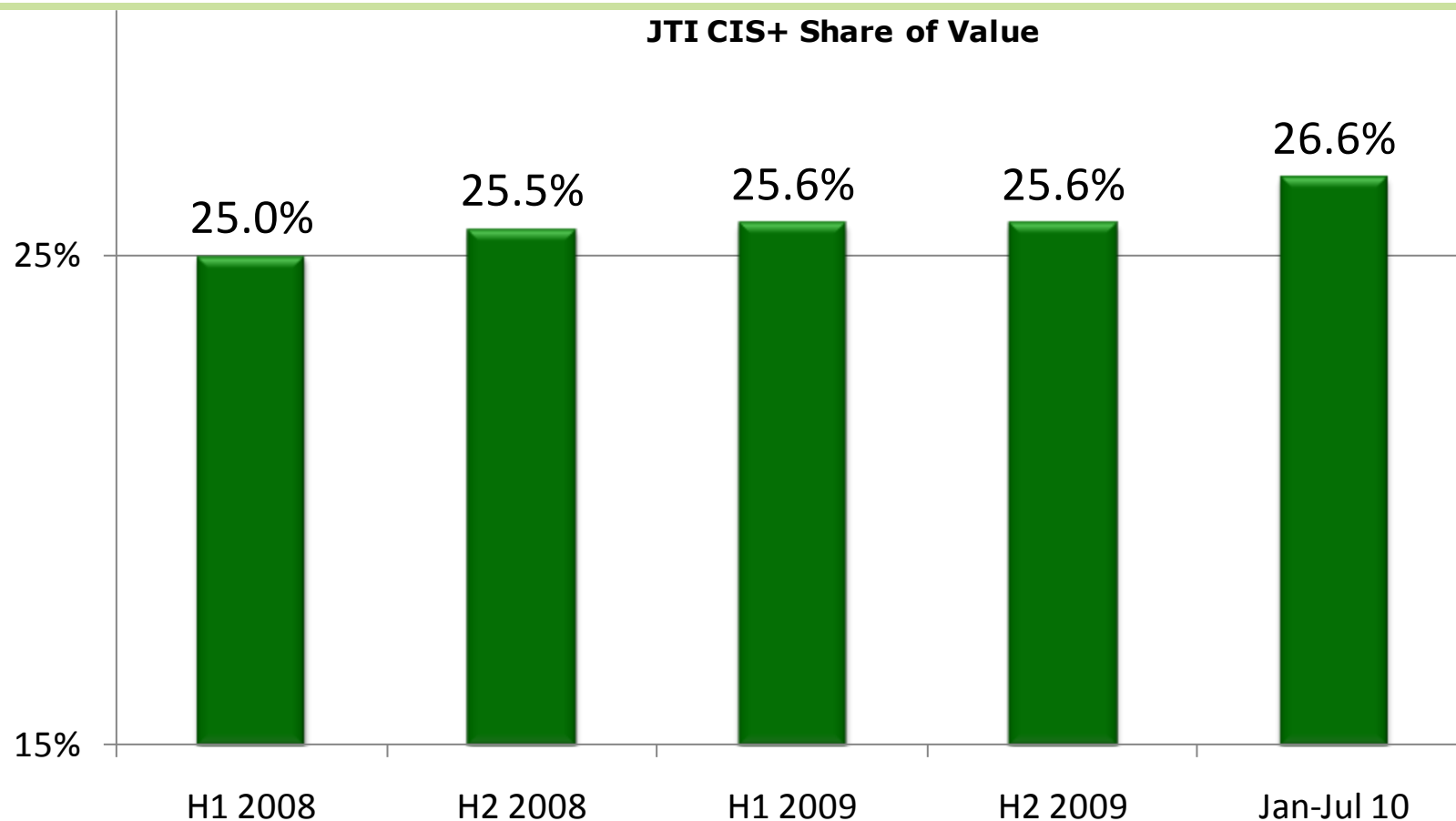


# CIS+ Volume evolution: GFB/non-GFB split



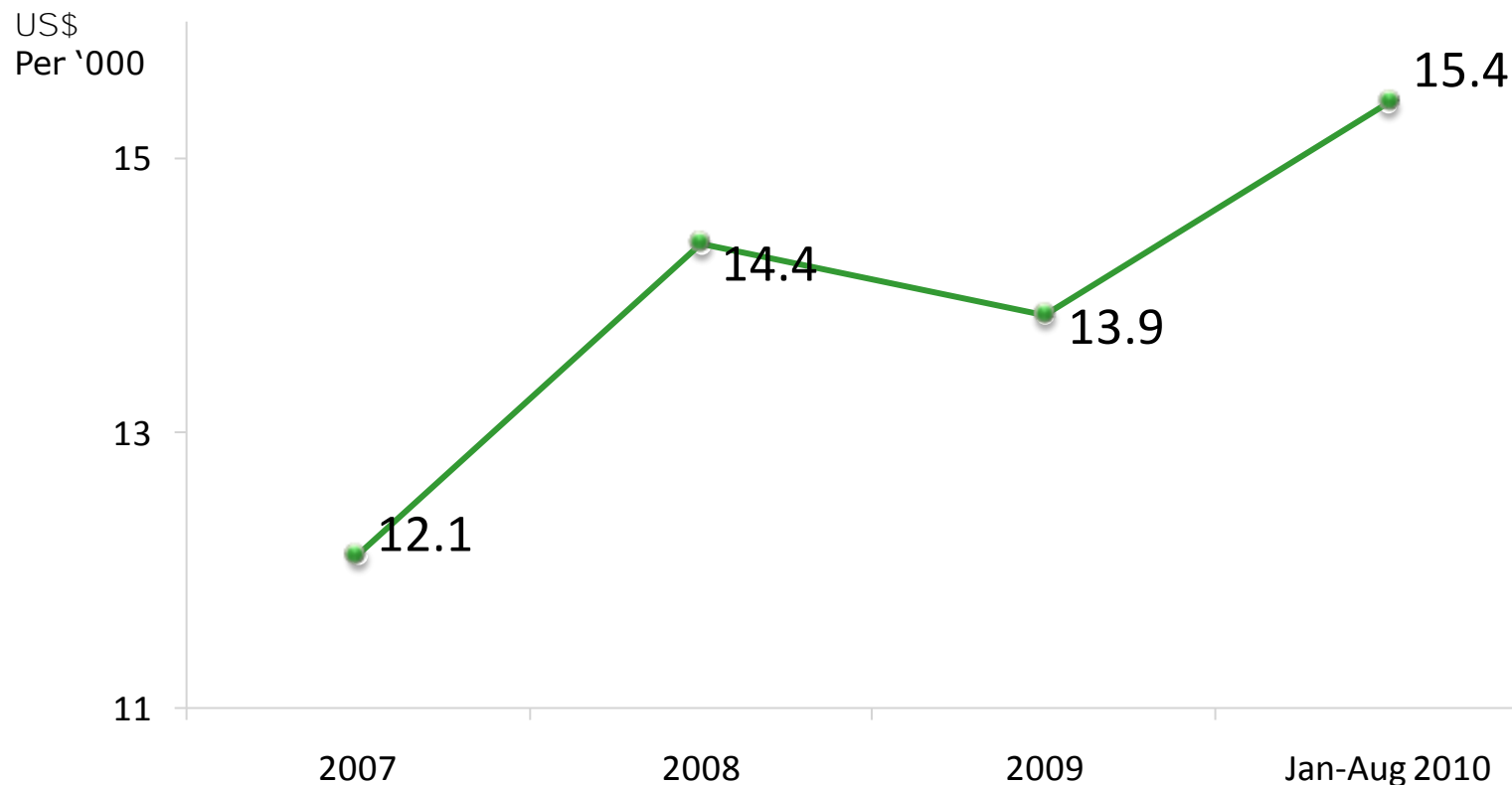
- Our consistent investment behind GFB delivers continued mix improvement and premiumization of our portfolio

JTI CIS+ Share of Value



➤ JTI holds the #2 SOV<sup>(1)</sup> position, and is steadily gaining share

(1) SOV: Share of Value (as percentage of retail sales)  
Source: A.C. Nielsen, Business Analytica, JTI Estimates



- Pricing and GFB mix improvement drive reported net sales per '000 increase
- In 2009, pricing mostly offset the adverse FX impact

- ❑ The CIS+ region is the biggest employer in JTI: 40% of the total 25,000 JTI employees work in the CIS+ region
- ❑ We are a highly competitive employer in CIS+ markets:
  - ❑ JTI is among the top 25% best-paying companies in the FMCG sector
  - ❑ Our employees expressed 21% higher satisfaction<sup>(1)</sup> with their compensation than employees of other FMCG companies in CIS+
- ❑ We grow our people, they grow our business:
  - ❑ In 2009, 80% of vacant management positions in the region were fulfilled internally
  - ❑ Since 2008, 110 employees from the CIS+ region moved internationally to enhance their career

➤ CIS+ region is a talent engine for the entire JTI organization

(1) Results of the Employee Engagement Survey 2009, comparison to FMCG Norms (160,316 respondents)

Source: Towers Watson

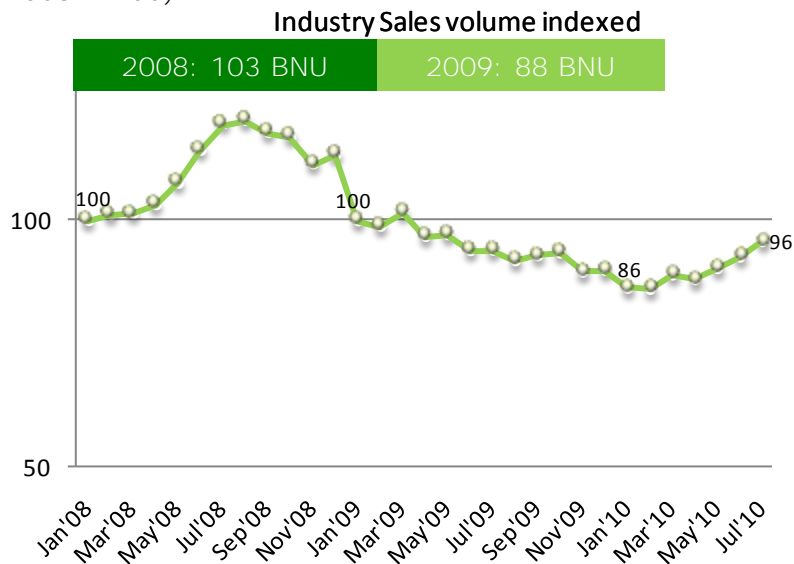
**- Ukraine -**

- ❑ Ukraine was the market in the region that was affected strongest by the economic crisis, with a GDP decrease of 15% in 2009
- ❑ Political volatility, struggling public finances have caused frequent and sudden changes of excise tax since 2008
- ❑ Market contraction of 14% in 2009 and expecting -10% in 2010, although up-trading trend remains
- ❑ SOM growth driven by GFB performance, if Ronson and St. George are excluded (de-listed during H1 2009 in order to combat illicit trade)

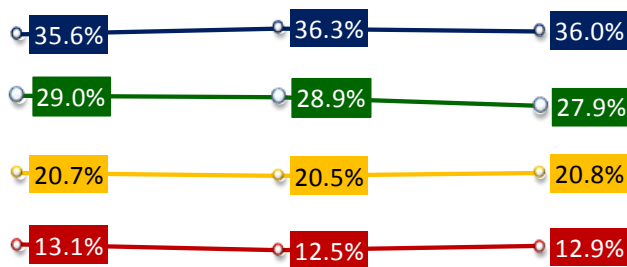
# Ukraine: key indicators



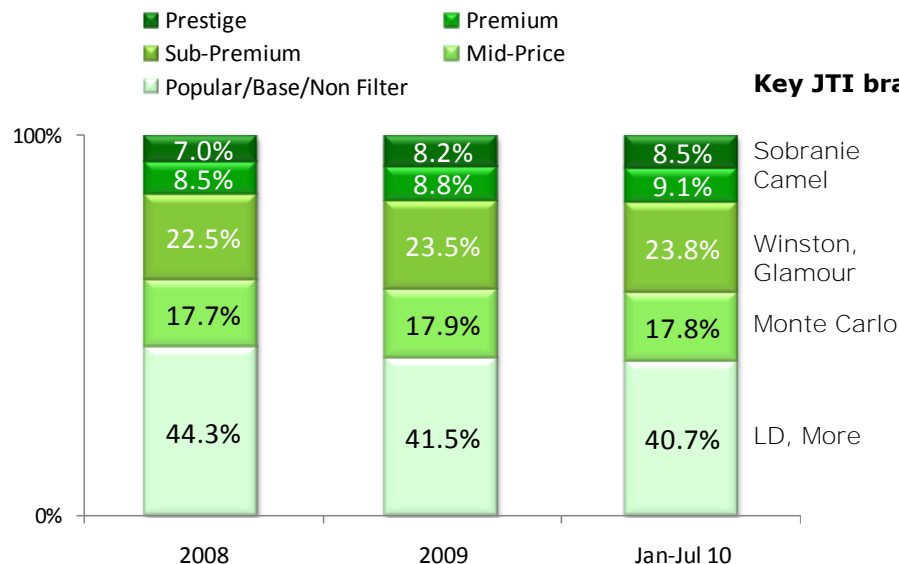
Index  
(Jan-2008 = 100)



Share of Market



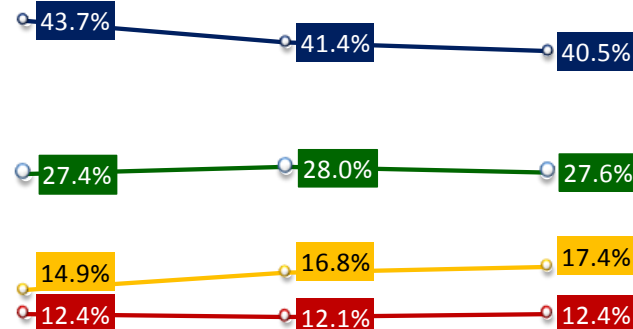
Price Segments evolution



Key JTI brands

- Sobranie
- Camel
- Winston, Glamour
- Monte Carlo
- LD, More

Share of Value



- JTI
- PMI
- BAT
- Imper

2008

2009

Jan-July 10

2008

2009

Jan-July 10

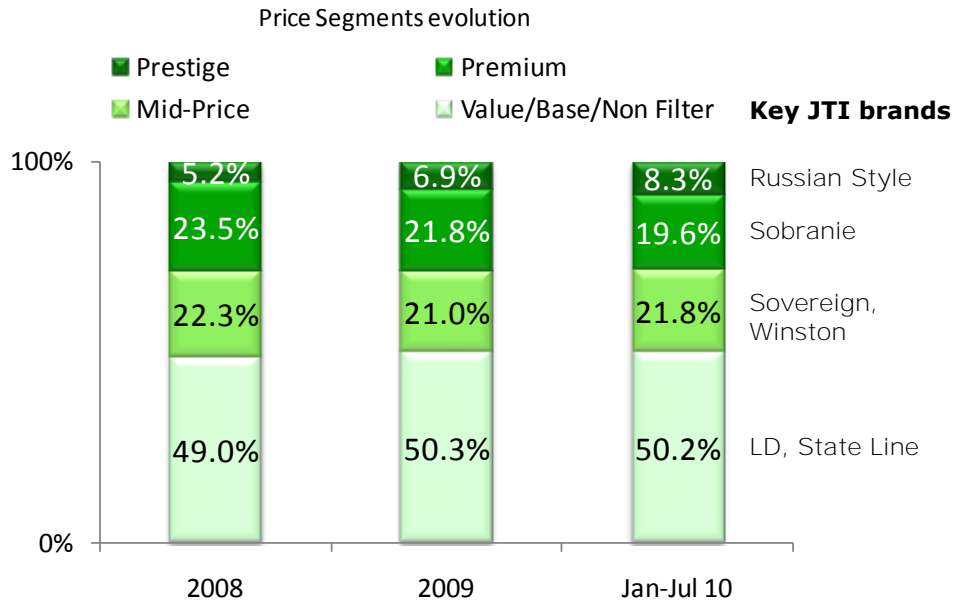
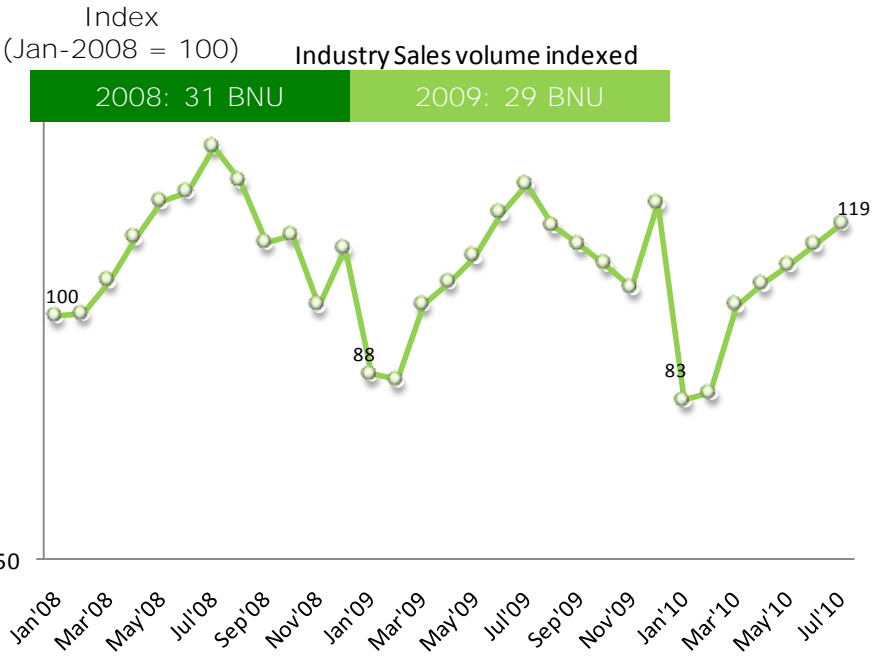
**- Kazakhstan -**

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

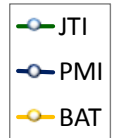
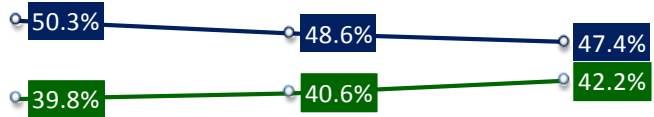
- ❑ Early onset of crisis, and since 2009 the country is on the way to recovery
- ❑ Market contraction started to stabilize during H2 2009, with an estimated 1% decline in 2010
- ❑ Successful integration between a minor JTI and a strong Gallaher business. The new entity is a serious contender for market leadership, with increased focus on GFB and all key brands having been rejuvenated
- ❑ Early signs of success with SOM trend turnaround



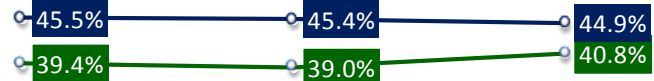
# Kazakhstan: key indicators



Share of Market



Share of Value



2008 2009 Jan-July 10

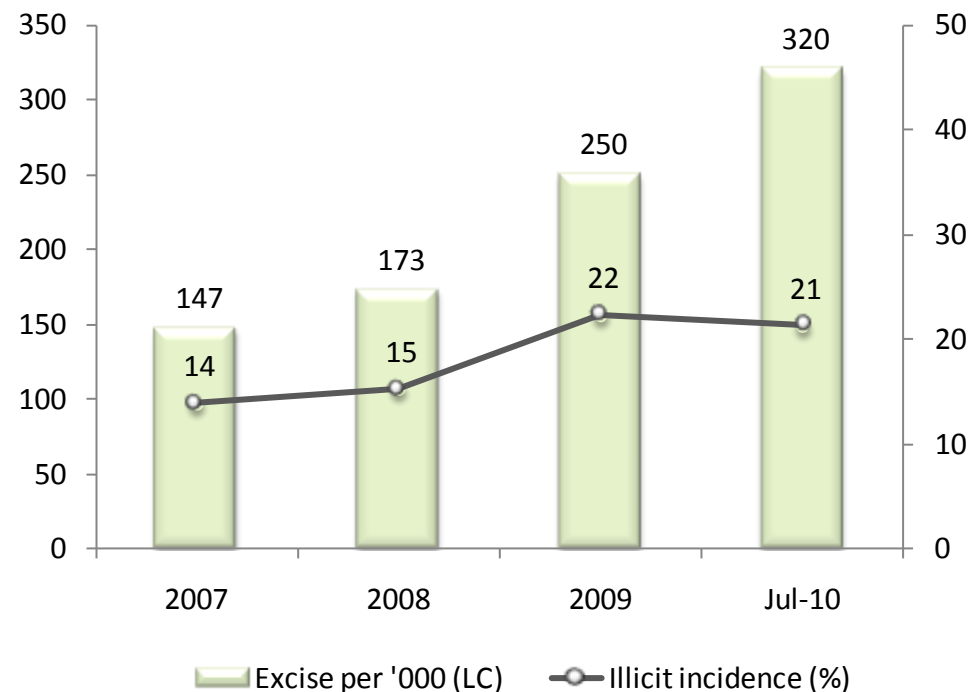
2008 2009 Jan-July 10

Source: JTI Estimates

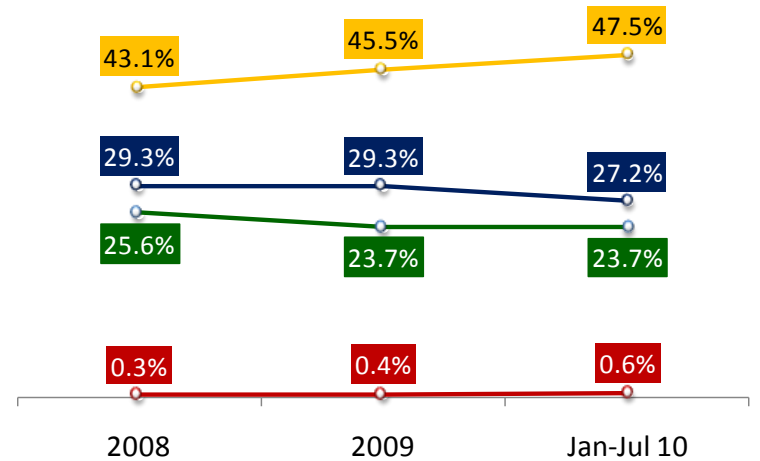
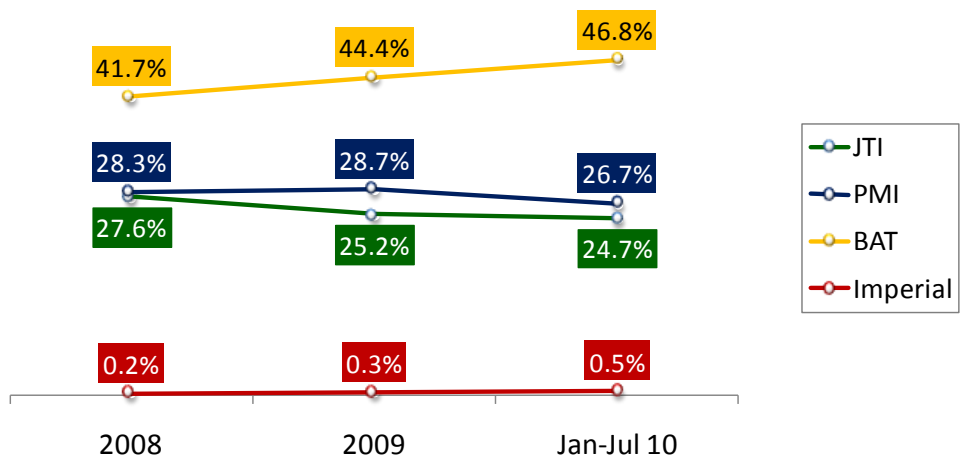
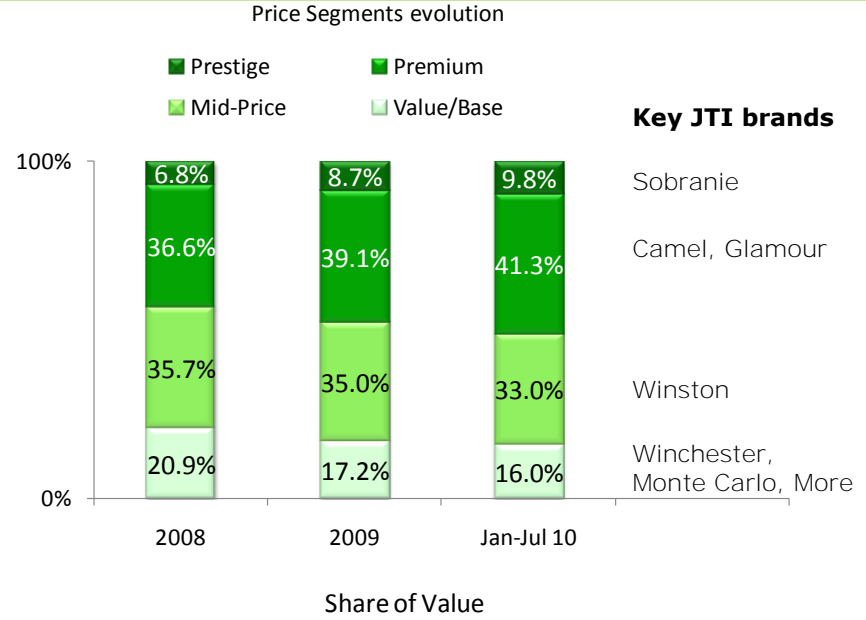
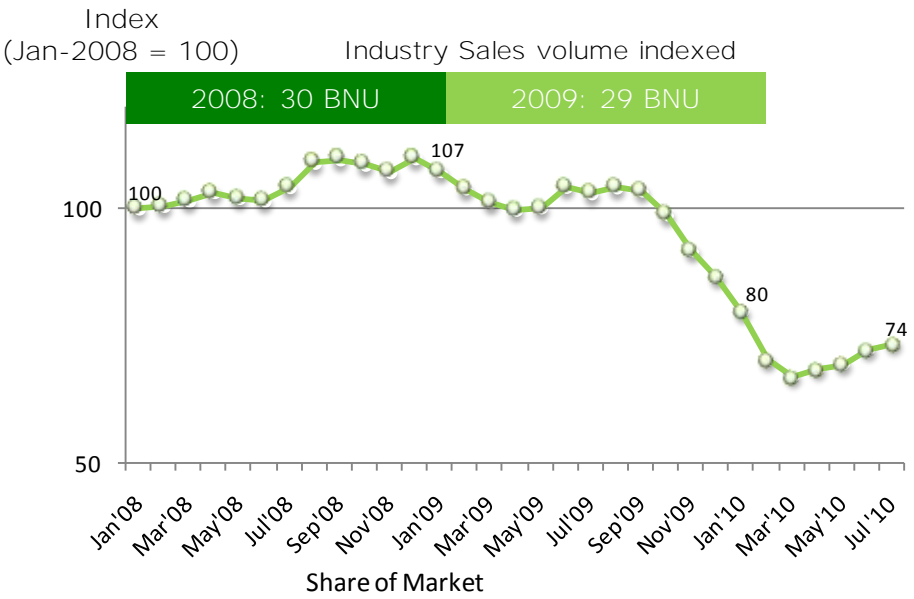
**- Romania -**

- ❑ Frequent and sudden excise tax changes due to the crisis led to price increases, with the market being compressed from the bottom
- ❑ SOM under pressure due to our brand portfolio being relatively skewed towards Value segment (Winchester)
- ❑ Significant illicit trade increase ensued, resulting in severe market contraction, (est. -19% in 2010). JTI is responding by:
  - ❑ Stepping up internal efforts to combat illicit trade
  - ❑ Engaging governments and increasing cooperation with law enforcement
  - ❑ Efforts to raise public awareness

**Excise burden driving illicit trade in Romania**



# Romania: key indicators



Source: A.C. Nielsen, JTI Estimates

**- Conclusions -**

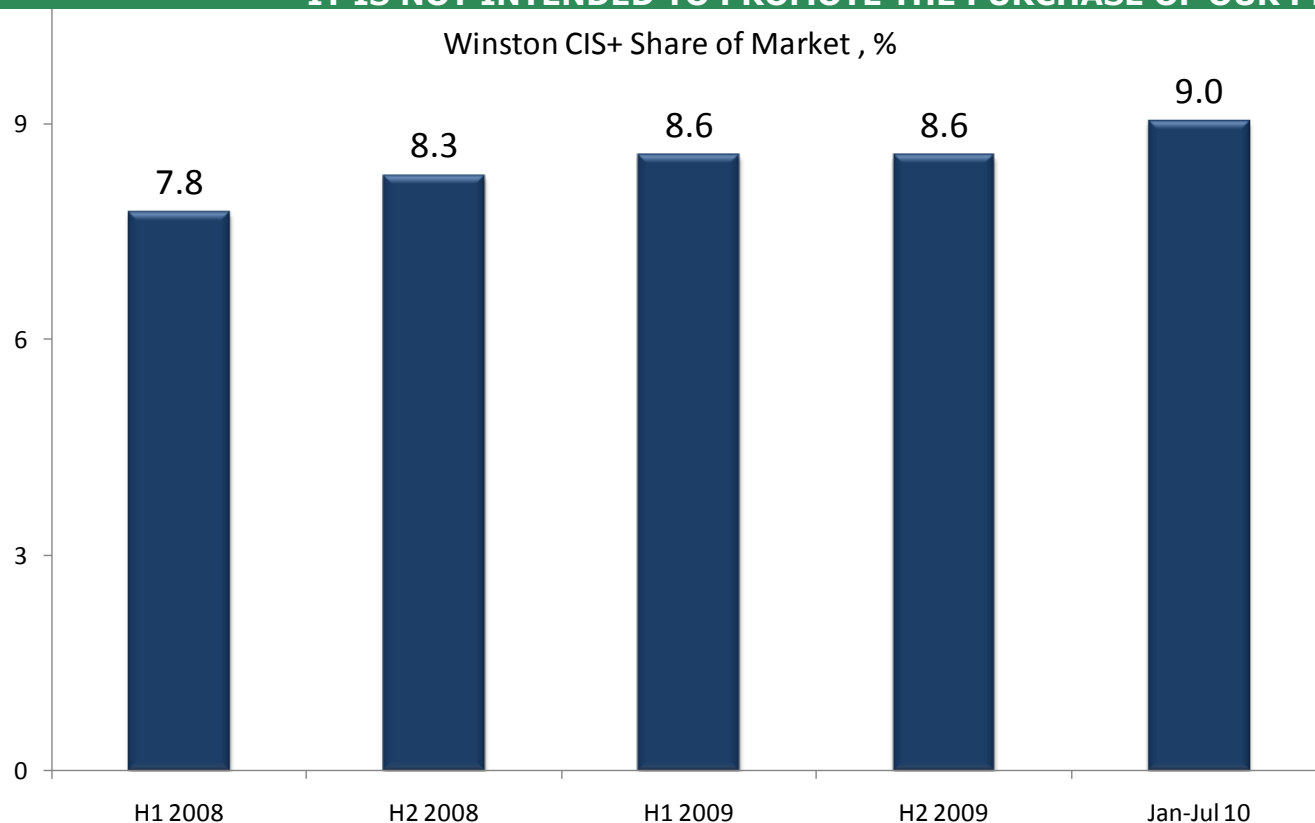
- ❑ Gradual economic recovery is expected, with improved prospects for stabilization of market contraction and resumption of up-trading
- ❑ We have a strong leadership position in the region, being #1 in SOM and growing SOV closing the gap to #1
  - ❑ Highly competitive portfolio with leadership and challenger positions in each key segment
  - ❑ Winston, #1 brand in CIS+
  - ❑ Glamour #1 in Super Slims segment in Russia and Ukraine
- ❑ Our proven strategic direction remains unchanged:
  - ❑ continue to leverage our scale to improve profitability through pricing
  - ❑ focus on GFB, driving Winston and portfolio premiumization
  - ❑ continued investment to build share in Premium+ segments
  - ❑ reinforcing our Trade Marketing capabilities and driving innovation
  - ❑ proactively engaging with governments on taxation and regulation
  - ❑ investment in talent, as CIS+ is a pool for total JTI

**- Appendix -**

# Winston: Engine for CIS+, #1 brand in the region



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



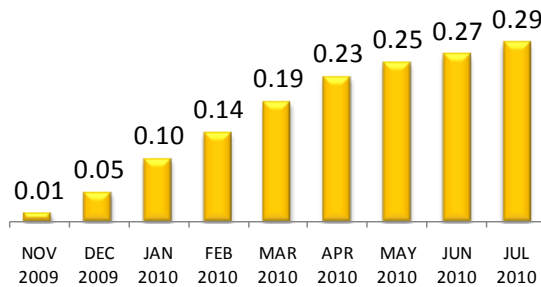
- Winston is steadily gaining SOM, driven by continuous mix improvements and successful portfolio expansion

# Sobranie, Camel, Mild Seven: Building share in the Premium+ segment

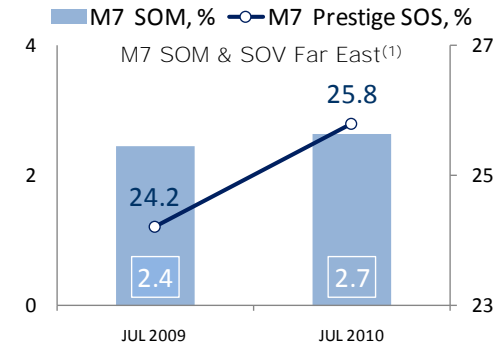
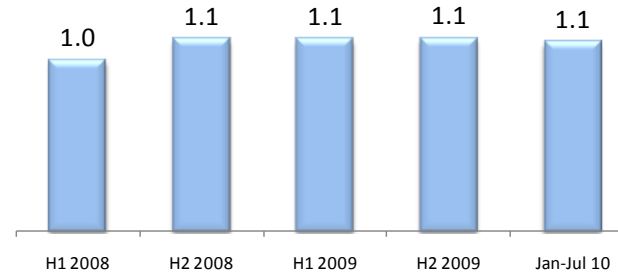
THIS SLIDE HAS BEEN DEVELOPED TO EXPLAIN JTI'S PERFORMANCE TO OUR INVESTORS.  
IT IS NOT INTENDED TO PROMOTE THE PURCHASE OF OUR PRODUCTS.



Sobranie Moscow Share of Segment, %



Camel CIS+ Share of Market, %



➤ Continued focus on Premium+ segment with promising results despite down-trading environment

(1) Far East main cities: Vladivostok, Khabarovsk  
Source: A.C. Nielsen, Business Analytica, JTI Estimates

# Glamour: #1 brand in Super Slims segment in CIS+



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

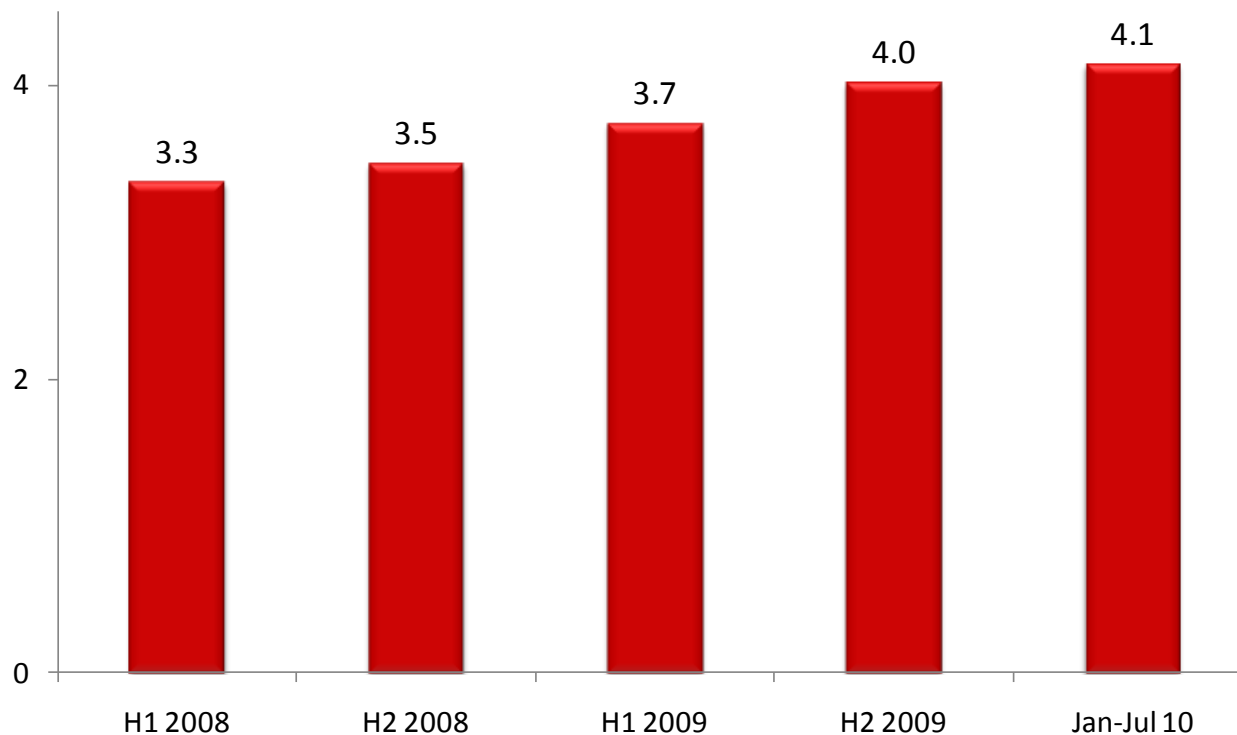


- Stable and solid share base despite proliferation of Super Slims propositions across all segments

# LD: Key international brand in Mid price and below

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

LD CIS+ Share of Market, %



➤ #3 brand in Russia, expanding footprint across the region

# Continuous quest for leadership in Trade Marketing

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

## Point of Sales Visibility & Innovation



Video back walls



Packs diode lighting

## New Communication Channels



Sobranie in main shopping mall



Camel smoking lounges



Glamour special events

- JTI builds sustainable platforms for key brands in order to maximize ROI