



JT Group 2018 Second Quarter Investor Conference Presentation

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*Please be reminded that the figures shown on these slides may differ from those shown in the financial statements as they are intended to facilitate the reader's understanding of individual businesses.

*For details of each term, please refer to annotations on slide 13 and 14.

FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements. These statements appear in a number of places in this document 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) increase in awareness of health concerns related to smoking;
- (2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
- (3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (4) our ability to further diversify our business beyond the traditional tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition and changing consumer preferences;
- (7) our ability to manage impacts derived from business diversification or business expansion;
- (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.

Solid first half performance

(JPY BN, %)

	2018H1	vs. 2017
At constant FX		
Adjusted Operating Profit	324.3	+3.1%
Reported		
Revenue	1,075.3	+2.9%
Adjusted Operating Profit	317.8	+1.0%
Operating Profit	302.3	-3.5%
Profit	216.1	-4.2%

Adjusted Operating Profit at constant FX

Increase mainly driven by the strong performance in the International tobacco business

Reported

- **Revenue**

Increase driven by acquisitions and pricing benefits in the International tobacco business

- **Adjusted Operating Profit**

Increase despite the FX headwinds

- **Operating Profit & Profit**

Decline due to the increase in intangible amortization related to acquisitions and the unfavorable comparison related to a one-off profit in the previous year

Consolidated Forecast

Adjusted Operating Profit forecast at constant FX unchanged Updated FX assumptions result in lower reported profit guidance

(JPY BN, %)

	2018 Revised Forecast	Change vs. Initial Forecast	vs. 2017
At constant FX			
Adjusted Operating Profit	607.0	-	+3.7%
Reported			
Revenue	2,240.0	+20.0	+4.7%
Adjusted Operating Profit	586.0	-14.0	+0.1%
Operating Profit	541.0	-20.0	-3.6%
Profit	377.0	-17.0	-3.9%

Adjusted Operating Profit at constant FX

Remains unchanged

Reported

- **Revenue**

Revised upward to reflect the acquisition of Donskoy Tabak and the updated assumptions for the industry volume in Japan

- **Adjusted Operating Profit**

Revised downward following updated FX assumptions

- **Operating Profit & Profit**

Revised downward mainly due to updates of FX assumptions and an increase in intangible amortization related to acquisitions

Cigarette sales volume stronger than expected National roll-out of Ploom TECH off to a solid start

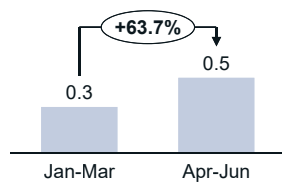
RMC

- 18H1 cigarette industry volume and JT cigarette sales volume decreased by 14.5% and 13.8% respectively, better results than our assumptions
- 18H1 market share increased to 61.5% (+0.5%pt)

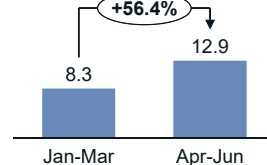
RRP

- 18H1 RRP represented c. 20%* of total tobacco industry, with a moderate but continuous growth
- Following the sales area expansion of Ploom TECH, Q2 RRP sales volume and related revenue increased sequentially
- Ploom TECH got off to a solid start for the national roll-out in convenience stores from July
- Capsule manufacturing capacity has been increasing as planned

2018 RRP sales volume (BnU)



2018 RRP related revenue (JPY BN)



JT RRP Category Share in the Convenience Stores**:

Apr-Jun: approx. **10%** (estimate)

*Estimated based on shipment

**Convenience stores where Ploom TECH is available

Full-year profit target remains unchanged

RMC

- Cigarette industry volume assumption revised to a decline of over 14.5%
(Initial assumption: a decline of c. 17.5%)
- JT cigarette sales volume assumption revised to a decrease of over 14.0%
→ over 2 BnU upside
(Initial assumption: a decrease of over 16.5%)

RRP

- Outlook of RRP market share* for 2018 revised to c. 22% on average
(Initial assumption: c. 23% on average)
- No change to Ploom TECH sales volume target (4 BnU stick equivalent), being an increasingly challenging milestone, given intensifying competition and outlook for lower industry size

*Estimated based on shipment

- Profit generated from additional cigarette sales volume to be re-invested into RRP
→ No change to the full-year profit target
- Tax-led price increases for both RMC and RRP embedded in our forecasts based on certain assumptions

Towards achieving the leading position in the RRP category in Japan

RRP market to grow continuously in the mid to long-term

Outlook for RRP market share of 30% for 2020 remains unchanged, while current growth moderating

- Industry-wide innovations to better meet consumers' needs
- Regulations, including the Revised Health Promotion Act, are less restrictive for T-Vapor

Initiatives to achieve 40% category share by the end of 2020

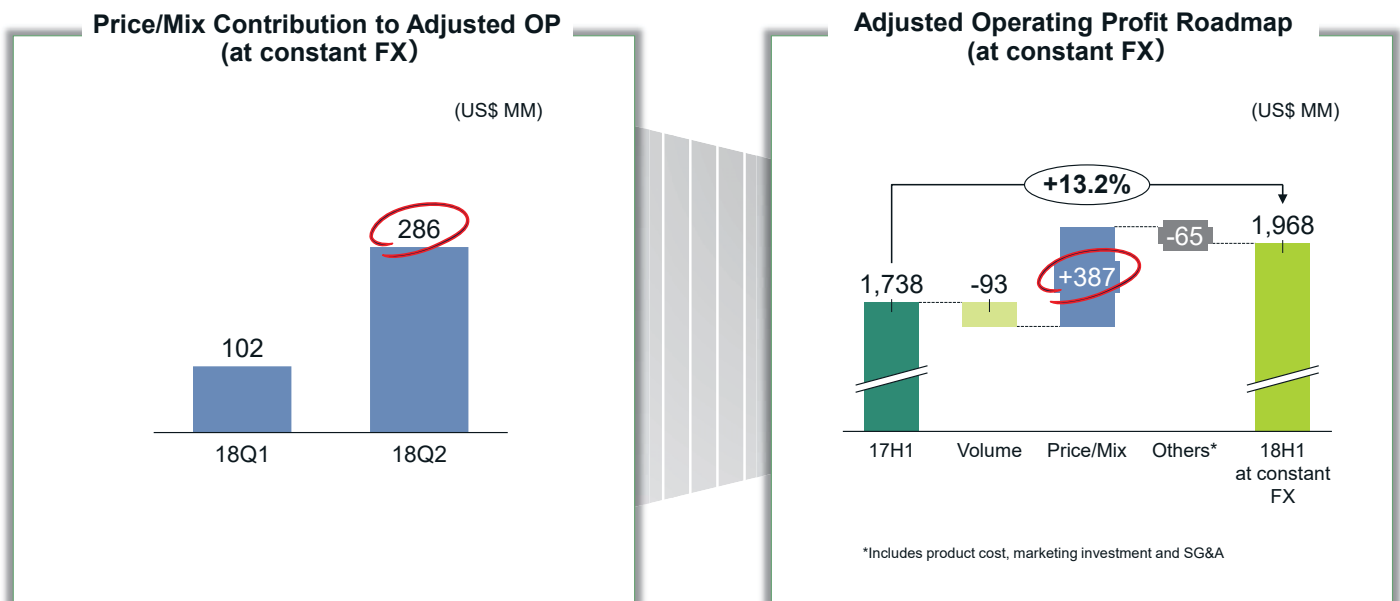
- Fuel current year's investment with additional funds in order to establish JT's unique "low-temperature heating" category and to assure the success of Ploom TECH
- Continue to make progress in the enhancement of the RRP portfolio

Response to volatile market environment due to potential impacts caused by

- Competitors' new product launches and marketing activities
- Regulations on Environmental Tobacco Smoke

International Tobacco Business (Results)

Top-line growth fueled by increasing pricing gains drove profit increase



Confident to achieve full-year profit growth target

(US\$ MM, %)

	2018 Revised Forecast	Change vs. Initial Forecast	vs. 2017
At constant FX			
Core Revenue	11,500	+150	+9.5%
Adjusted Operating Profit	3,600	-	+14.7%*
* 8% without the favorable comparison due to a one-time loss in H2 of previous year			
Reported			
Core Revenue	11,630	+130	+10.8%
Adjusted Operating Profit	3,500	-100	+11.5%

- Volume and revenue revised upward to reflect the acquisition of Donskoy Tabak
- No change to AOP at constant FX due to:
 - Business environment uncertainties in Iran
 - Increasing investments in H2 as planned

2018 shipment volume revised assumptions:

- Total shipment volume: an increase of over 5% (Initial guidance: an increase of c. 4%)
- GFB shipment volume: an increase of over 1% (Initial guidance: an increase of c. 2%)

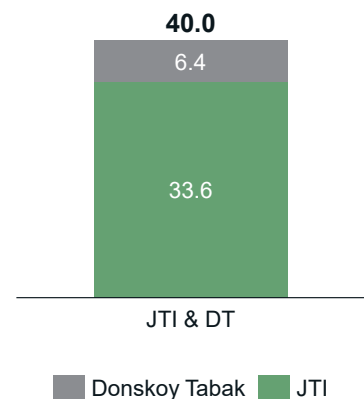
Russia: Strong pricing performance. Acquisition strengthens No. 1 position



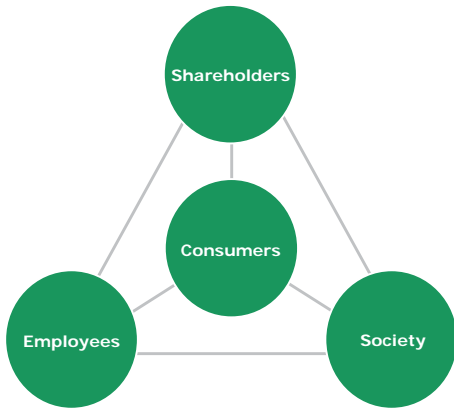
Russia

- Strong pricing benefits continued and significantly contributed to the International tobacco business's profit growth
- A record high GFB share driven by Winston and LD
- Completion of the Donskoy Tabak acquisition on July 31st
 - Expanded our portfolio and distribution
 - Boosted market share to c. 40%
 - Strengthened our No.1 position

Total share (%)
12-month moving average



Aiming to grow profit while continuing to invest in the business



- Delivered profit growth on a constant FX basis in the first half
 - International tobacco: Strong performance driving the Group profit growth
 - Japanese domestic tobacco: A solid start for Ploom TECH's national roll-out
 - Pharmaceutical and Processed Food: On track with plan
- Aim to achieve full-year profit target, managing uncertain business environment
- Annual dividend per share of JPY 150, same as initial forecast
- Continue targeting to achieve mid to high single-digit profit growth in the mid to long-term

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<Definitions>

Adjusted operating profit: Adjusted OP:	Adjusted operating profit = operating profit + amortization cost of acquired intangibles arising from business acquisitions + adjusted items (income and costs)* * Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others
Consolidated adjusted operating profit at constant FX:	For International tobacco business, the same foreign exchange rates between local currencies vs USD and JPY vs USD as same period in previous fiscal year are applied
Profit:	Profit attributable to owners of the parent company
Reduced-Risk Products (RRP):	Products with potential to reduce the risks associated with smoking
GFB:	Global Flagship Brands: From 2018: Winston, Camel, MEVIUS and LD (4 brands) Until 2017: Winston, Camel, MEVIUS, LD, Benson & Hedges, Glamour, Sobranie, Silk Cut, Natural American Spirit (9 brands)
Shipment volume: (International tobacco business)	Includes fine cut, cigars, pipe tobacco, snus and kretek but excludes contract manufactured products, waterpipe tobacco and Reduced-Risk Products
Core revenue: (International tobacco business)	Includes revenue from waterpipe tobacco and Reduced-Risk Products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.

<Definitions>

Core revenue / Adjusted operating profit at constant FX (International tobacco business)	The same foreign exchange rates between local currencies vs USD as same period in previous fiscal year are applied
Industry volume: (Japanese domestic tobacco business)	Industry volume of tobacco products in Japan market (including Reduced-Risk Products, etc.)
Cigarette industry volume: (Japanese domestic tobacco business)	Industry volume of cigarettes in Japan market (excluding Reduced-Risk Products, etc.)
Cigarette sales volume: (Japanese domestic tobacco business)	Excludes sales volume of domestic duty free, the China business and Reduced-Risk Products
RRP sales volume: (Japanese domestic tobacco business)	1 pack corresponds to 20 cigarettes. (excluding RRP devices, RRP related accessories, etc.)
Core revenue: (Japanese domestic tobacco business)	Excluding revenue from distribution of imported tobacco in the Japanese Domestic Tobacco Business, among others, but including revenue from domestic duty free and the China business, as well as RRP related revenue.
RRP related revenue: (Japanese domestic tobacco business)	RRP related revenue, as a part of core revenue, represents the sale of RRP including principally the device and the related accessories.