Growing dynamically in Western Europe

Vassilis Vovos
Regional President, Western Europe

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. .

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Mature and profitable region

JTI WE - 16 markets

ITA UK FRA ESP CHE IRL GRC PRT

BEL NLD LUX CAN AND MLT CYP GIB

Tobacco industry volume

~344 BnU

FY 2015

Tobacco industry value

~96 $Bn

FY 2015

JTI WE - Key facts (1H 2016)

~2,000
Employees

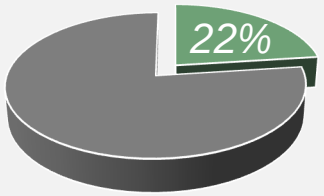
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Factories

24.6%
SoM

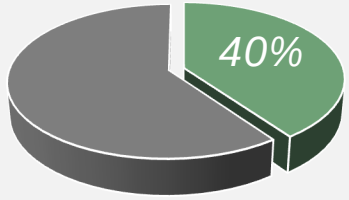
26.2%
SoV

44.4 BnU
Volume

1,045 $MM
EBITA



as % of Total JTI



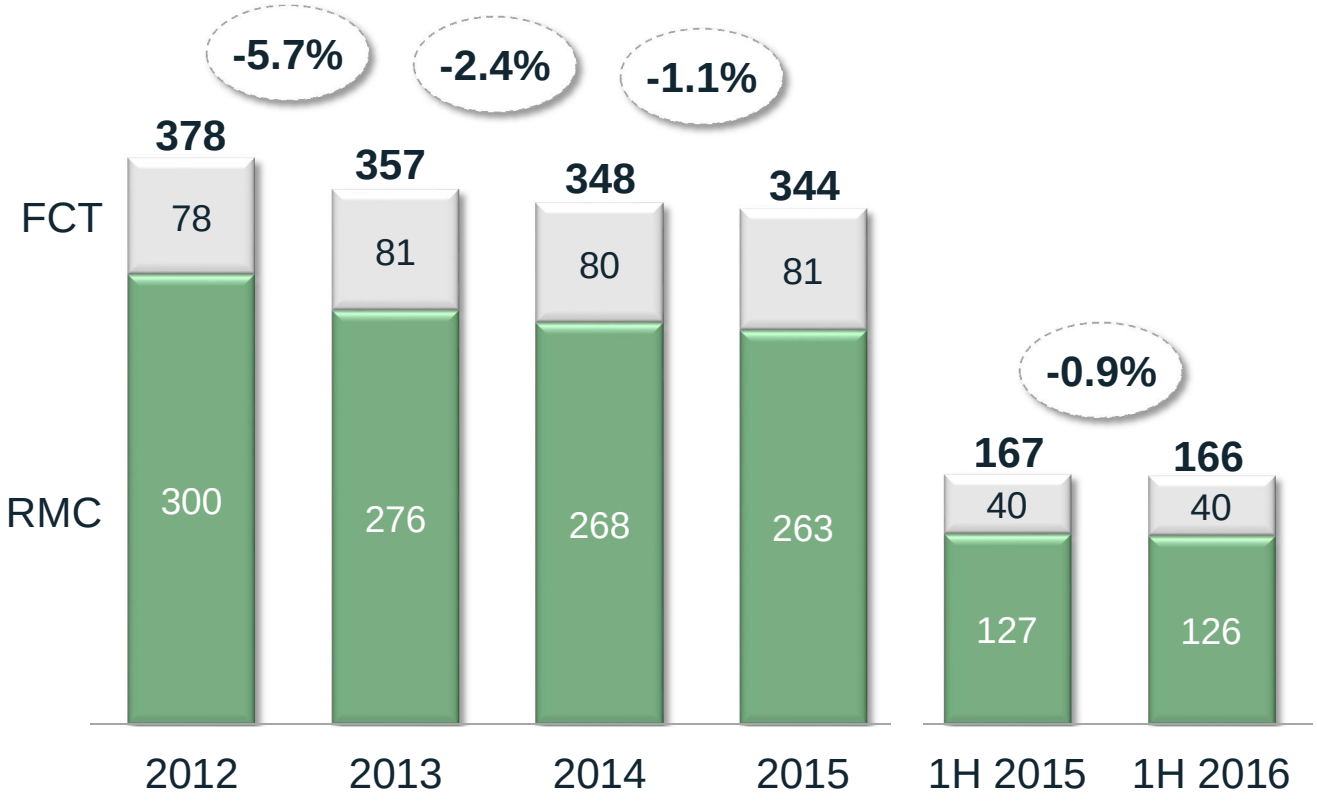
as % of Total JTI

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Source: Internal estimates. Note: SoM & SoV on 6-month rolling average to June. EBITA at constant currency. Employee data excludes factory-related headcount

Resilient industry volume

WE Total industry volume evolution (BnU)



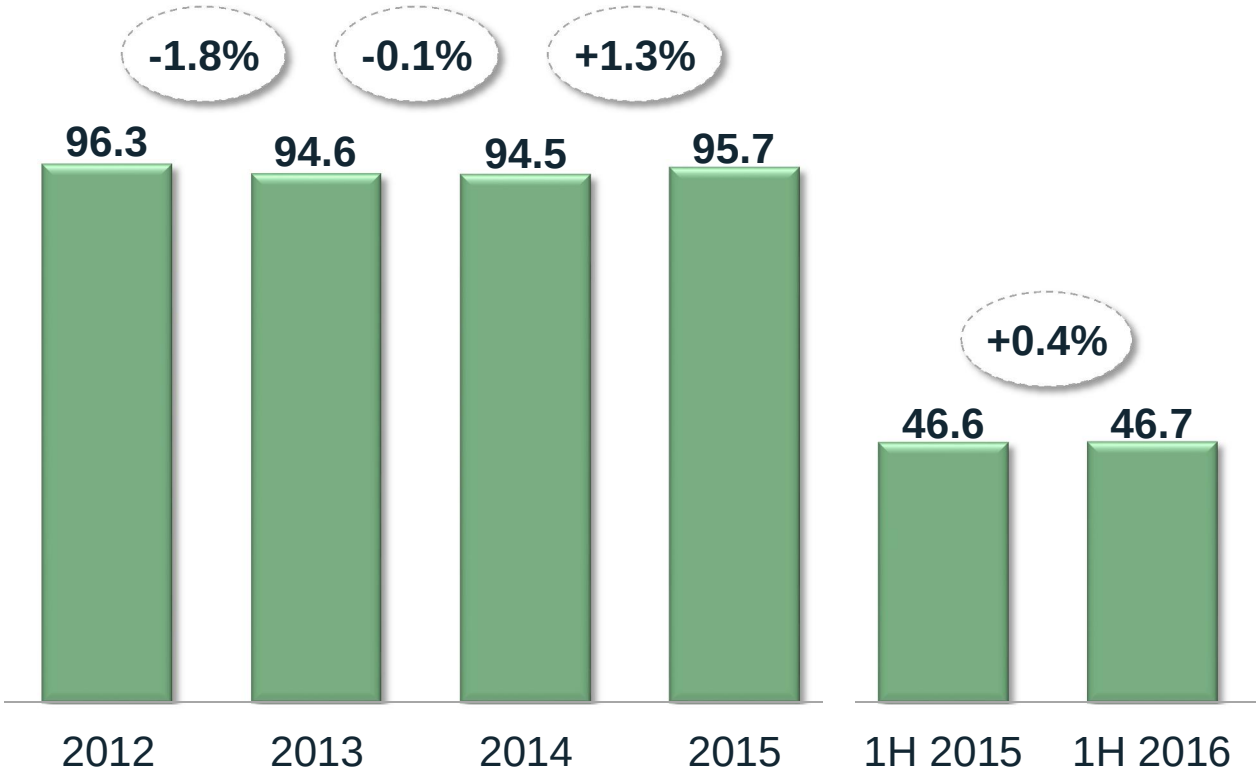
- Improving economy
- Stable illicit trade levels
- Full-year 2016 industry volume anticipated to decrease around 2%
  - Softer second half due to the expected impact of regulation on duty-paid volume

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Source: Internal estimates. Note: FCT stands for fine cut

Industry value growing moderately

WE Total industry value evolution ($Bn)

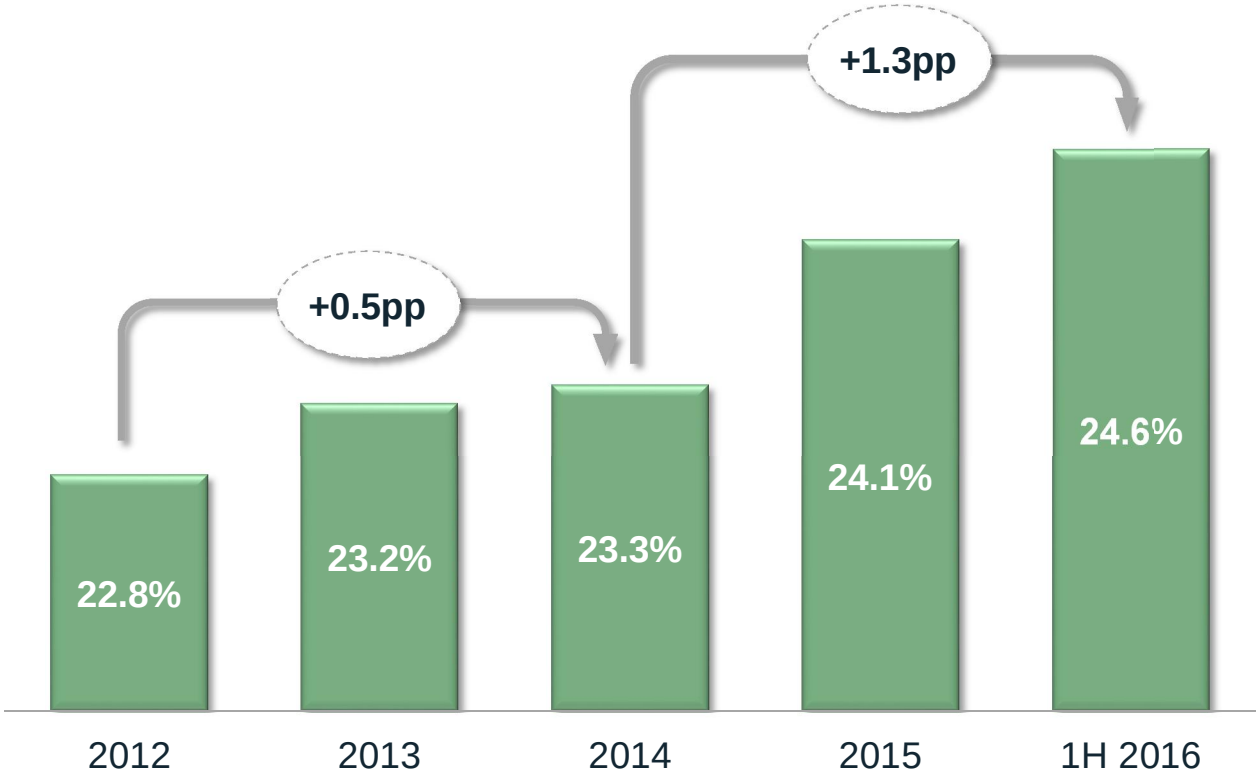


- Positive turnaround underpinned by improving consumer sentiment
- Retail value growth driven by:
  - Price increases
  - Resilient industry volume
- First half 2016 affected by phasing of pricing

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Source: Internal estimates at constant currency

Market share growth momentum accelerates

JTI Share of market in Western Europe



- SoM growth across **all** markets
  - Record share in 12 markets
- GFB growth in both cigarettes and fine cut
- Share of value increasing at a faster pace than SoM

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Source: Internal estimates. 1H 2016 SoM on 6-month rolling average to June

Robust volume, core revenue and earnings performance

JTI Western Europe Performance – 1H 2016 vs. 1H 2015

Total Volume	GFB Volume	Core Revenue	EBITA
+5.2%	**+11.1%**	**+7.9%**	**+9.1%**

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Note: Core revenue and EBITA at constant currency

Strategies for sustainable growth

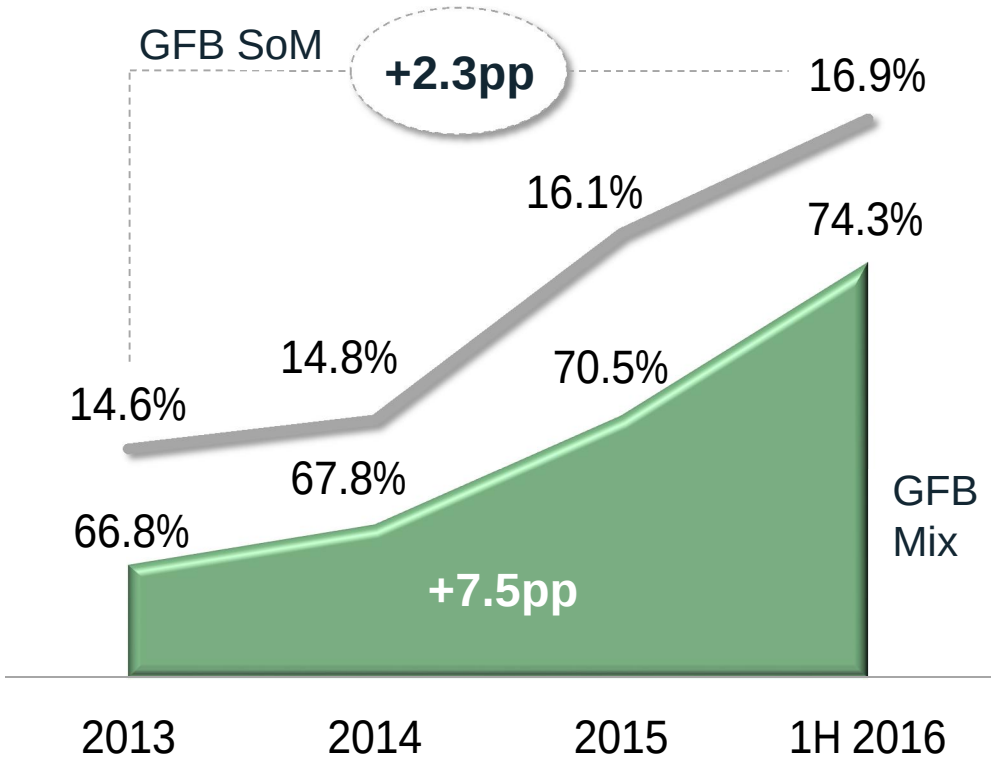
Key strategies supporting JTI's success in Western Europe



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Strong GFB portfolio driving share gains

GFB SoM & Mix(1) in Western Europe



- Powerful and complementary consumer brands addressing all segments
- Clear and focused investment strategy behind key GFBs to build scale
- Acceleration of migrations to GFBs







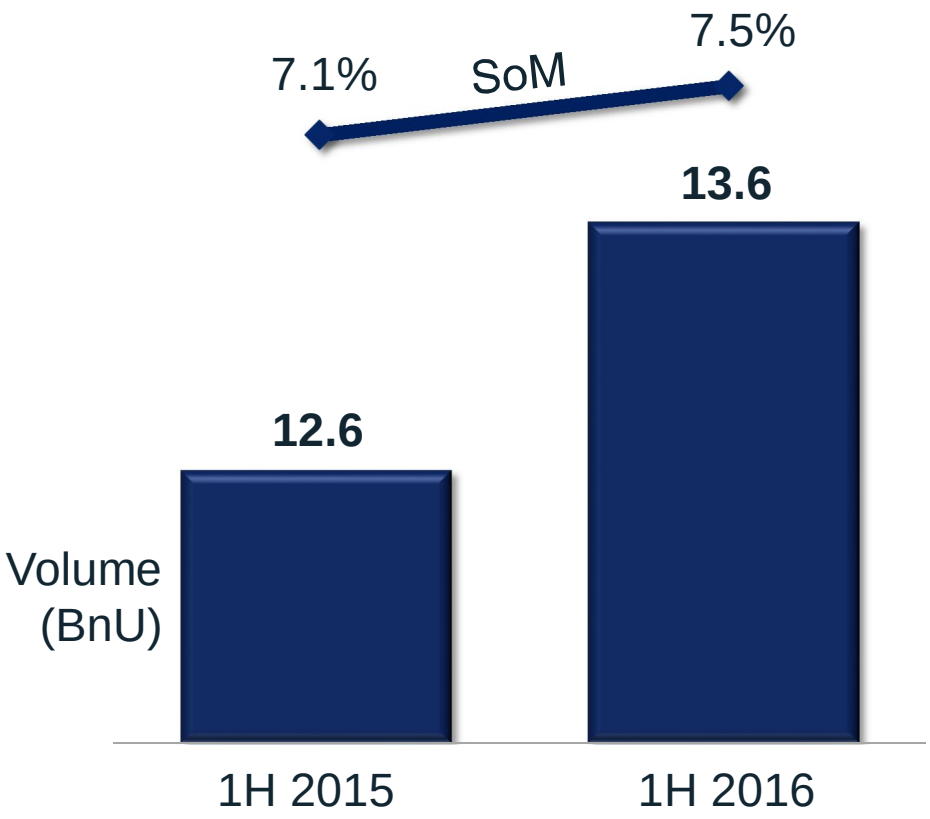


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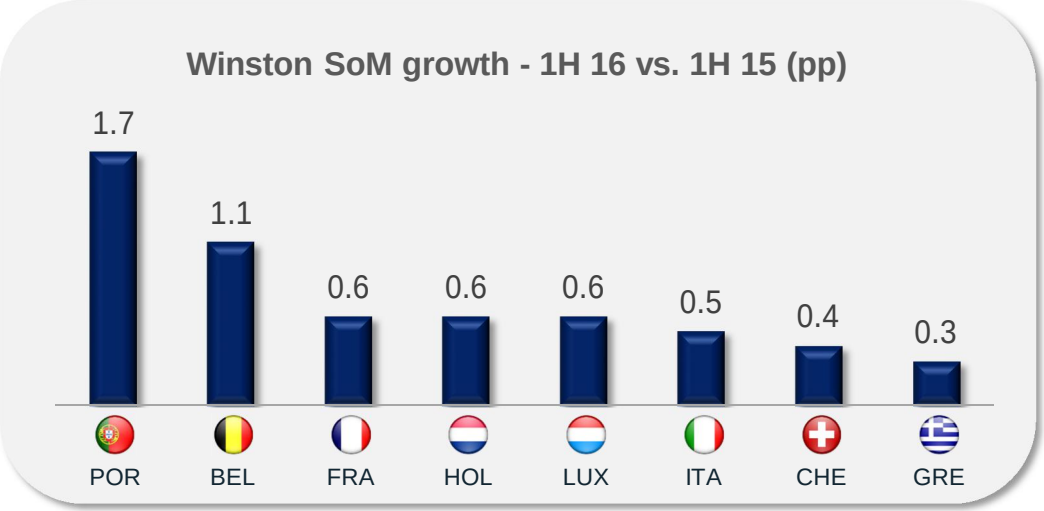
Source: Internal estimates. 1H 2016 SoM on 6-month rolling average to June. (1) GFB as % of total shipment volume

Winston – #2 brand in Western Europe

Winston performance in Western Europe



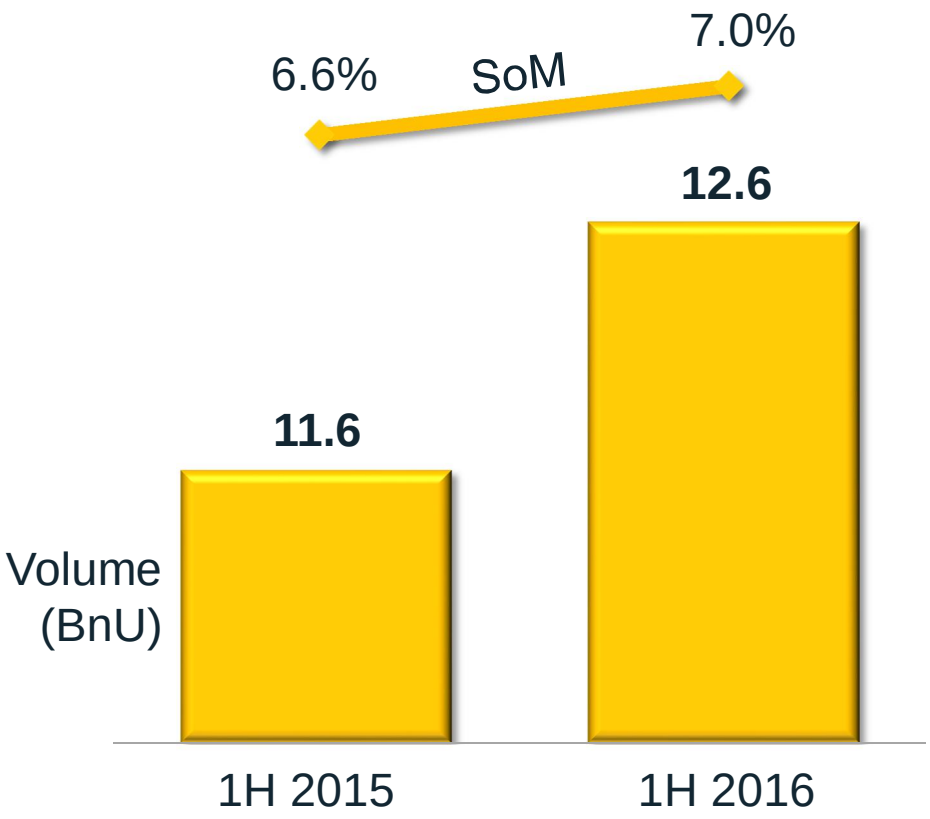
- True total tobacco brand with solid growth across cigarettes and fine cut
- Focus on delivering quality and value



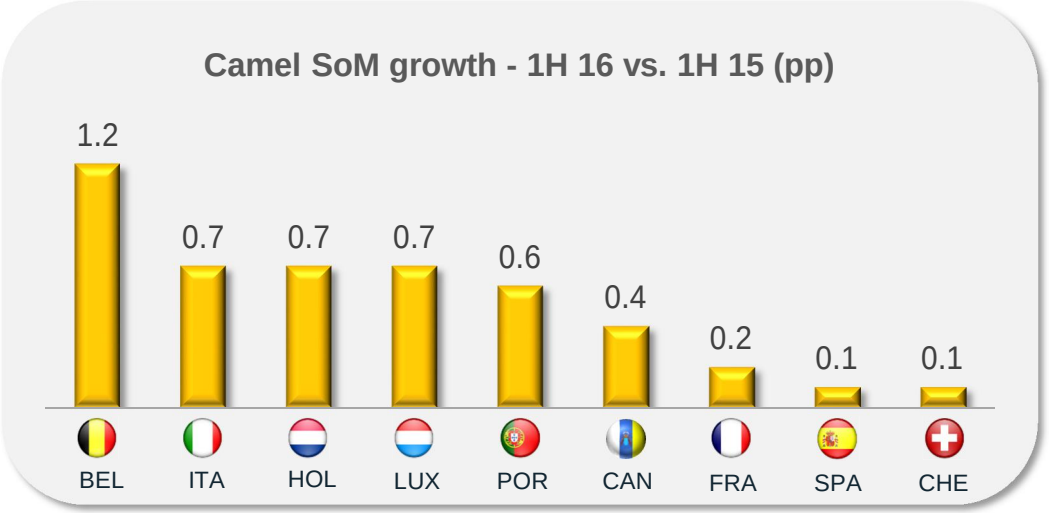
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Source: Internal estimates. SoM on 6-month rolling average to June

Camel – #3 brand in Western Europe

Camel performance in Western Europe



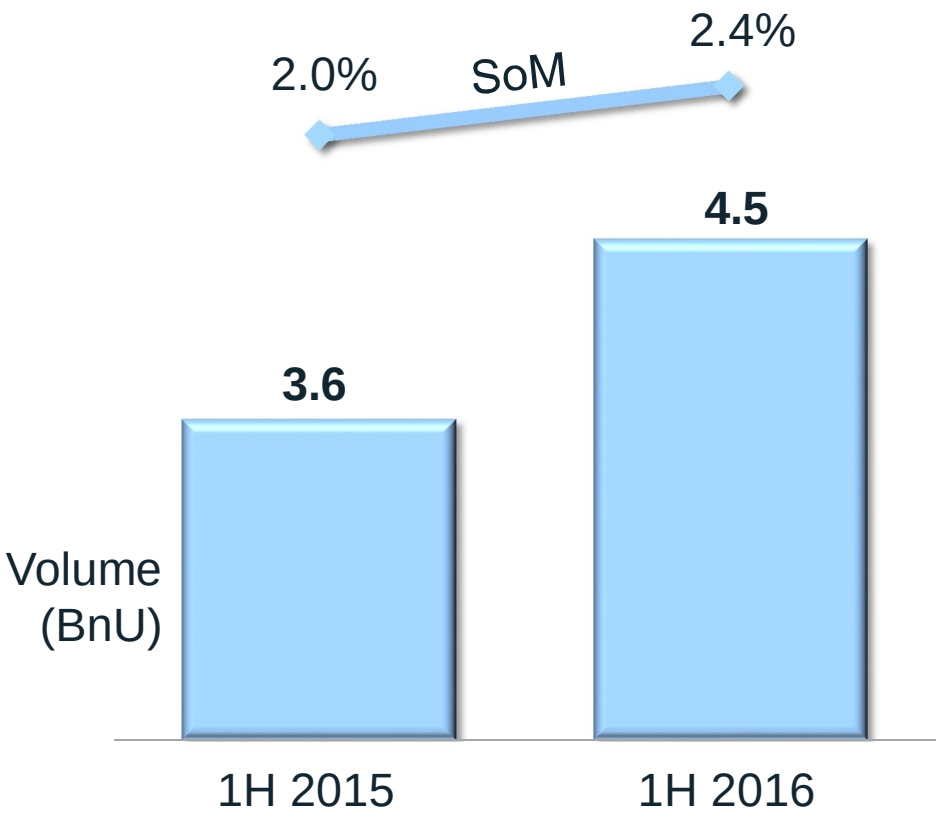
- Iconic brand with strong equity and high awareness across markets
- 2nd fastest growing tobacco brand



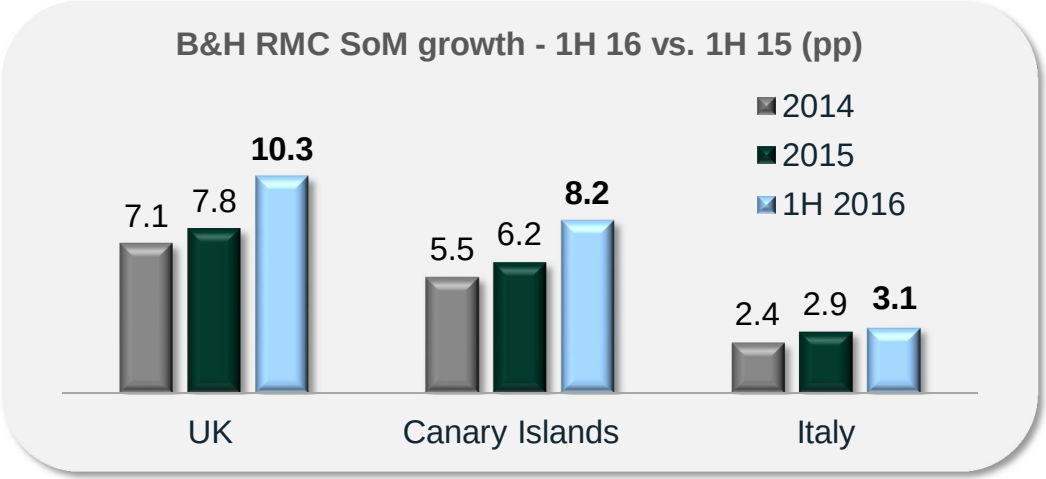
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Source: Internal estimates. SoM on 6-month rolling average to June

B&H – The fastest growing cigarette brand

B&H performance in Western Europe

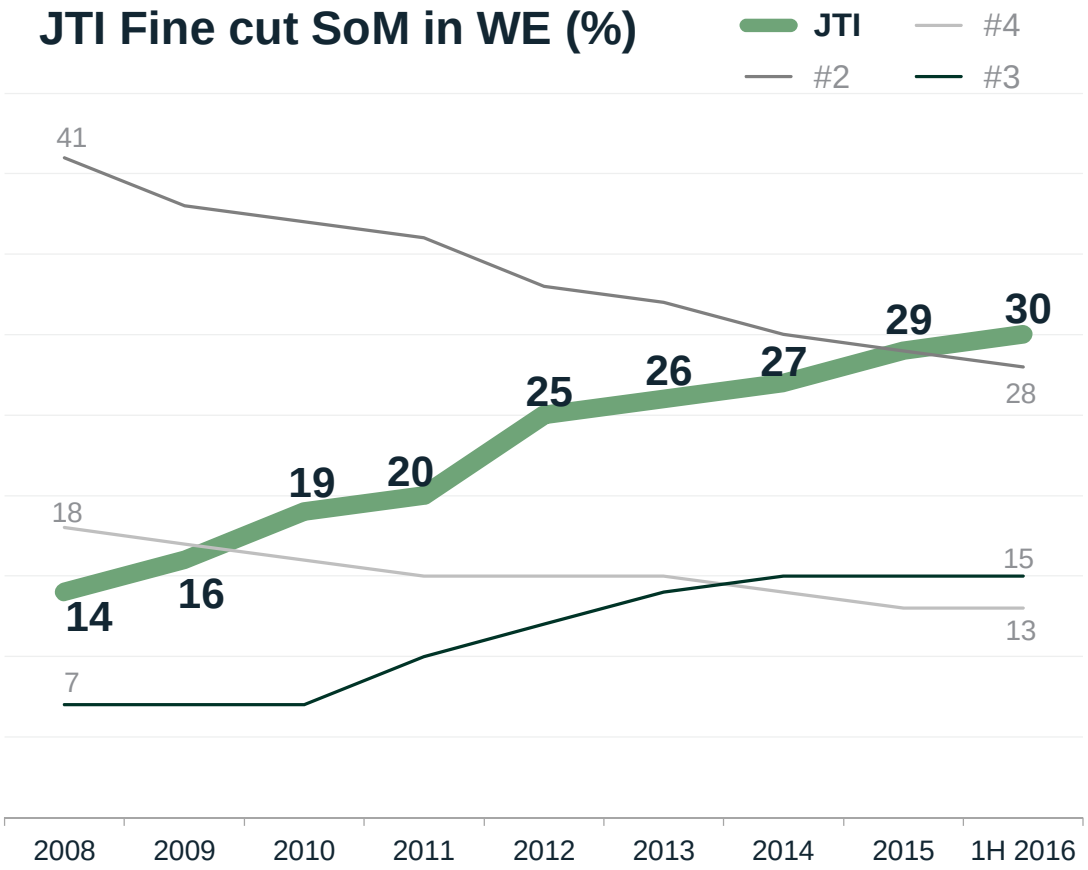


- Rich brand heritage with a successful Virginia and value portfolio
- UK's fastest growing tobacco brand, with RMC SoM exceeding 10%
- Increasing RMC position in most markets



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Source: Internal estimates. SoM on 6-month rolling average to June

Achieving leadership in fine cut, from #3 to #1 in 8 years



- 24% of tobacco consumption and stable
- Winston & Camel fastest growing fine cut brands in the region
- Amber Leaf is the #1 fine cut brand across Western Europe with 10% SoM
- Strong portfolio, further enhanced with the Natural American Spirit acquisition



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Source: Internal estimates. 1H 2016 SoM on 6-month rolling average to June

Establish leadership in Emerging Products



Enhanced portfolio covering all e-vapor segments

Maximizing synergies and increased investments

#1
in France, strong contender for leadership in UK

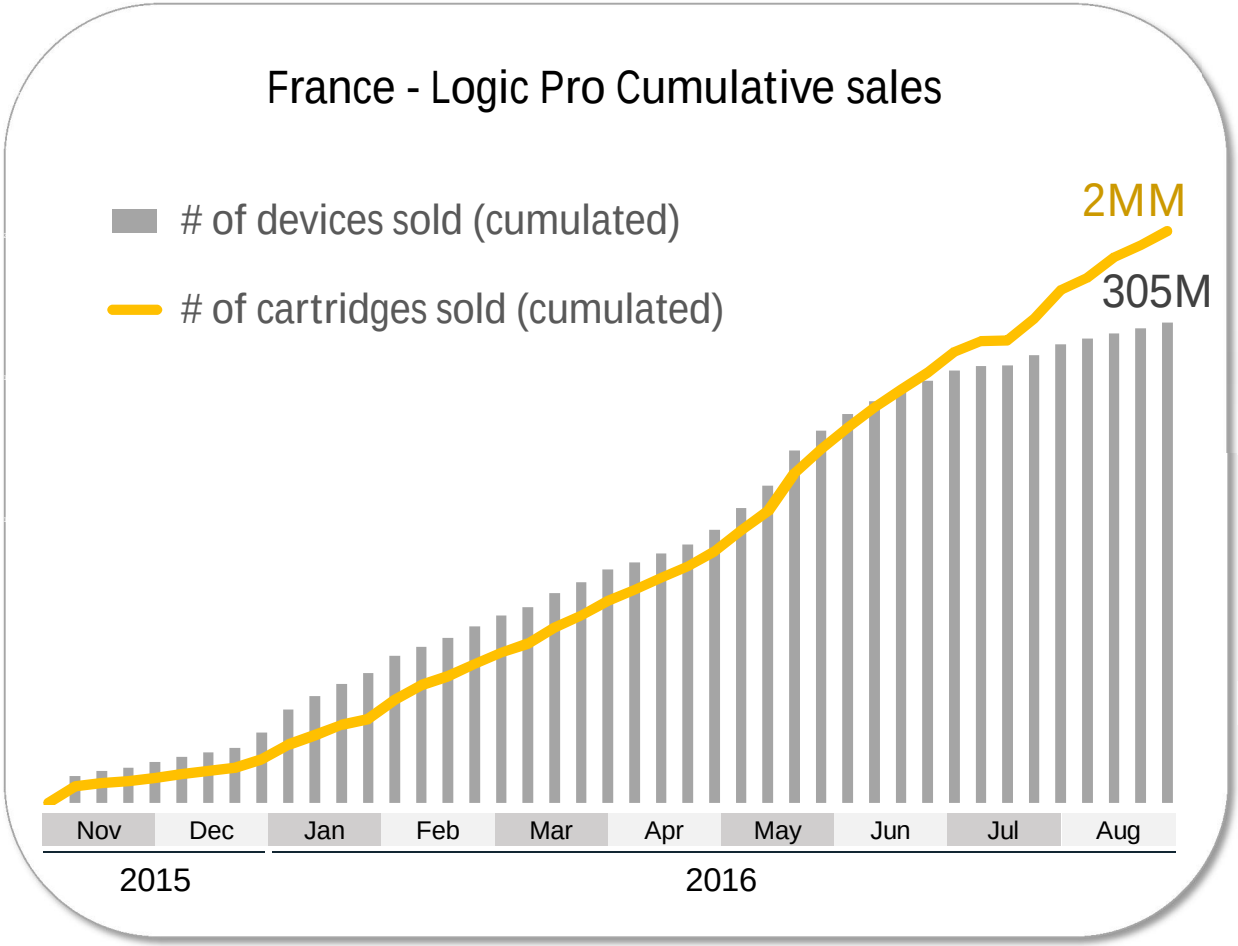
+17.6pp
Share of value YoY growth in Ireland

Italy launched in Q2 2016, further expansion to follow

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Source: Internal estimates

France - #1 E-vapor brand in tobacconist channel







Strong brand equity & consumer adoption

305M devices & **2MM** cartridges packs sold to trade since Nov. 2015

Leveraging **synergies with tobacco business**

Significant distribution across both tobacco & vape shops

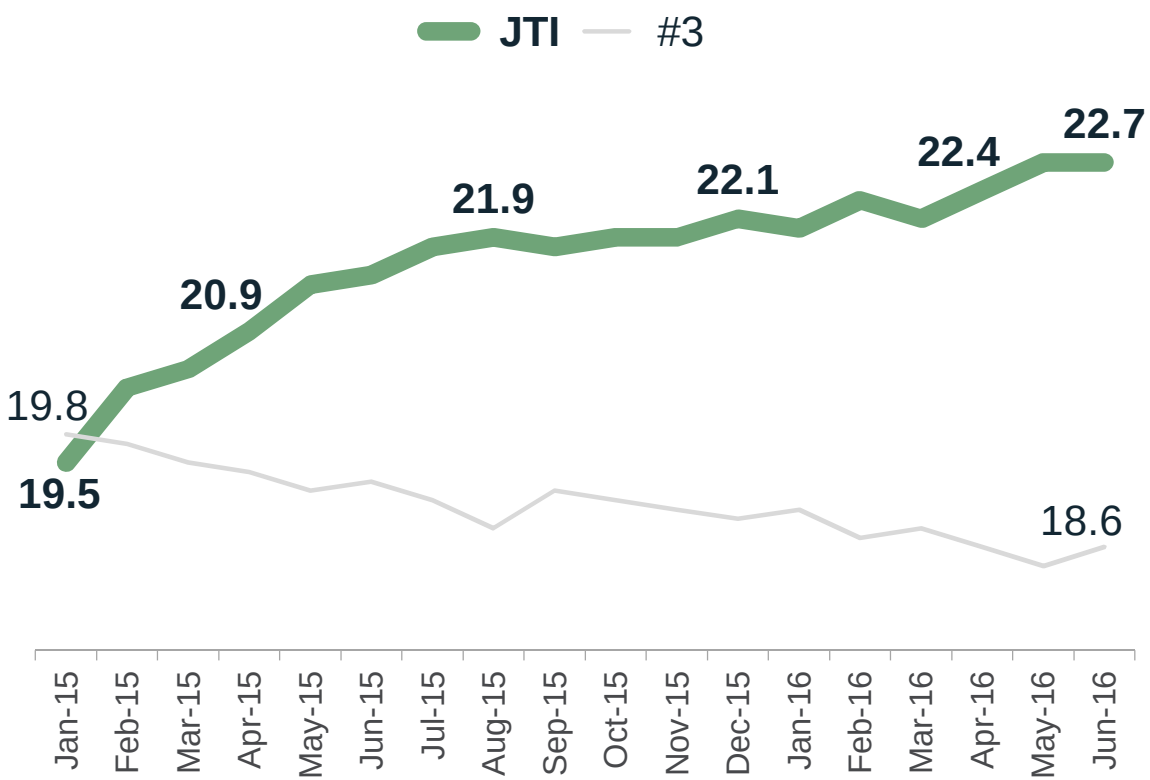
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Source: Internal estimates

Overview of key markets

Italy – Strong performance driven by GFBs

Share of market evolution (%)



Operating environment

- #1 volume market in Western Europe
- Total industry volume stable for the second consecutive year
- Current tax system provides the framework for regular pricing evolution

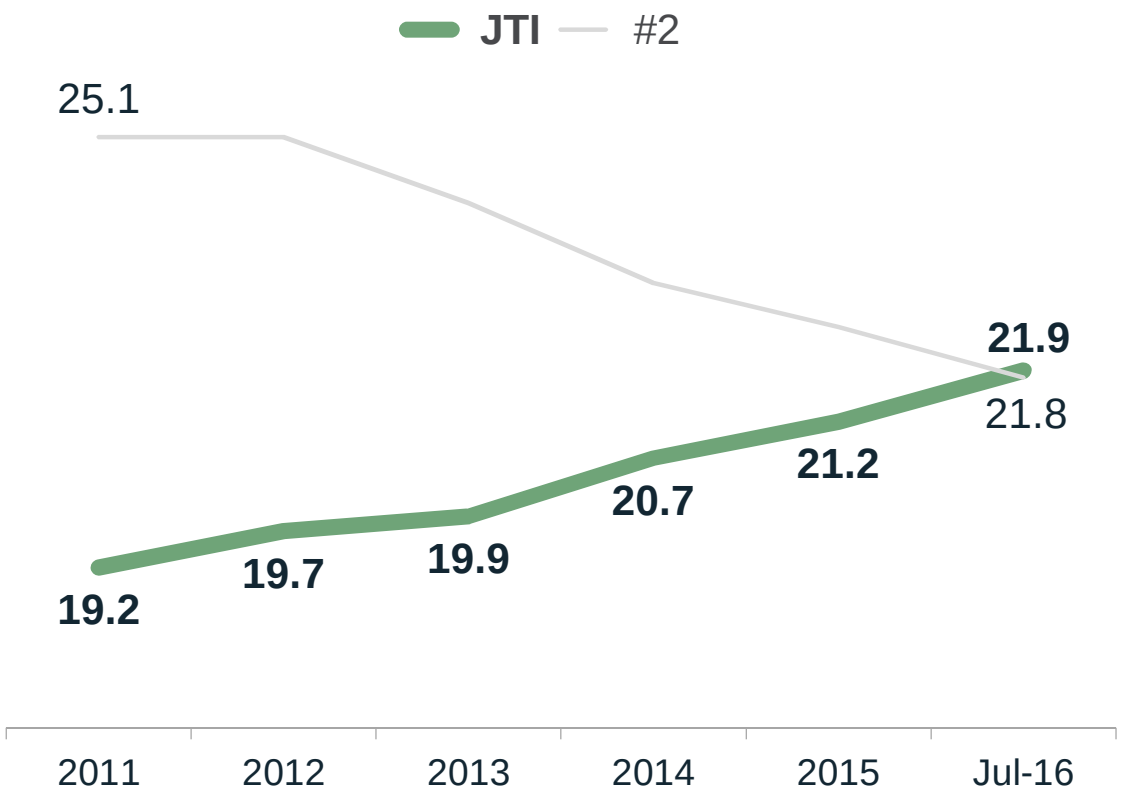
JTI performance

- **Only** growing tobacco manufacturer
- Record high market share
- All GFBs gaining market share

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Source: Nielsen

France – Share growth leading to #2 position

Share of market evolution (%)



Operating environment

- Total industry volume trend broadly in line with prior year
- Regulatory intensification, plain packaging implementation in Q4 2016

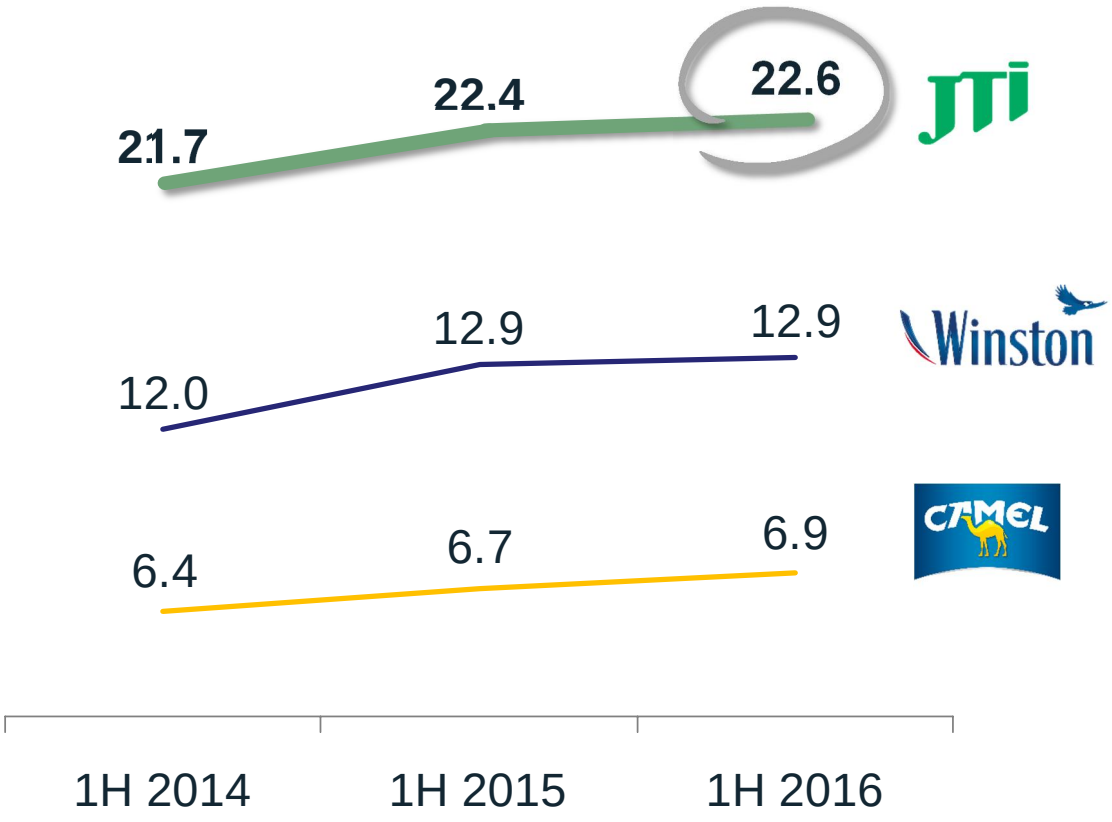
JTI performance

- Achieved the #2 position in July 2016
- #1 fine cut company, driven by 3 brands above 10% SoM (Camel, Winston & Fleur Du Pays)

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Source: IRI. July 2016 SoM spot rate

Spain – Achieving record high market share

Share of market evolution (%)



Operating environment

- Improving industry volume trend
- Ineffective tax structure both for government revenue and pricing

JTI performance

- All GFBs growing market share
- #2 fine cut manufacturer, rapidly reducing the gap with #1

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Source: Logista. SoM on 6-month rolling average to June

Growing share across all other markets

	JTI Share of market(1)		Growth driver		
	1H 2016	vs. 1H 2015		1H 2016	vs. 1H 2015
Canary Islands	33.3%	+1.7pp	Benson & Hedges	7.2%	2.0pp
Belgium	18.2%	+1.6pp	Camel	8.4%	1.2pp
Netherlands	12.1%	+1.4pp	Camel	9.5%	0.7pp
Portugal	18.2%	+1.0pp	Camel	9.5%	0.6pp
Switzerland	20.1%	+0.6pp	Winston	9.8%	0.4pp
Luxembourg	24.8%	+0.5pp	Winston	15.0%	0.6pp
Ireland	57.1%	+0.5pp	Mayfair	7.4%	0.4pp
Greece	22.7%	+0.4pp	Winston	8.5%	0.3pp

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Source: Internal estimates, Nielsen. Note: SoM on 6-month rolling average to June. (1) Excluding the impact of the Natural American Spirit acquisition

Well positioned to continue growing in the long-term

- A proven track record of strong and consistent performance, confirming JTI's competitiveness
- Fastest growing manufacturer with increasing leadership positions in cigarettes, fine cut and emerging products
- On track to deliver solid growth across all KPIs in FY16
- Well prepared and positioned for regulatory changes

#1 Tobacco manufacturer



#1 Fine cut manufacturer



Fastest growing company



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Investing and leading through change

Daniel Sciamma
General Manager, UK

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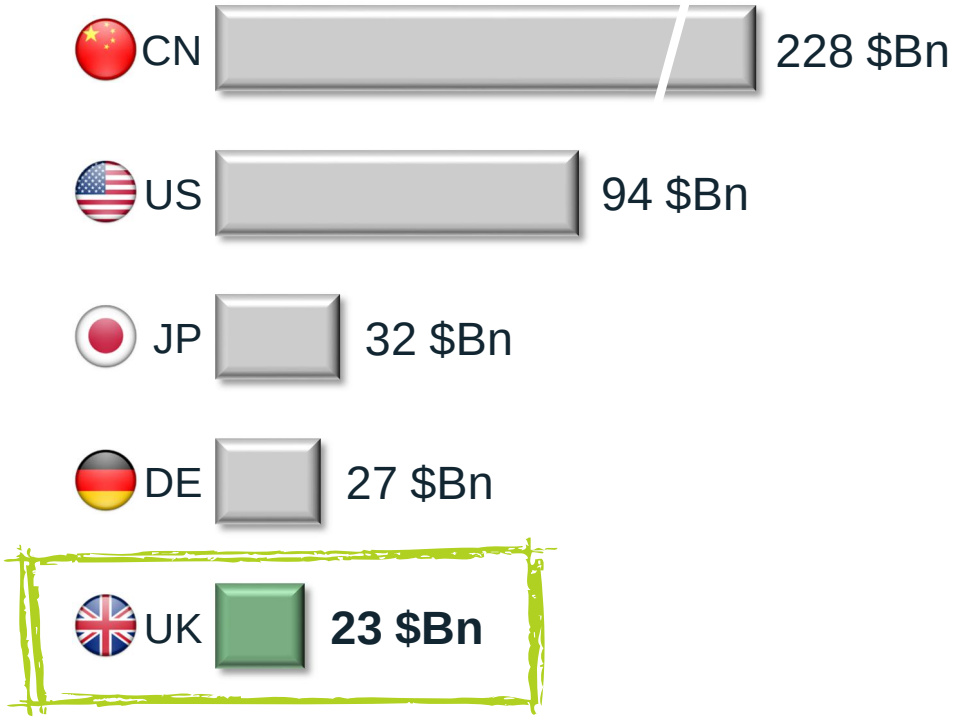
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Strong market fundamentals...

Top-5 tobacco industry value markets



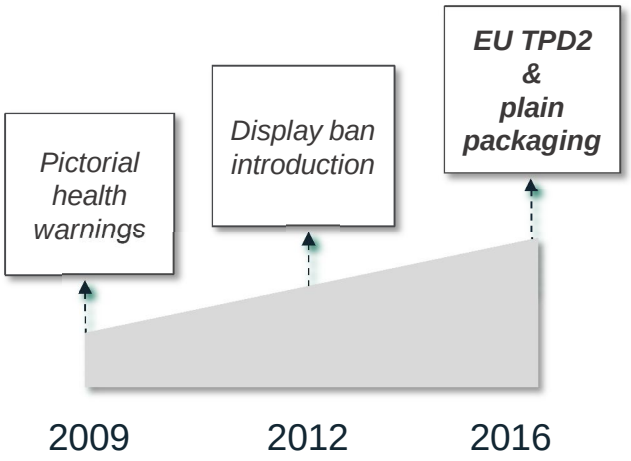
- 5th largest market in terms of industry value
- Predictable excise tax increases
- Total industry volume decline slowing in 1H 2016
  - RMC industry volume of 31.8 BnU in 2015
  - Fine cut industry volume of 15.3 BnU in 2015
- E-vapor positive momentum continues

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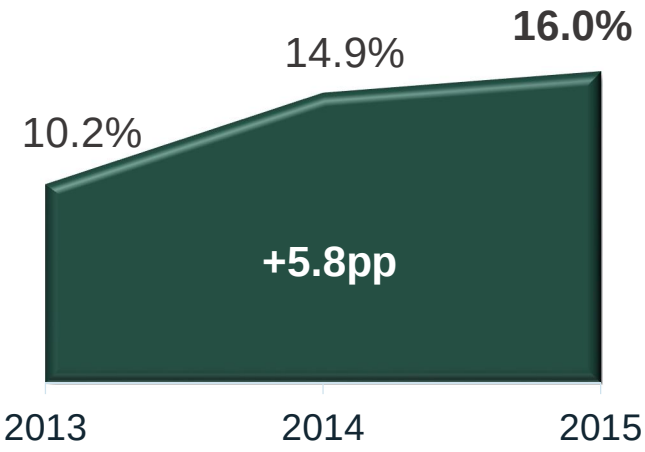
Source: Internal estimates. Note: Tobacco industry retail value in 2015 (including cigarettes and fine cut where relevant). Units of local currency per USD: GBP = 0.654; EUR = 0.902; JPY = 121.044; CNY = 6.228

...Yet increasing challenges

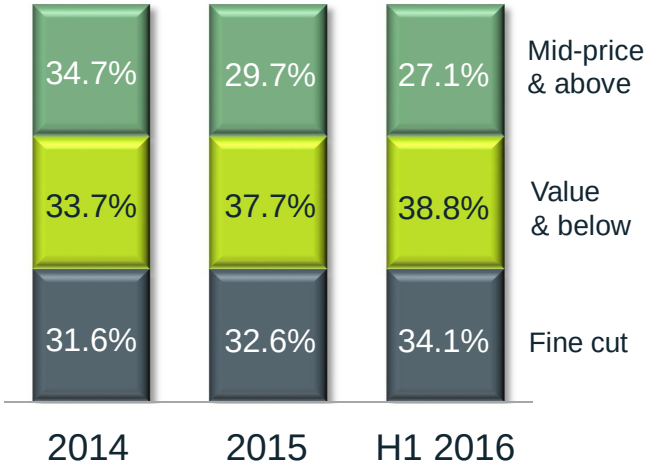
Key regulatory changes



NUKDP evolution(1)



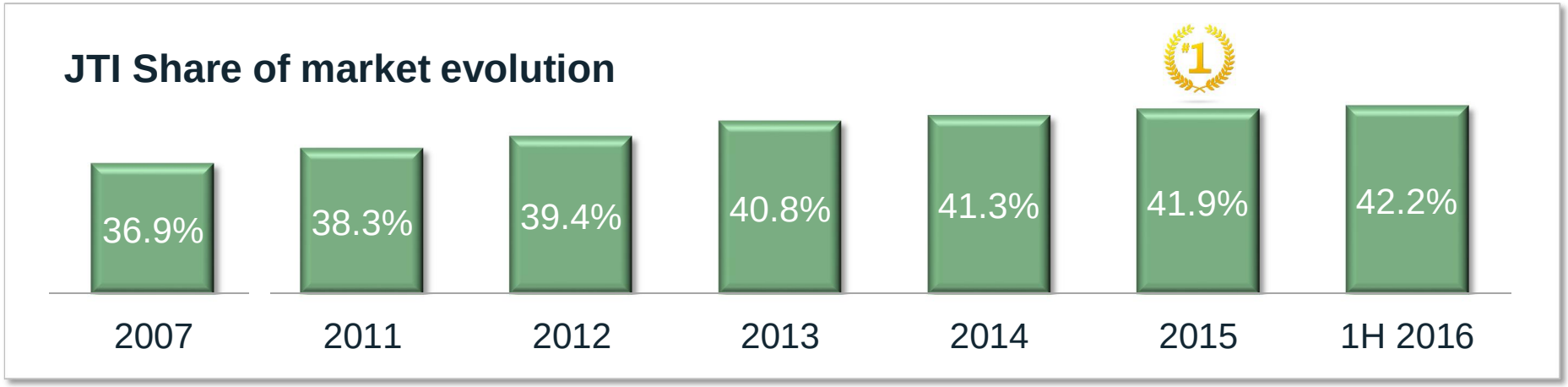
Price segments dynamics

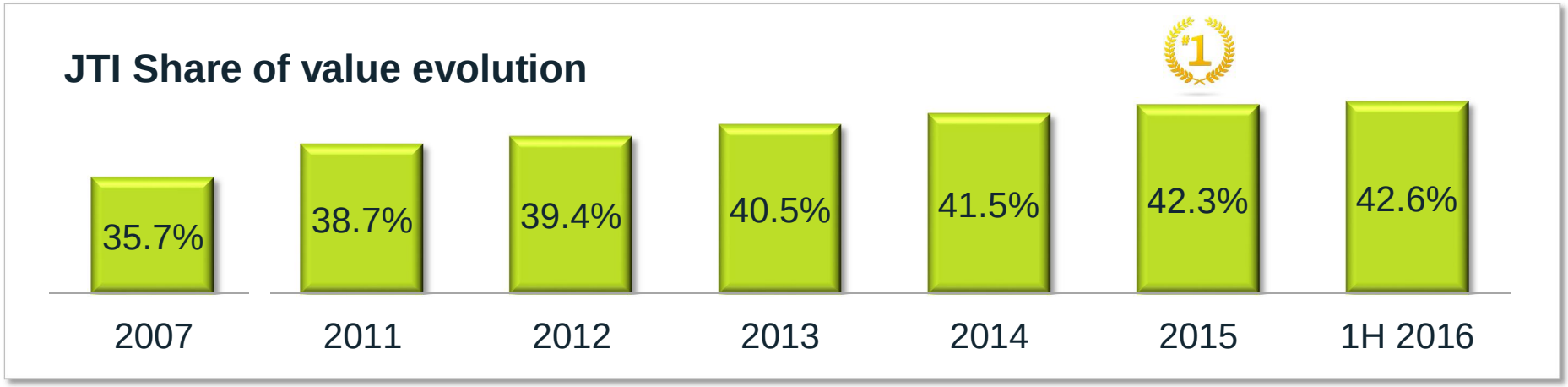


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Source: Internal estimates. (1) Non UK Duty Paid as % of total cigarette consumption

JTI: Continuous growth & UK leadership since 2015





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Source: Nielsen

Strategic growth drivers

Developing leading brands across all categories

Cigarettes

BENSON & HEDGES

SILK CUT

MAYFAIR

SOVEREIGN

#1 STERLING

Fine Cut

#1 AMBER LEAF
FINEST VIRGINIA HAND ROLLING TOBACCO

RICHARD LLOYD & SONS
OLD HOLBORN

STERLING

Emerging Products

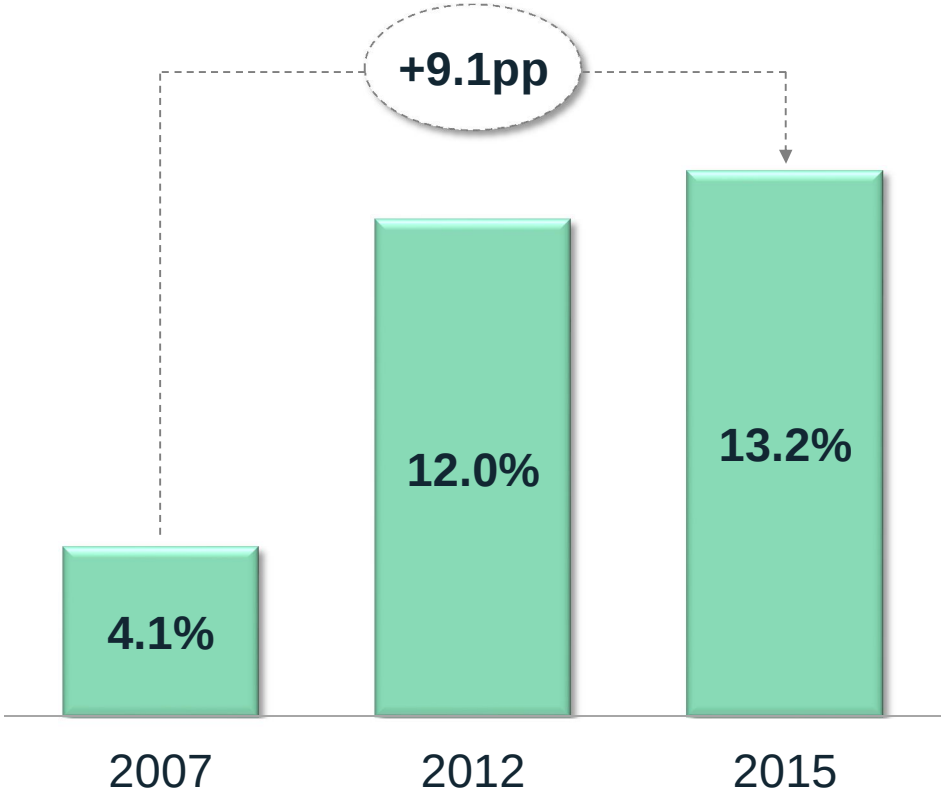


Focused investments behind strong equity brands

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Sterling: Driving cigarettes growth since 2012

Sterling SoM evolution (RMC)



- #1 Cigarette brand since 2012
- #1 Capsule offering: Sterling Fresh Taste

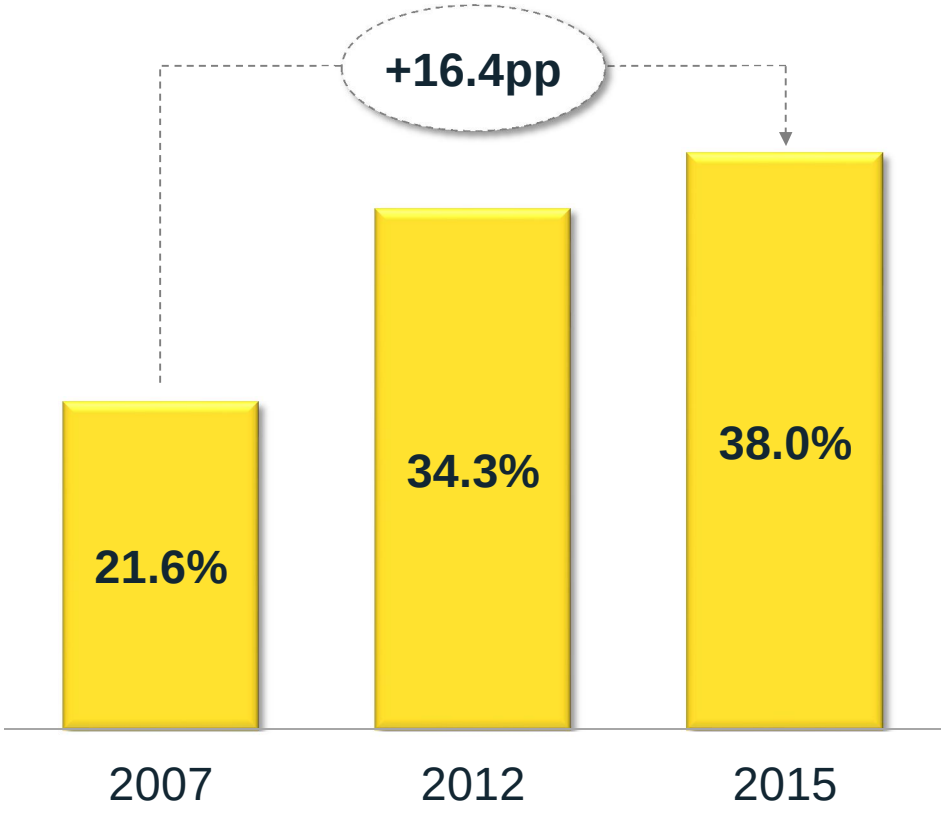
STERLING DUAL

- Success driven by:
  - Consumer-driven innovation
  - Balanced pricing
  - Brand equity

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Source: Nielsen

Amber Leaf: UK's biggest fine cut and the largest brand in the market

Amber Leaf SoM evolution (FCT)



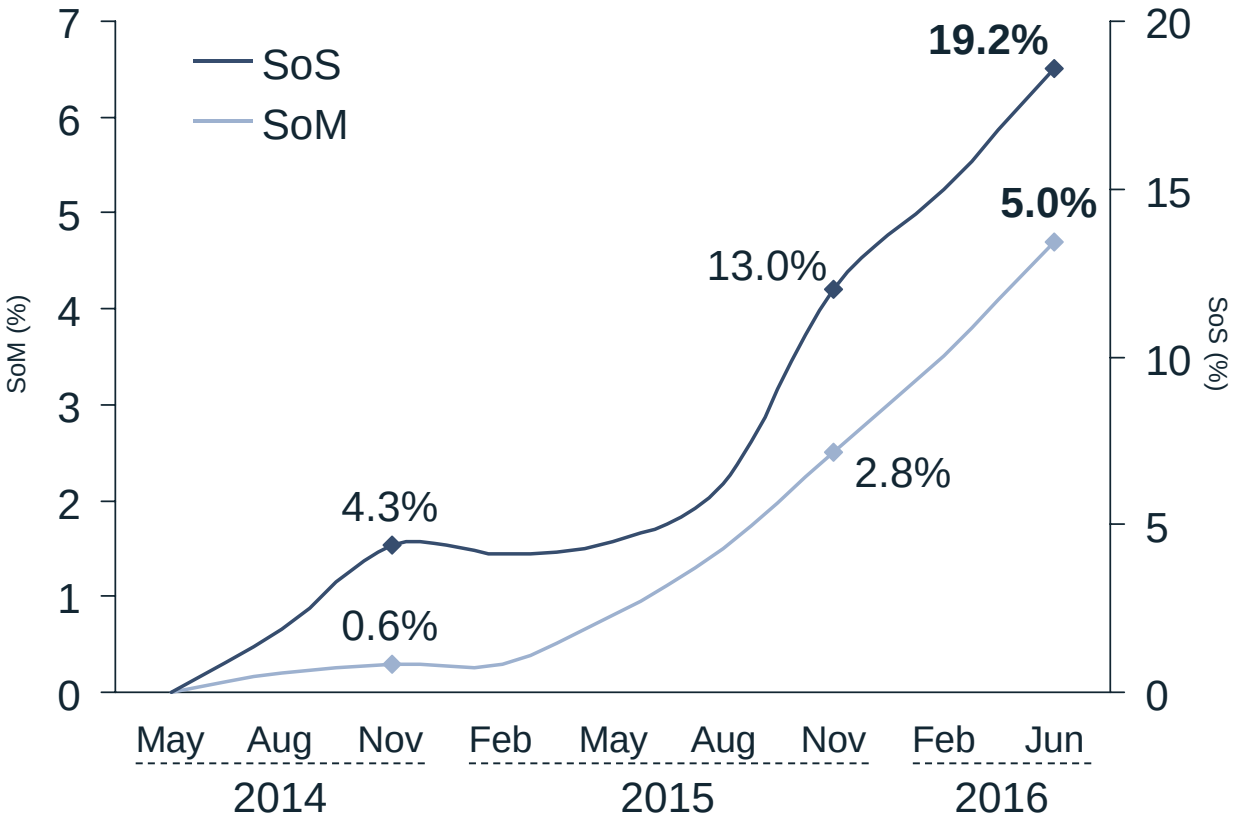
- Strong #1 fine cut (FCT) brand in the UK
- Leading tobacco brand since 2012

- Success driven by:
  - Effective pricing
  - Optimum product offering
  - High quality

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Source: Nielsen

B&H Blue: Building success despite regulatory challenges

B&H Blue Share of market & Share of segment(1)



- UK's fastest growing brand post retail display ban

- Excellence in trade marketing capabilities

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Source: Nielsen. (1) Share of 'ultra value' segment

Superior trade capabilities providing strong presence at retail

Key retail channels		Share of retail	JTI SoM, 2015	vs. 2014
Multiple Grocers		28.7%	42.1%	+0.5pp
Gas & Convenience		23.5%	41.2%	+0.9pp
Independents & Symbols		47.8%	42.2%	+1.0pp

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Source: Nielsen market track FY 2014 & 2015 sales values for combined RMC & fine cut

Partnership with trade through change

ONLINE TRADE SUPPORT & LOYALTY PROGRAMS







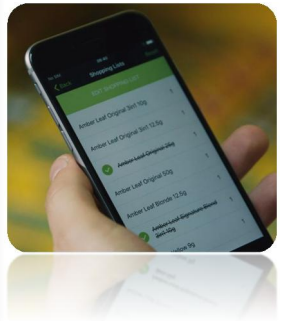


JTI TRADE APP









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Focused investment generating high returns

Core revenue per thousand
(Index, 2007=100)



x2

EBITA
(Index, 2007=100)



x2

- Unit price & EBITA almost doubled since the Gallaher acquisition
- Sustainable growth offsetting industry volume decline, driven by:
  - Strong brands in all categories
  - Robust share and pricing gains
  - Disciplined cost management

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Note: Core revenue per thousand cigarette equivalent units and EBITA on a local currency basis

Strong confidence in JTI's ability to continue growing ahead

- Market leadership
- Share and profitability growth
- Brand portfolio strength
- Trade marketing excellence
- Highly talented workforce

Tobacco manufacturer
JTI

Tobacco brand
Amber Leaf

Cigarette brand
Sterling

INVESTORS IN PEOPLE | Gold

top EMPLOYER UNITED KINGDOM 2015
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

SALES TEAM OF THE YEAR
Retail Industry AWARDS 2015
WINNER
Voted for by the readers of
Independent Retail News

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