

Investor Day Presentations

26 February 2013

JPS: Driving Growth Through Total Tobacco – Titus Wouda Kuipers, Regional Director Western Europe

Good afternoon, my name is Titus Wouda Kuipers and I'm the Regional Director responsible for Western Europe. I would like to tell you about the striking success of the total tobacco brand JPS and its success in fine cut tobacco in particular.

JPS is a unique asset which has been very successful due to its Total Tobacco approach and is an excellent example of how we are driving our quality sales growth agenda.

Our Unique Model

JPS perfectly follows the model of sustainable sales growth through:

Understanding consumer needs and rituals;

Building strong brand assets; and

Being focussed on the application of the portfolio, footprint and experiences

A Unique Value Brand Asset

The heartland of JPS is anchored in style and sophistication due to its F1 heritage, its understated packaging style plus its overall premium image. The 'Power' need is synonymous with premium brands but unique for value brands. In this sense JPS is a unique value brand asset. It is indeed hard to replicate: it is relatively easy to transfer from 'Power' to any other need on the right hand side of the wheel. It revolves around reducing the brand equity, in other words the 'premiumness'. The other way around is almost impossible to achieve. It would require a lot of effort in terms of time and money to achieve.

Moreover the Need State model has shown that there is a high opportunity growth potential for JPS in 'Security' and 'Control' needs, which are key needs driving consumer choice of value brands.

JPS FCT, consisting of RYO and MYO, has taken advantage of this fact working as leverage to ensure accessibility to the brand, driving more occasions in these needs and delivering 20% additional volume

At the same time JPS is able to transfer equity from the 'Power' need, making JPS accessible to new consumers yet being respectful with its premium character.

The Total Tobacco Brand

It is our response to consumer demand shifts which has led to the continuing growth of this brand – up to 7% over the last two years on a compound basis in declining markets – driving the quality of growth.

With our world leadership in FCT, we know how to run this game. With this brand we have a strong presence in both FMC and FCT categories.

JPS is the successful Total Tobacco brand, it has been hugely successful, and there is more to come.

Investor Day Presentations

26 February 2013

Creating Value - Portfolio

Let me just remind you of the model presented by Alison and Arthur this morning. Creating value is based on three principles: focusing on the brand portfolio, the footprint and brand experiences.

The intention of this session is to illustrate how we apply the model to JPS.

Expanding Consumer Choice

Through an extensive range of products and formats, we are meeting all relevant consumer needs. When it comes to innovation, JPS is at the cutting edge being both stylish and appealing.

First Expanded Additive Free MYO

Following the success of the JPS and Gauloises 'add free' launches – the product being a mixture of ingredients leading to an innovative Total Tobacco proposal building a unique asset based on powerful consumer insight – we launched JPS Just cigarettes in Germany in June 2012. and we are about to launch the first expanded additive free MYO.

First Expanded Additive Free MYO (continued)

This product ticks all the right boxes within our model. Based on a multi offer; cigarettes and MYO in regular and value packs cover a wide range of consumer needs. In terms of innovation, it's the first additive free expanded tobacco to be launched. It is of the highest quality in both appearance and in the tobacco, given that a complex process of expansion is required.

Creating Value - Footprint

I now want to concentrate on the brand's footprint.

A Proposition with Significant Potential

We see huge potential in the brand.

We can replicate the model in other parts of Western Europe and Australasia so that we can build on the JPS success story.

A 10% market share seems to be possible with opportunities to grow.

We have a good proposition to fight illicit trade with JPS MYO, offering prices that can compete with the street prices of illicit.

In mature markets, Imperial is exploiting the JPS brand very successfully. As you saw earlier, the brand has had compound growth of 7% over the last 2 years compared to a 4% decline in total markets.

We successfully re-launched JPS 5 year ago in Australia and 4 years ago in the UK. JPS uses the equity transfer model to meet new consumers on new occasions with FCT, growing in mature markets by 20% year-on-year.

Investor Day Presentations

26 February 2013

Creating Value - Experiences

Let's have a deeper look into the "experiences" aspect of the JPS brand world and FCT in particular.

More Consumers and Occasions in FCT

As I've already mentioned, JPS is the Total Tobacco brand. JPS has delivered significant growth in the last few years and there is more to come!

On a two year compound annual basis, JPS has delivered 11% growth and a spectacular 20% in the last year financial year driven by a number of consumer offerings such as tins, zip-bags, buckets, and the well-known pouches.

Translating the Consumer Voice

From qualitative research, we know that consumers perceive JPS FCT as having quality tobacco, being of a superior blend and as being easy to use.

Leveraging on our patented superior blend expansion technology:

"I wouldn't be able to say why but the JPS one seems more natural". The process uses 100% expanded tobacco and does not harm the tobacco cellular structure and preserves the natural characteristics such as colour, taste, smell etc.

JPS has the ideal product specifications to deliver the best possible consumer experience:

"This (JPS) tobacco is different. The tobacco I bought before gets stuck and you only get half a cigarette and don't smoke to the end!!!"

"I love the zip system of the JPS bag. It really preserves the moisture". It is not only the zip, it is the moisture level as well. We know this is the right percentage according to the trials we've done in quantitative researches. The rituals relating to roll your own and make your own are unique and cannot be directly copied from FMC. They must be adapted to new behaviour:

"When I take the tobacco from my JPS tin it feels different..." Once again, this is not accidental. The fibre length is cut according to the consumer taste in order for them to have an excellent experience in both using tobacco from the tin and tubing it.

Let's take a look at how some consumers use loose tobacco.

The Total Tobacco Blend

Thank you for your attention