



# **JT International Investor Field Trip**

## **Global Supply Chain**

**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

# Andrew Newton

**CIS Manufacturing  
Vice President**

- Introduction
- Petro Factory
- JTI Strategy & Performance
- Conclusions

**- Introduction -**

## Leaf & materials procurement

### Tobacco growing:

- > South America
- > Africa
- > Asia Pacific, etc.



### NTM and equipment:

- > Europe



### Tobacco leaf procurement:

- > Global



### NTM

- > Local



### Factory / warehouses



## Factory operations

### Primary: tobacco processing



### M&P: in-house filter production



### M&P: cigarette production & packaging



### Finished product

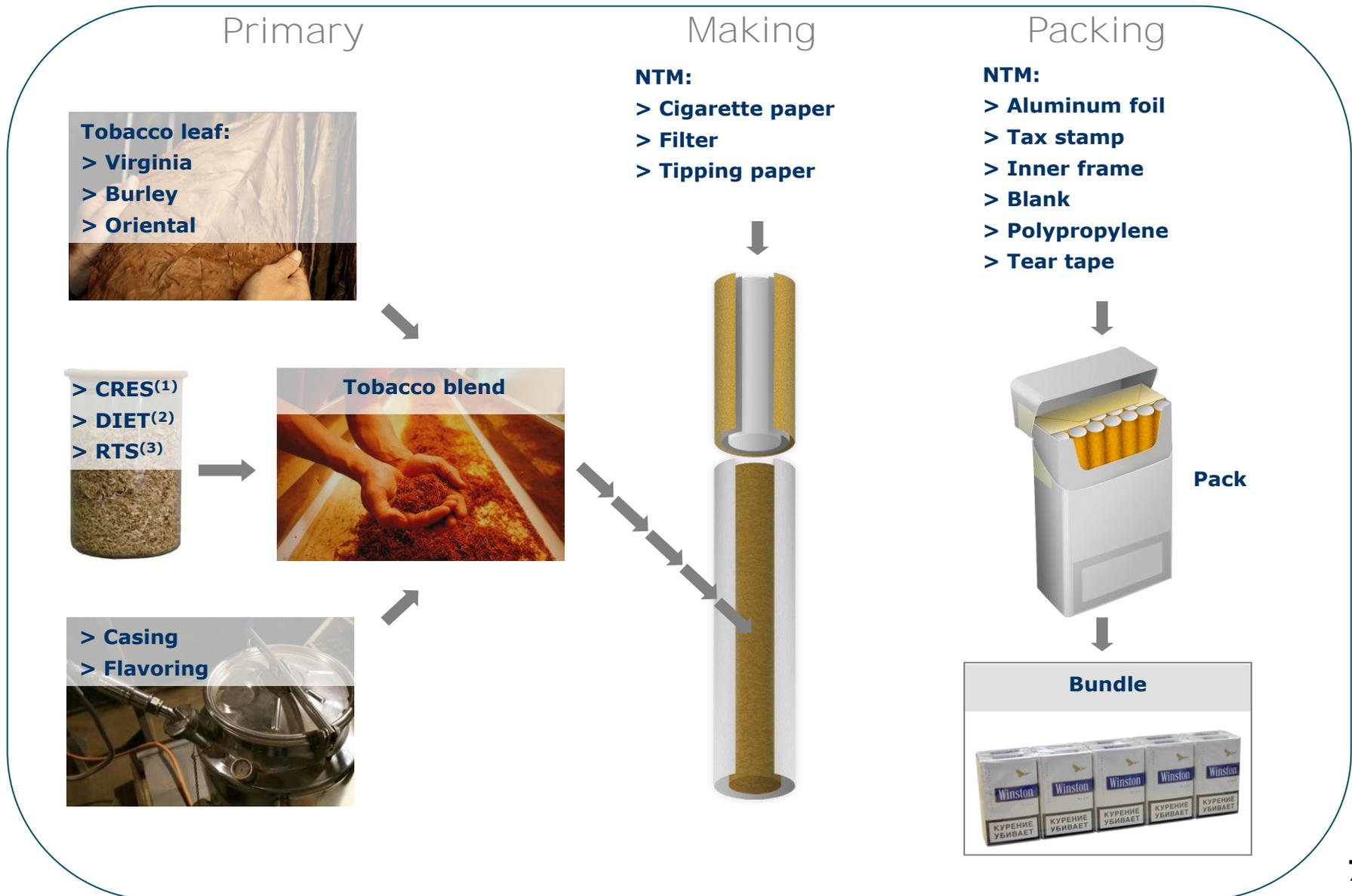
### Warehouses



### Customers



# Cigarette manufacturing process overview



(1) CRES: Cut Rolled Expanded Stem; (2) DIET: Dry Ice Expanded Tobacco; (3) RTS: Reconstituted Tobacco Sheet

# Russia manufacturing footprint



## Petro

Established in 1852  
Products: cigarettes and papirosy  
Volume: 88 BNU  
Headcount: 1,750



## Cres Neva

Established in 1999  
Products: CRES<sup>(1)</sup>, DIET<sup>(2)</sup>  
Volume: 33,000 tons  
Headcount: 152



## Liggett-Ducat

Established in 1891  
Products: cigarettes  
Volume: 68 BNU  
Headcount: 1,166



## JTI Yelets

Established in 1976  
Products: RTS<sup>(3)</sup>  
Volume: 18,000 tons  
Headcount: 281

St Petersburg, Russia

Moscow, Russia

Yelets, Russia

**- Petro Factory -**

1852



Opening of Petro's historical predecessor, the Laferm factory

1923



Factory renamed as the "First Uritsky Tobacco Factory"

1998



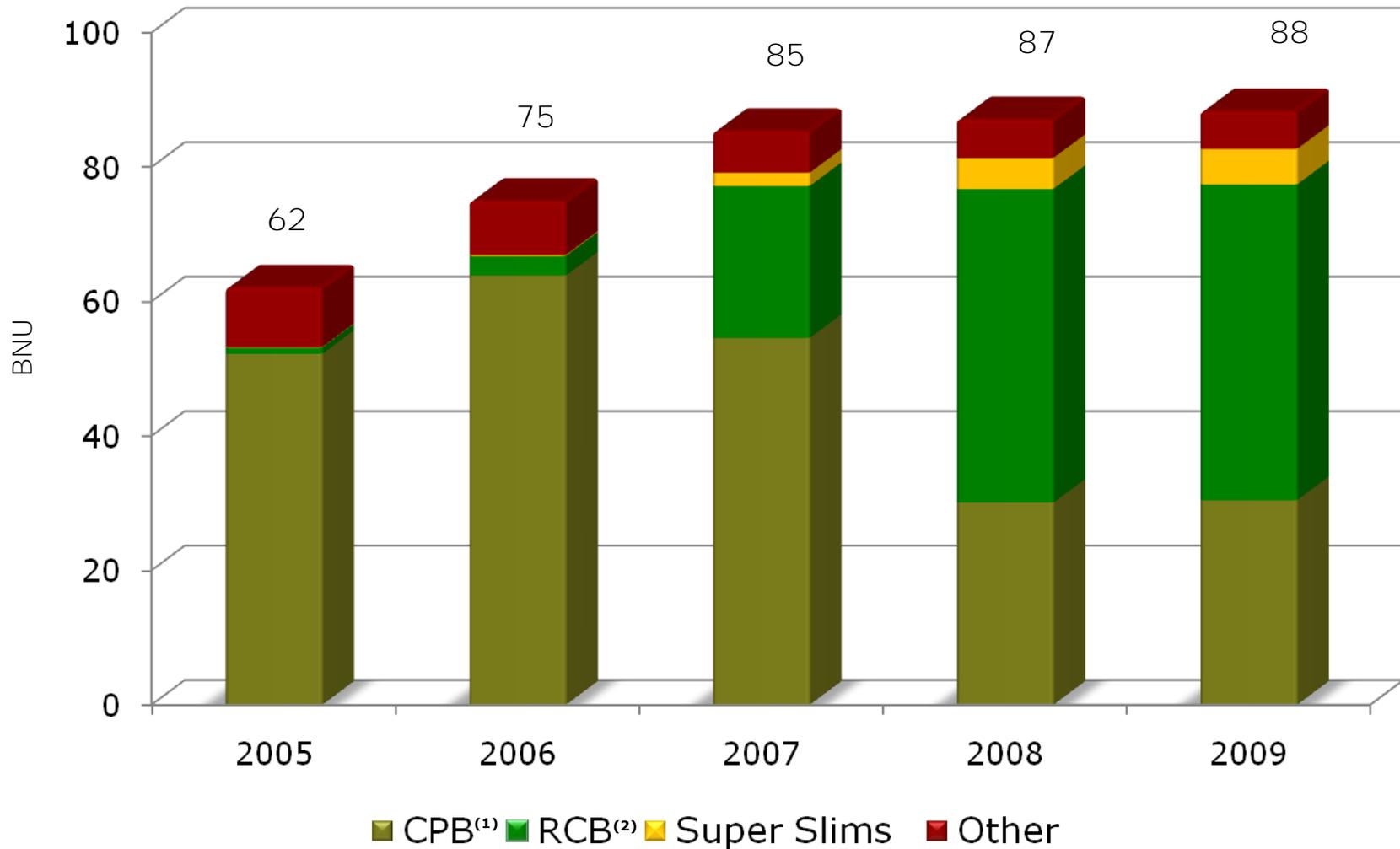
Petro moved to new location

- Significant capital investment of more than \$600MM in Petro current location
- During 2007 to 2009, approx. \$50MM per annum of Capex invested in order to produce innovative products and drive efficiency gains

# Major milestones

1998	Petro moved to new location, old factory on Vassilievsky island closed
1999	RJRI acquired by JT. Petro becomes a member of the JT group of companies
2002	Petro certified ISO 9001-2000
2004	Petro certified ISO 14001 & OHSAS 18001
2005	Acquisition and integration of Cres Neva factory
2007	Gallaher Group acquired by JT, integration of Liggett-Ducat factory in Moscow
2008	Installation of the first ultra high speed line at Petro (20,000 cigarettes per minute)
2009	Installation of Flash Dryer and the first King Size Super Slims cigarette production line

# Petro production volumes



(1) CPB: Crush Proof Box; (2) RCB: Round Corner Box

**- JTI Strategy & Performance -**

## Mission statement

As one team be the industry best supply chain, driving continuous improvement and excellence in execution

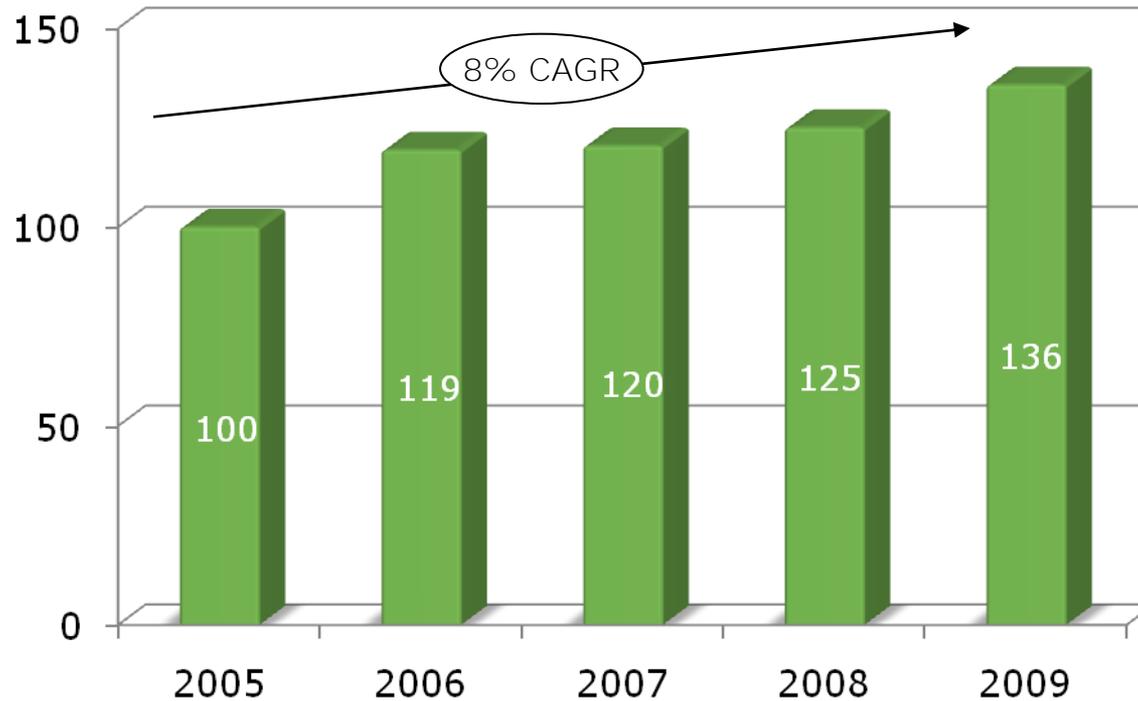
## Strategies

We will:

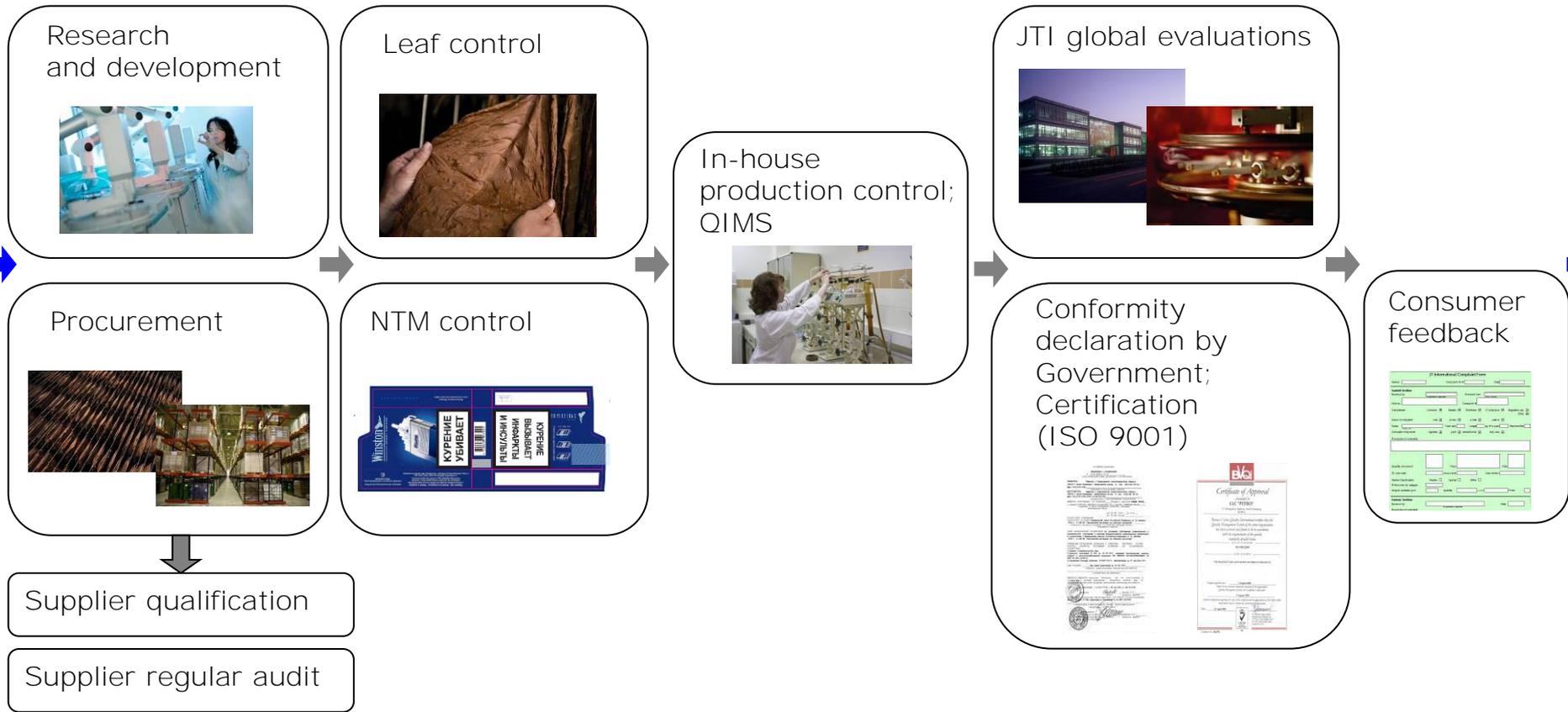
- Deliver highest quality products at best cost
- Maintain shortest possible lead times
- Work as one team
- Ensure positive and transparent collaboration
- Promote innovation
- Provide a proper work environment

Index  
(Year 2005 = 100)

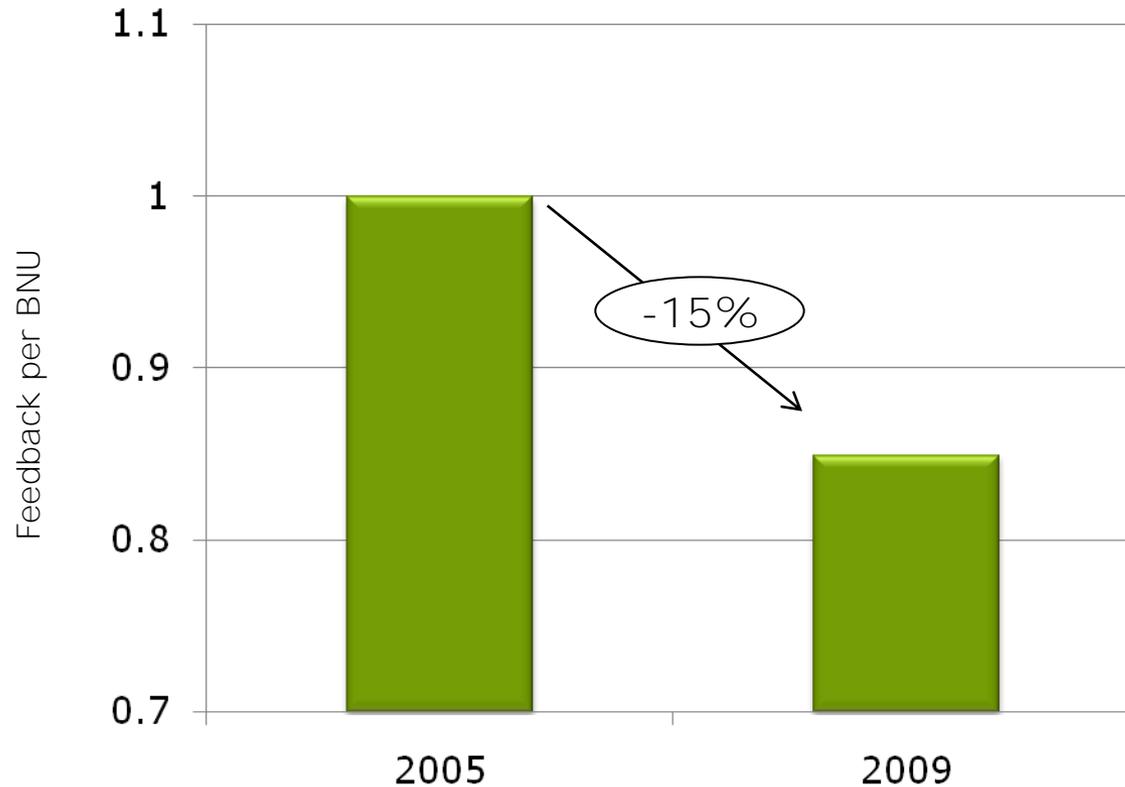
Cigarettes per Man Hour (indexed)



- Since 2008, 4 Ultra High Speed Making & Packing lines (20,000 cigarettes per minute) have been installed
- Productivity has increased 36% since 2005, supported by improved operator skills as a result of continued investment in training programs



- Robust process of quality control throughout every step of the supply chain
- Consumer feedback is a key element of the process, driving continuous improvement

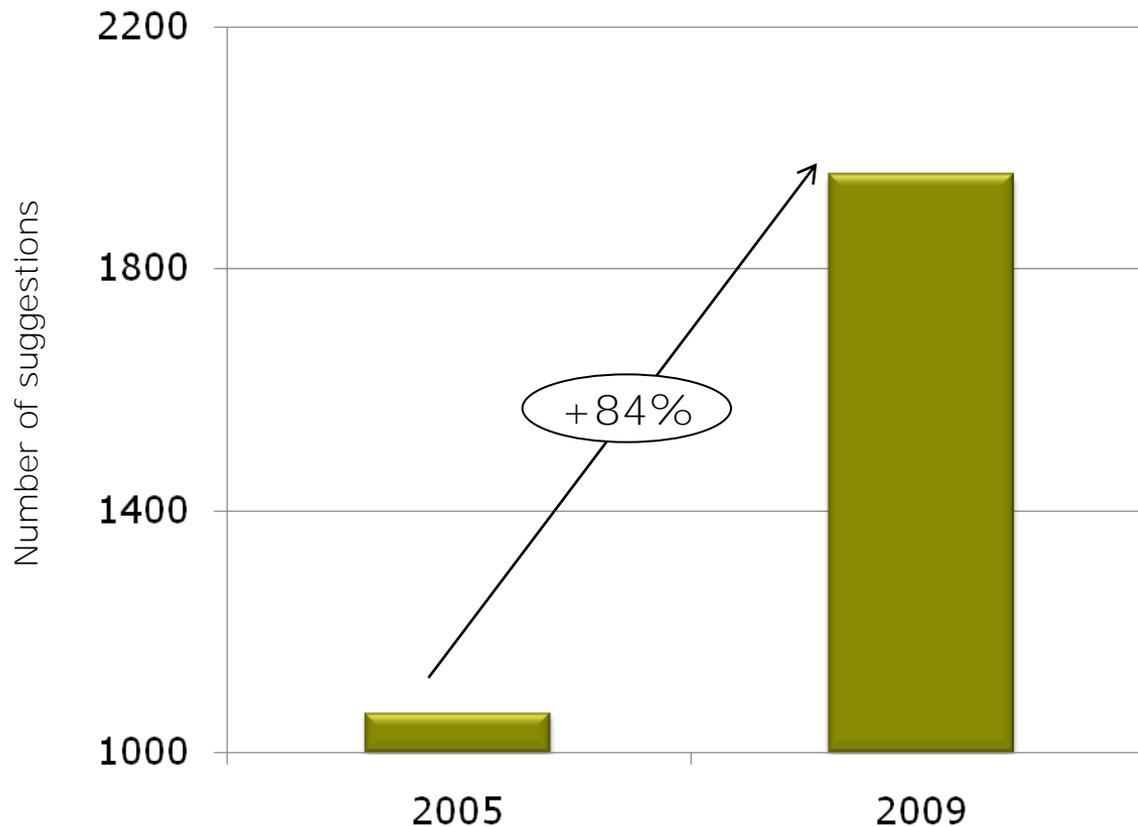


- Consumer feedback declined 15% since 2005
- New global customer feedback handling procedure has been implemented, aiming to better understanding of the nature of feedback and improved feedback diagnosis

- Safety first: “zero incidents” goal
- Global ERM<sup>(1)</sup> certification
- Competitive compensation and benefits
- Promotion of employee engagement throughout the organization
- Tailored training and development programs
- KAIZEN



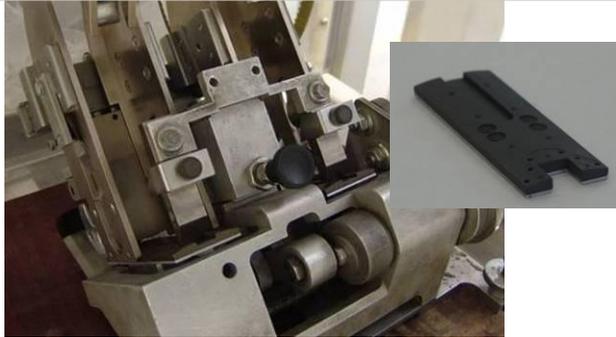
- Lost Time Incident rate has been reduced by approx. 70% over the period 2005 – 2009
- Employee volunteer turnover is under 1%



- Significant increase in number of suggestions driving continuous improvement throughout all factory activities
- All suggestions evaluated and selectively implemented as part of KAIZEN

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

## Productivity



Focke HS/UHS Coupon Unit - suction plates modification: decrease in rejects/stoppages

## Quality



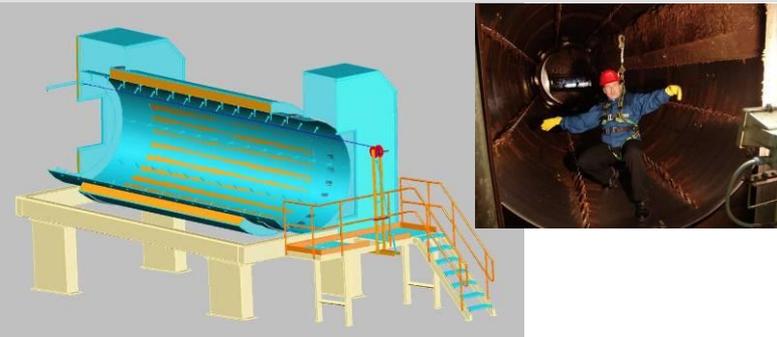
Contrast price printing zones development: effective printing control

## Energy



Use of warm air from make & pack area to cover all silo heating needs: energy saving

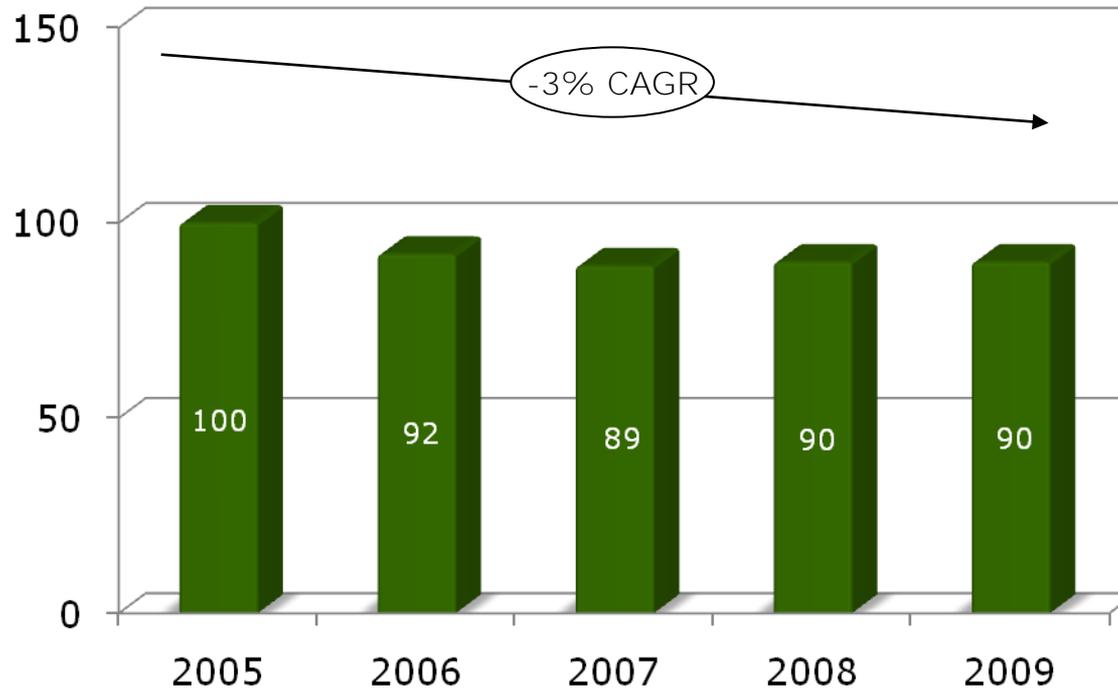
## Safety



Tobacco processing cylinder: a device for safe maintenance

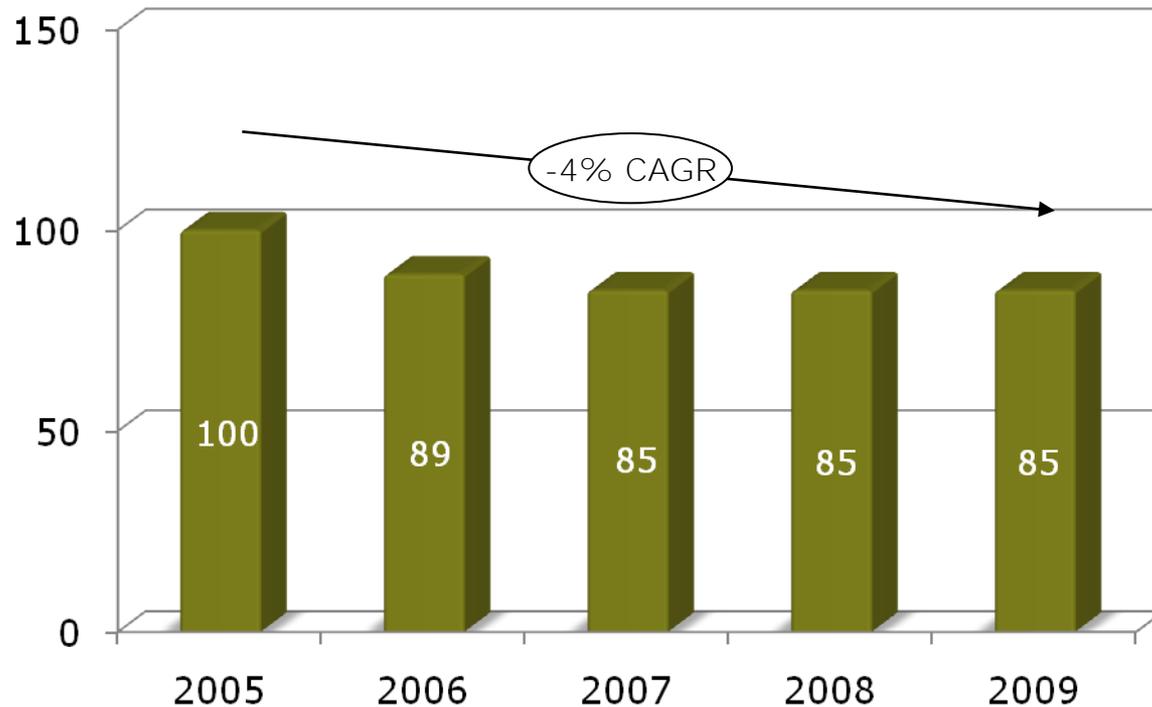
Index  
(Year 2005 = 100)

Conversion cost per '000 (indexed)



- Conversion cost has been constantly declining at 3% CAGR, despite increasing complexity and inflation
- Effective management of working capital through integrated planning process platform and supplier strategic alliances

Index  
(Year 2005 = 100) Carbon Footprint - CO2 emissions per Million cigarettes (indexed)



- In addition to CO2 emission reduction, energy consumption, waste generation and water consumption decreased 17%, 21% and 22%, respectively
- Our goal is to continually improve EHS performance by implementing long-term, sustainable and effective programs

**- Conclusions -**

- Petro is the largest factory in JTI delivering:
  - a diverse portfolio of world class quality innovative products
  - continued investment in employee development and high-end technology
  - a high level of employee competence and engagement
  - significant quality improvement and cost efficiencies throughout all factory activities driven through our long term commitment to KAIZEN