



# Investing for a long-term leading position in Russia

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*General Manager, Russia*

# Caution on Forward-Looking Statements

Today's presentations contain forward-looking statements. These statements appear in a number of places in these presentations and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may", "will", "should", "would", "expect", "intend", "project", "plan", "aim", "seek", "target", "anticipate", "believe", "estimate", "predict", "potential" or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

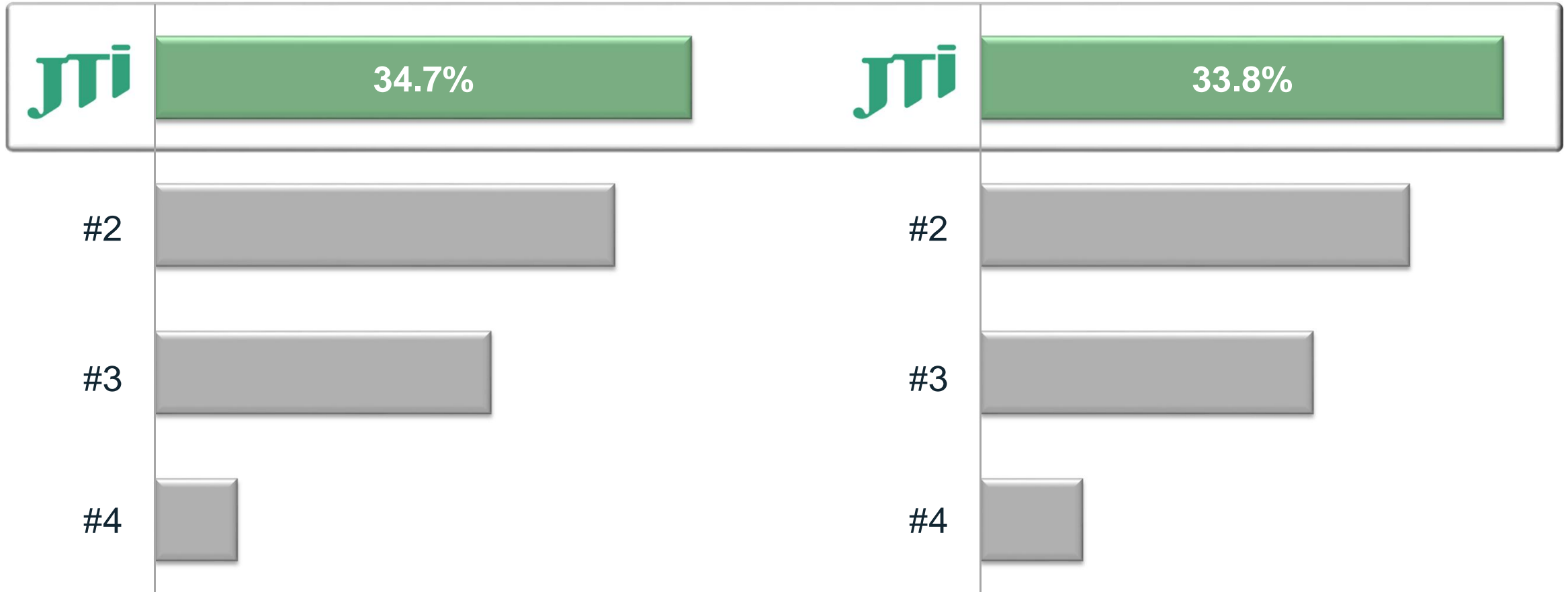
- (1) decrease in demand for tobacco products in key markets;
- (2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;
- (3) increases in excise, consumption or other taxes on tobacco products in markets in which we operate;
- (4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products ;
- (5) our ability to realize anticipated results of our acquisition or other similar investments;
- (6) competition in markets in which we operate or into which we seek to expand;
- (7) deterioration in economic conditions in areas that matter to us;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

This presentation contains images or packages of our brands in some slides. Those slides have been included exclusively to illustrate JT Group's strategy or performance to our investors. They are not to be used for any other purpose.

# Strong #1 with over one third of the Russian market

Share of value, 1H 2015

Share of market, 1H 2015



# Leading through people and brands

## A very large market

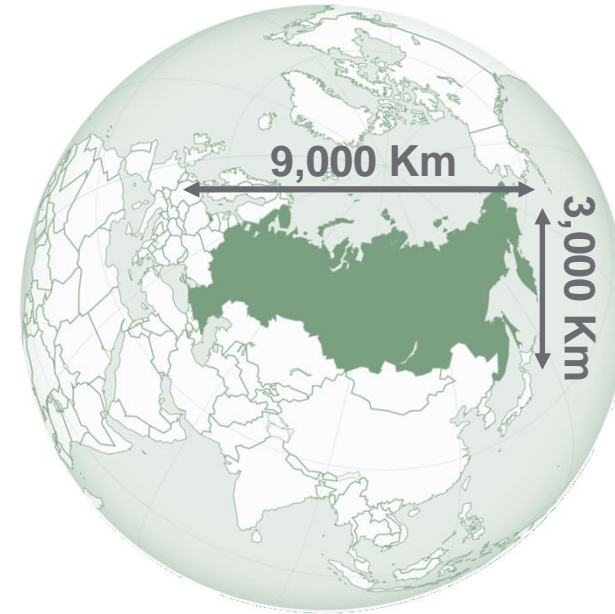
- 307 BnU industry volume (2014)
- 21 \$Bn industry retail value (2014)

## Leading in People

- Multi-award as employer
- Strong employee engagement

## Leading in Brand Portfolio

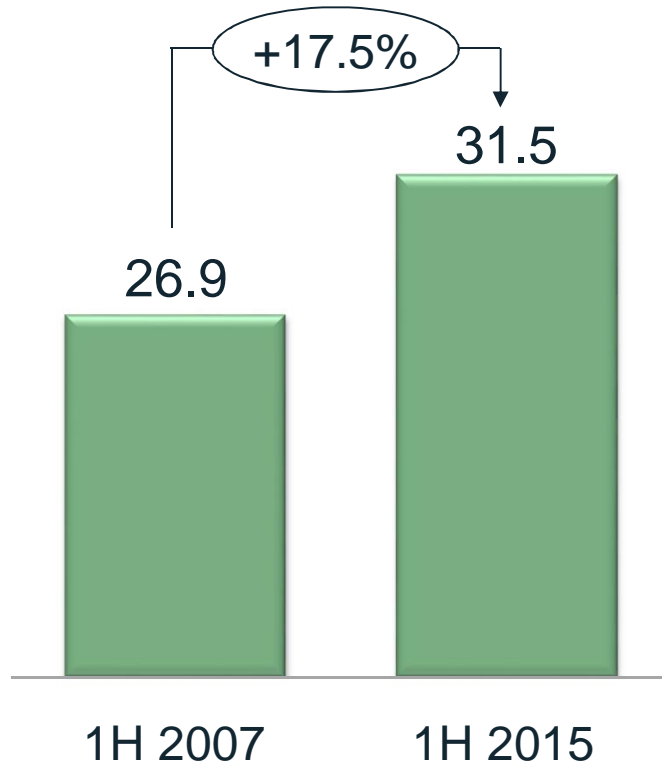
- Winston: #1 tobacco and #1 FMCG brand
- LD: #3 in the market
- Peter I: #1 post-soviet heritage brand
- Glamour: #1 female brand



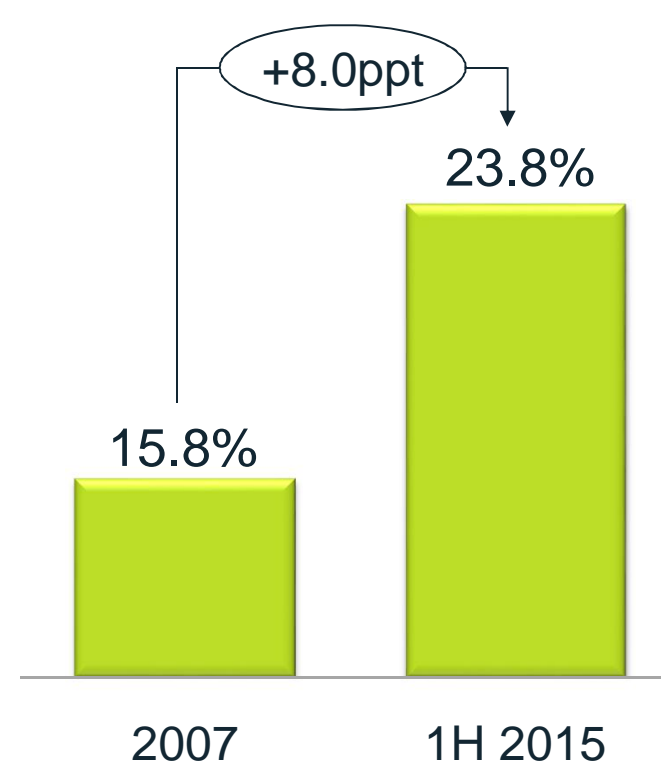
# Global Flagship Brands driving the growth



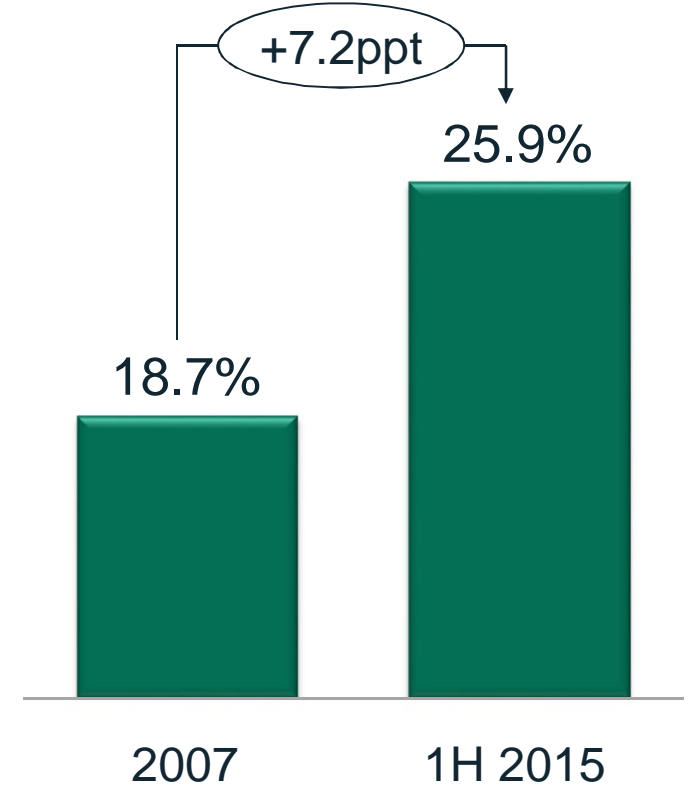
**GFB volume (BnU)**



**GFB SoM**



**GFB SoV**



# Profit growth driven by focused investment and price increases

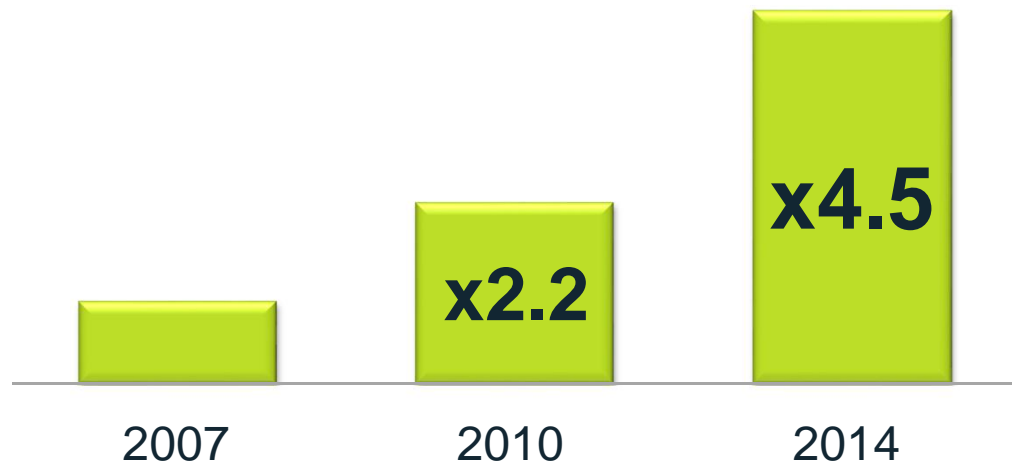
**Investment** (Index, 2007=100)



## Investing for long-term quality growth

- Trade satisfaction: superior position
- Employee satisfaction: attract, retain talents
- Consumer satisfaction: GFB equity and quality

**EBITA** (Index, 2007=100)



## Delivering sustainable earnings growth

- Continuous portfolio mix improvement
- Robust pricing environment
- Enhanced productivity and profitability

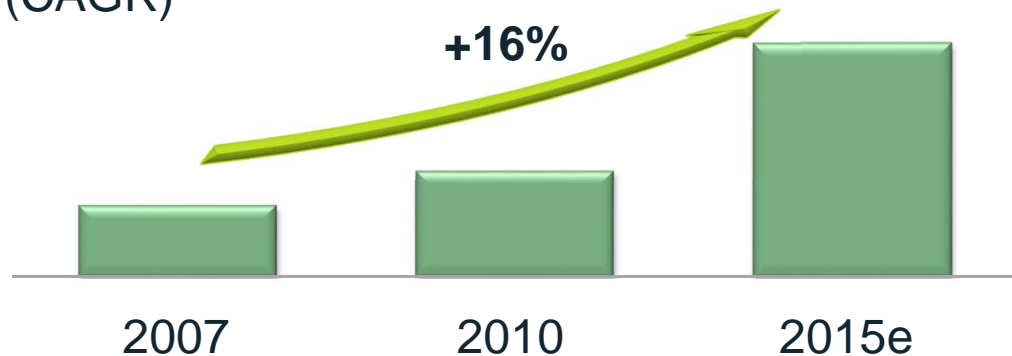


# Challenging environment with growth opportunities ahead

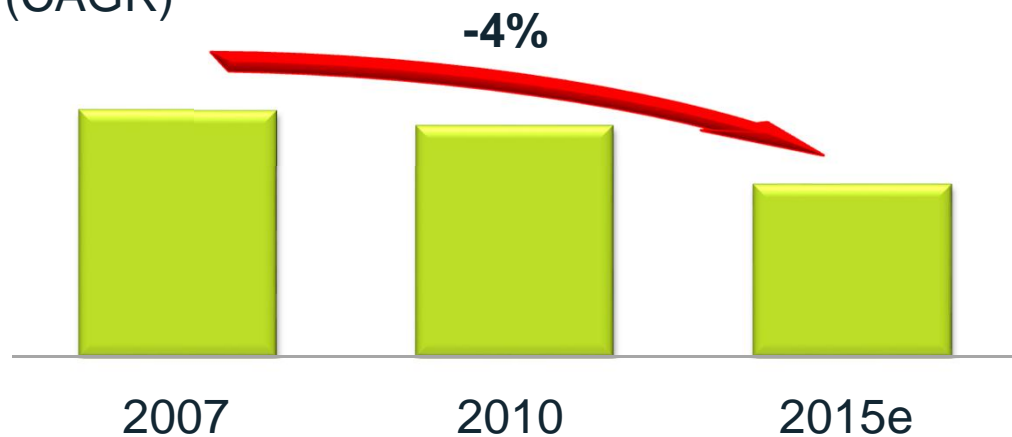


# Industry value further increase despite volume decline

**Industry value**  
(CAGR)



**Industry volume**  
(CAGR)



Solid long-term retail value growth, positive 2015 projection

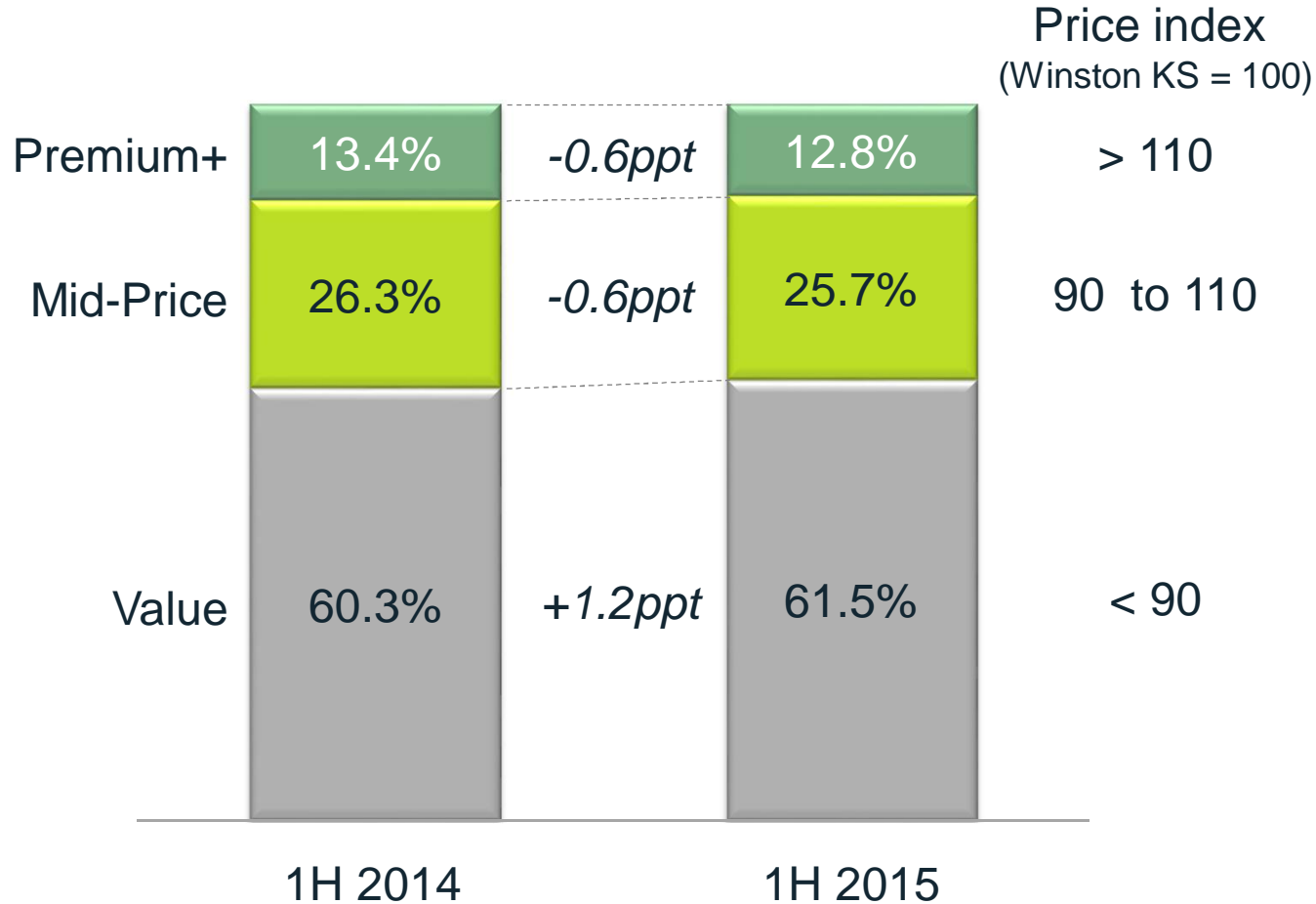
- Favorable affordability index due to
  - Positive Personal disposable income forecast
  - Predictable excise tax plan, reduced growth rates

Industry volume under pressure

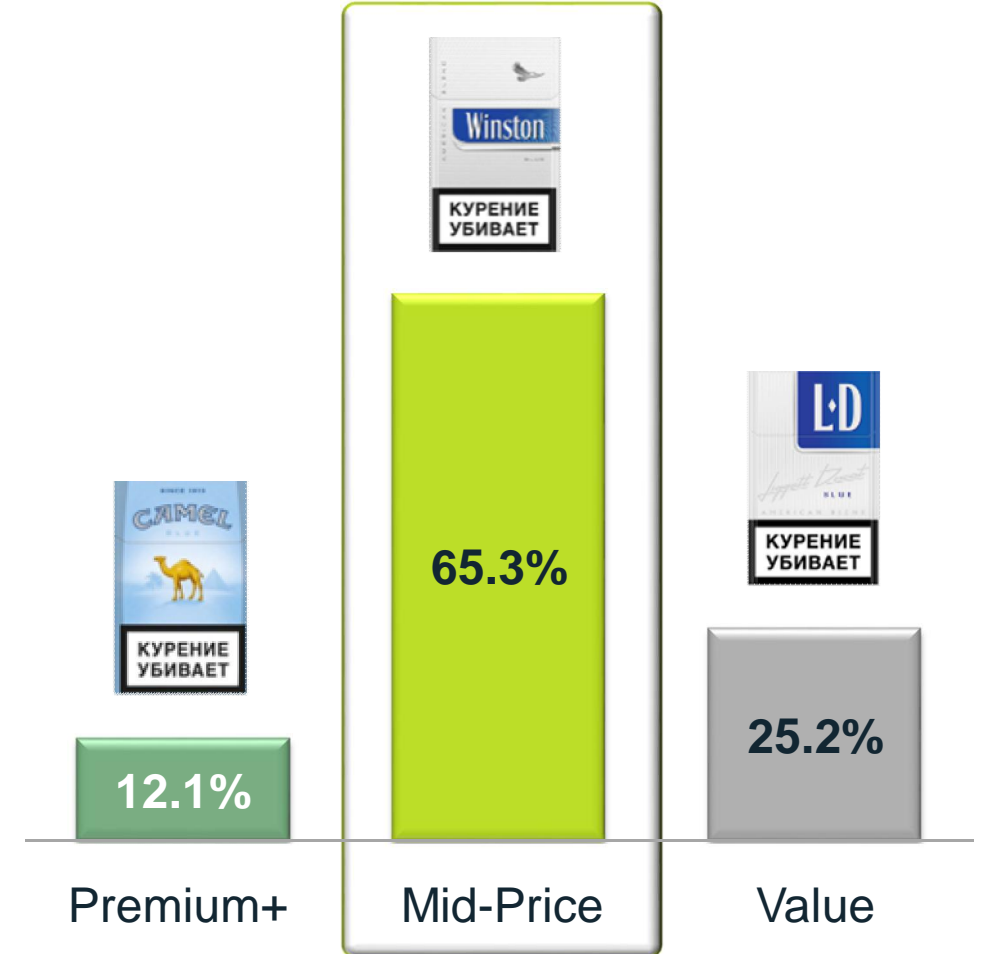
- Tightening regulation
- Slowing economy
- Full-year cigarette industry volume decline expected to be in a range of 7% to 9%

# Strong portfolio with solid leadership in Mid-Price

## Price segments development



## JTI Share of segment, 1H 2015

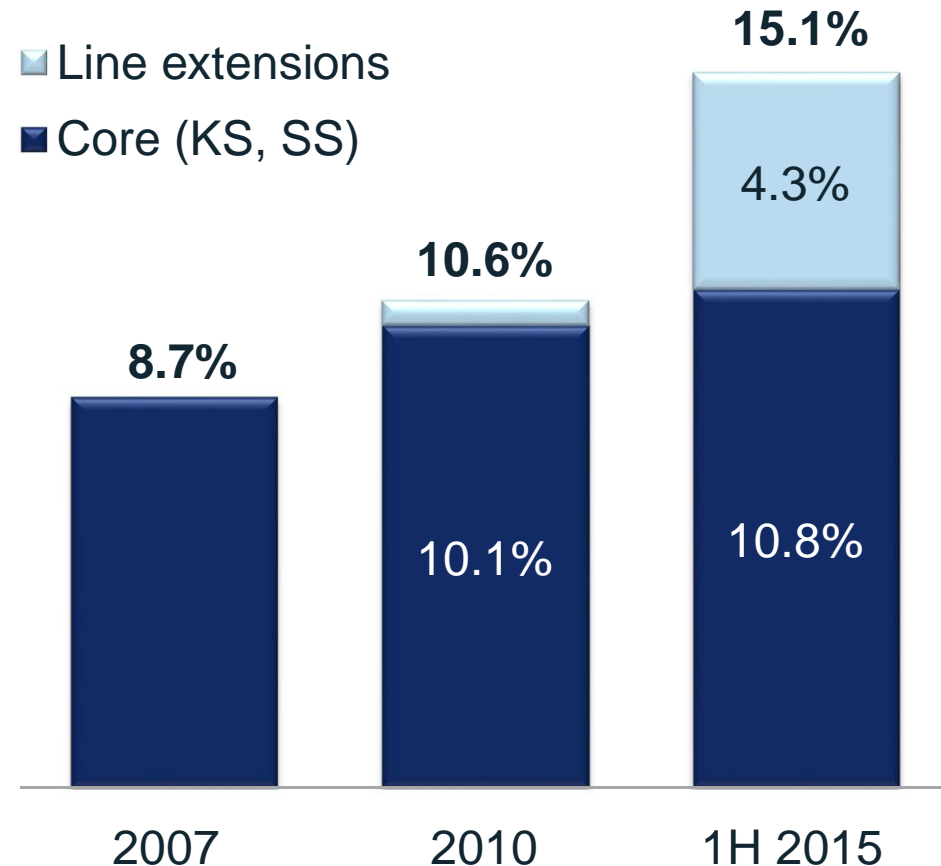




# Unique position for future growth

# Winston: The #1 FMCG brand in Russia

## Winston share of market

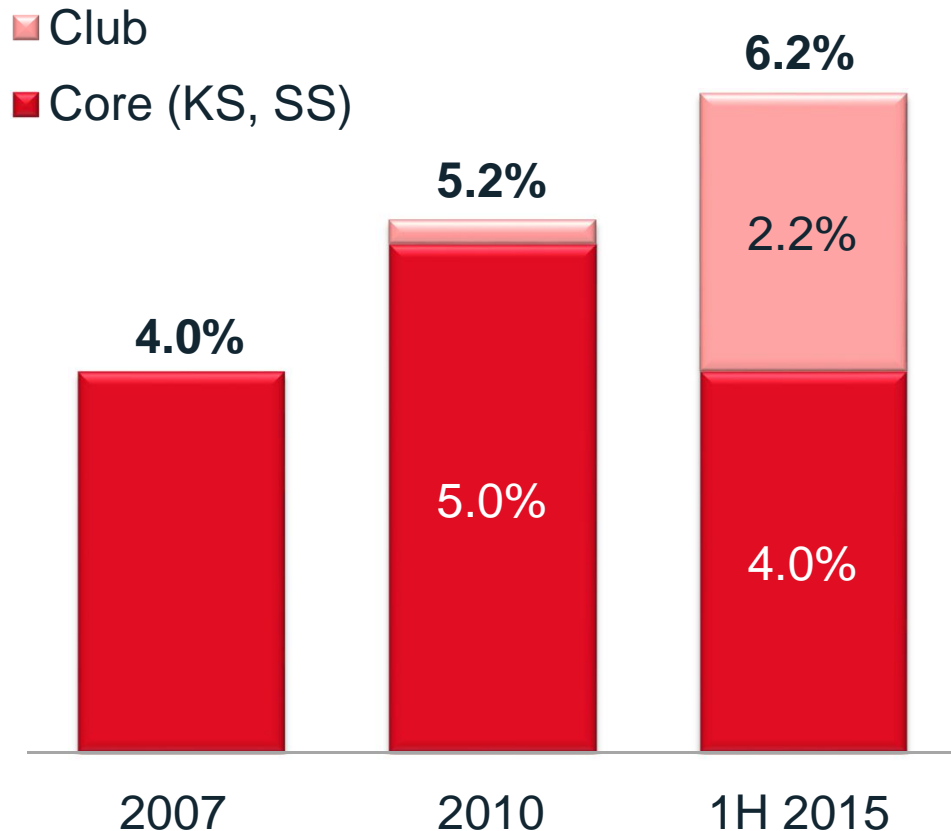


- Line extensions and upgrades to cover all consumer trends (pack, format, filter, price)
- On-going Premiumization: Quality
- Well-equipped if down-trading continues



# LD: Strong contender in Value

## LD share of market

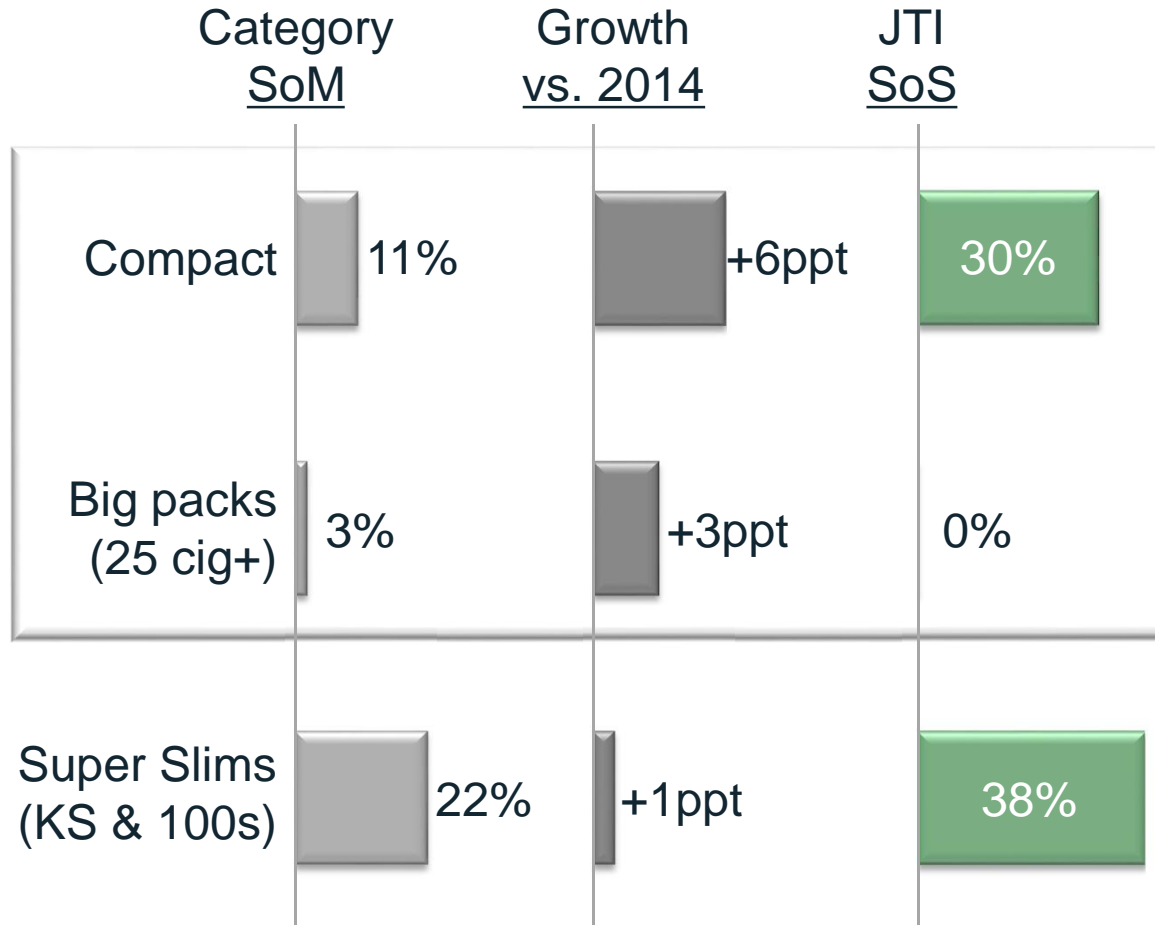


- #3 brand with strong growth potential
- Reformulation of the Core family and LD Club line extension
- Attracting both up- and down-traders with its rapidly enhancing equity

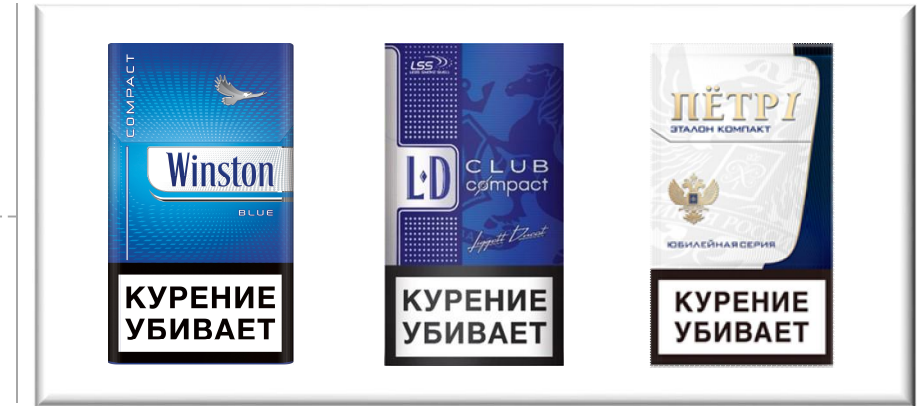


# Expanding the portfolio to seize new growth opportunities

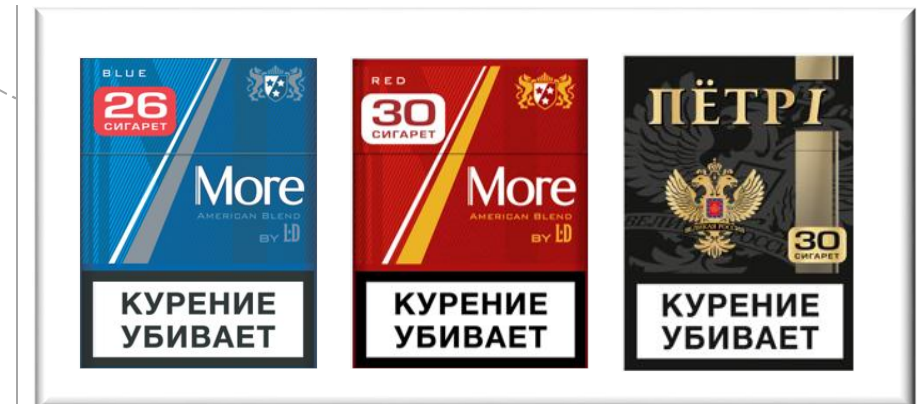
## Packaging format, 1H 2015



## JTI Compact propositions



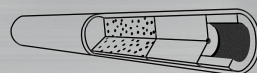
## JTI Big Pack propositions



# THIS IS THE NEW WINSTON XS PLUS



KS FORMAT






AIR CELL FILTER

**КУРЕНИЕ  
УБИВАЕТ**

# Leveraging equity to build Premium brands

## Share of market, 1H 2015

Brand	Area	SoM	vs. 2010 (ppt)
	St. Petersburg	1.9%	+0.6
	Moscow	1.0%	+0.8
	Vladivostok	7.3%	+3.1

- Tailored approach and gradual roll-out when showing positive returns
- Innovation centric in product (i.e. filter, packaging) and initiatives
- Brand endorsement test
  - Mevius LSS Inside on **Winston XS**

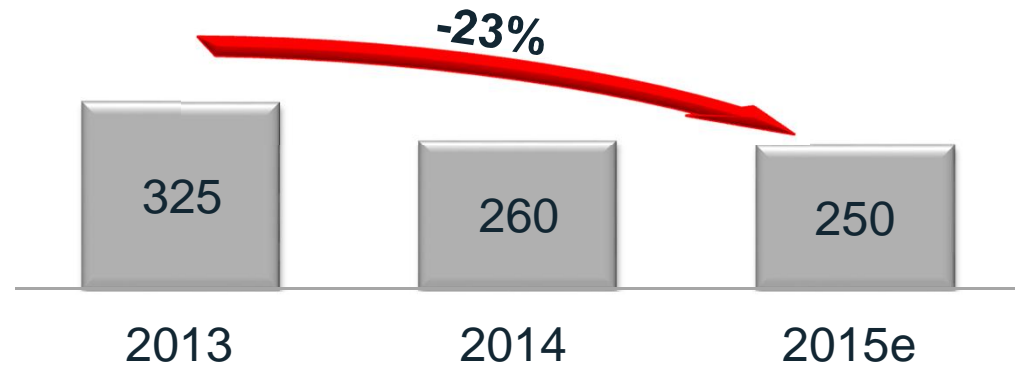




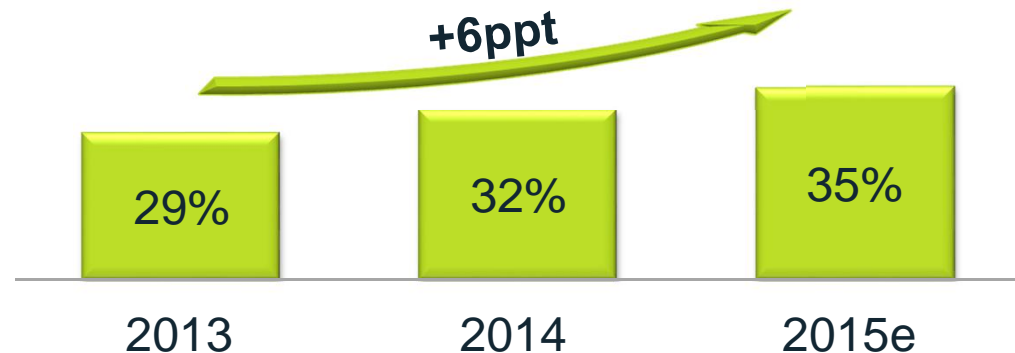
# Solid trade partnerships for quality growth

## Retail universe evolution

('000 point of sales)

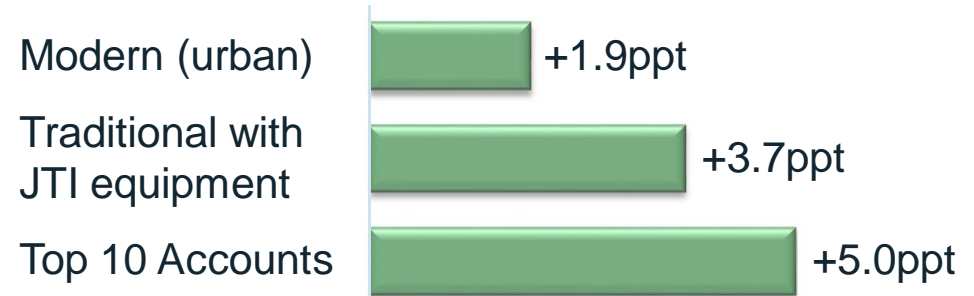


## Modern Trade volume weight



- Trade investment generates strong returns

### JTI SoM in retail channels vs. National\*



- **Partnership with national distributor and retailers** for permanent availability, out of stock reduction, optimal portfolio for each geography
- **Employee and field empowerment** under 9 regional heads for optimal agility, proximity and speed of decision. Central office supports field effort and maintains synergies

# Commitment to a long-term leading position in Russia

- Solid business fundamentals centered on Quality: talented people, the right trade partners, a strong portfolio and continued competitive investment
- Growth strategies anchored on a JT Kaizen culture and the 4S model, striving to deliver superior, consistent and balanced stakeholders satisfaction
- Challenging environment expected, but untainted commitment and positive prospect in the long-run
  - Market size decline and mid-term consumer down-trading continues, at a slowing pace
  - Predictable and reducing excise growth rate to maintain a favorable affordability index
- Margin improvement will be seized via continuous investment on brand equity and capabilities...
- ...With the prerequisite to not compromise JTI's leading position in Russia