



JT Group 2019 Third-Quarter Results

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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 18, 19 and 20.

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.

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Consolidated Results

Financial results through the third-quarter

Adjusted Operating Profit (AOP) at constant FX

- Increased driven by the International Tobacco business growth, despite the decline in the Japanese Domestic Tobacco and Pharmaceutical businesses

Adjusted Operating Profit

- Decreased due to unfavorable currency movements

Operating Profit and Profit

- Decreased as the one-time compensation gain in the Pharmaceutical business was offset by
 - a decline in proceeds from sales of real estate assets, an increase in amortization related to acquisitions and restructuring costs in the International Tobacco business
 - higher financing costs

(JPY billion)

	2019 Jan-Sep	vs. PY
<u>At constant FX</u>		
AOP	526.2	+3.0%
<u>Reported</u>		
Revenue	1,633.7	-2.5%
AOP	451.5	-11.6%
Operating Profit	440.6	-7.6%
Profit	316.1	-5.0%

Tobacco industry trend

Total industry

- Total industry volume: declined over 6.5%
- Ahead of the October price hike, year-on-year one-time demand was lower due to a moderate price increase versus the October 2018 tobacco excise tax hike

RMC*

- RMC industry volume: declined over 9%
- Downtrading continued at a pace broadly in-line with our expectation

RRP

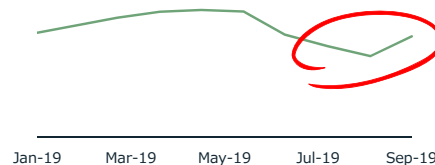
- RRP market share in tobacco industry: c. 22.5%**
- While the RRP industry volume trend remained stable, competition continued to intensify

Sales volume performance

RMC

- JT RMC sales volume declined by 10.5% due to industry contraction and share decrease
 - JT RMC category share: 60.7% (-0.8ppt vs. PY)
- Swift response to the downtrading trend

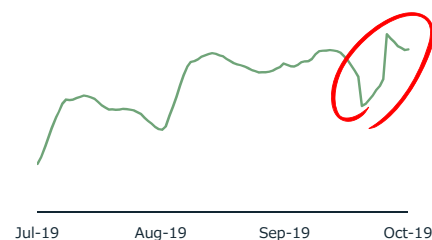
JT RMC category share (shipment basis)



RRP

- JT RRP sales volume increased by 0.5 billion stick equivalents driven by the launch and nationwide sales expansion of the new products
 - JT RRP category share (YTD): c. 9%
 - Q3 QTD: c. 10% (c. +2ppt vs. Q2)
- Competition in the high-temperature heating category further intensified

JT RRP category share (offtake)



Recent initiatives

Little cigar products

- Nationwide launch of Wakaba Cigars (JPY360) and Echo Cigars (JPY350) in mid September
- Camel branded little cigars to launch in December (JPY360)



New refills for Ploom TECH+

- 4 SKU launch in nationwide convenience stores from November 1st (JPY500)

Mevius Gold

Flavor Line



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*This slide intends to explain JT's Japanese Domestic Tobacco business to investors and is not for purposes such as sales promotion or urge smoking to consumers

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Financial performance

AOP analysis

[Positive]

- RMC pricing gains
- RRP sales volume increase

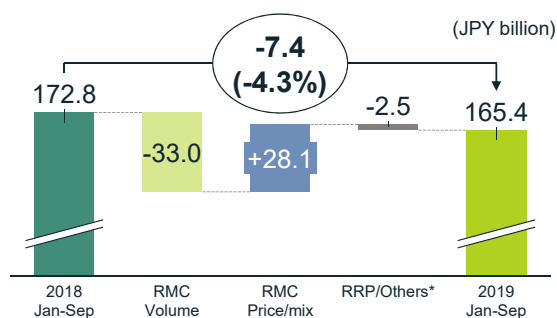
[Negative]

- Significant RMC sales volume decrease
 - Natural decline, RRP market expansion, impact of price revision in 2018
 - Limited one-time demand compared to previous year
- RRP devices/accessories sales decline

(JPY billion)

	2019 Jan-Sep	vs. PY
Core Revenue	435.8	-1.9%
AOP	165.4	-4.3%

Adjusted Operating Profit



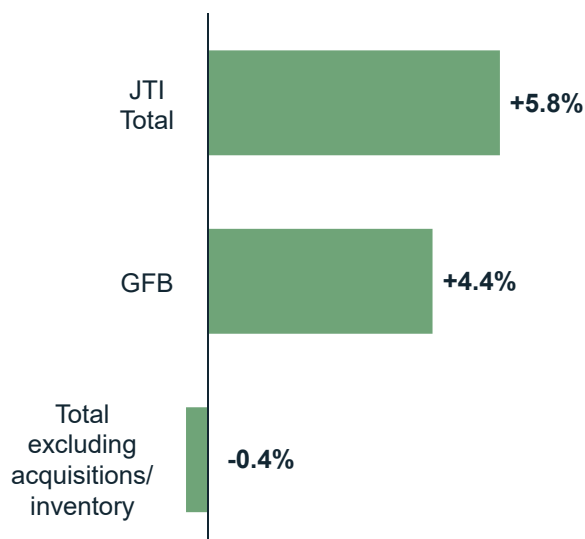
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*Include production cost, marketing investment and SG&A

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Sales volume performance

Shipment volume: Jan-Sep vs. PY



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Continuous positive volume momentum

Conventional

- Acquisition contribution from Bangladesh and Russia
- Strong organic volume performance fueled by market share gains, notably in Europe*, and GFBs

RRP

- Logic Compact launched in 17 markets**
- Post PMTA filings in August 2019 for several Logic products, US FDA accepted our submission for substantive review

*N&CE cluster and S&WE cluster **as of end of September 9

Financial performance (at constant FX)

AOP analysis

- Pricing gains from many markets
- Continued business investments, mainly for M&A markets and RRP

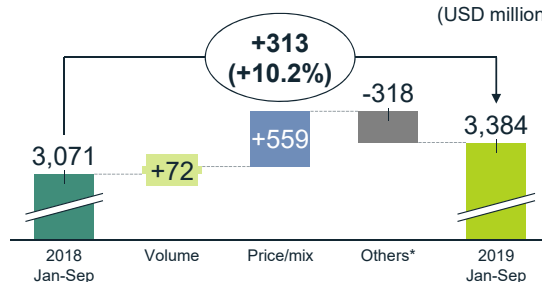
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(USD million)

Constant FX	2019 Jan-Sep	vs. PY
Core Revenue	9,471	+8.9%
AOP	3,384	+10.2%

AOP at constant FX

(USD million)



*Include production cost, marketing investment and SG&A

Financial performance (reported)

(JPY billion)

AOP analysis

- Negative FX impact undermined solid business performance
 - Continued headwinds mainly from IRR and RUB
 - In addition, USD weakened against JPY

Reported	2019 Jan-Sep	vs. PY
Core Revenue	941.6	-1.2%
AOP	296.5	-12.0%

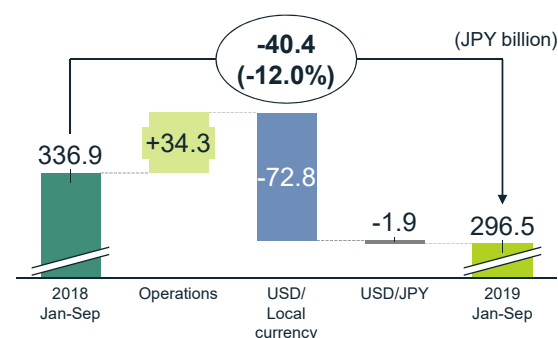
Change in FX rate

	2018 Jan-Sep	2019 Jan-Sep	Change
USD/EUR	0.84	0.89	-5.9%
USD/GBP	0.74	0.79	-5.8%
USD/IRR	53,867	102,297	-47.3%
USD/RUB	61.41	65.08	-5.6%
USD/TRY	4.60	5.63	-18.4%
USD/JPY	109.60	109.12	-0.4%

EUR/IRR is converted to USD/IRR in table by using cross rate

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Adjusted Operating Profit (Reported)



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Financial performance

Pharmaceutical Business

- Decrease in revenue and AOP mainly due to the termination of the exclusive license agreements for anti-HIV drugs in Japan and lower overseas royalty income

Processed Food Business

- Despite the growth of staple food products, revenue decreased due to the decline in sales of other products
- AOP increased mainly driven by pricing gains, improvement in product mix and cost reductions

(JPY billion)

	2019 Jan-Sep	vs. PY
Revenue	63.3	-18.4
AOP	7.8	-11.5

(JPY billion)

	2019 Jan-Sep	vs. PY
Revenue	114.8	-2.4
AOP	2.9	+0.8

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Consolidated revised forecast

Currency-neutral/reported AOP: Broadly in-line with previous forecast in spite of downward revision of the Japanese Domestic Tobacco business

Operating profit: Downward revision mainly due to restructuring costs in the International Tobacco business, despite the expected increase in proceeds from sales of real estate assets

Profit: Revised downwards due to downward revision of operating profit and the one-time increase in the estimated average annual effective tax rate. On the other hand, sustainable generation of FCF is expected to continue

(JPY billion)

Japanese Domestic Tobacco Business
<ul style="list-style-type: none"> Core revenue and AOP revised downwards due to lower RRP sales volume assumption

International Tobacco Business
<ul style="list-style-type: none"> Currency-neutral/reported core revenue revised upwards AOP remains unchanged

Pharmaceutical/Processed Food Businesses
<ul style="list-style-type: none"> Pharmaceutical: Revenue and AOP revised upwards Processed Food: Revenue revised downwards while AOP remains unchanged

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	FY2019 Revised forecast	vs. Previous forecast	vs. PY
At constant FX			
AOP	605.0	-5.0	+1.6%
Reported			
Revenue	2,170.0	-	-2.1%
AOP	518.0	-5.0	-13.0%
Operating Profit	505.0	-13.0	-10.6%
Profit	340.0	-20.0	-11.8%
FCF	370.0	+10.0	+JPY264.4bn

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Japanese Domestic Tobacco Business (Forecast)

Japanese Domestic Tobacco business: revised forecast

Volume assumptions

- JT RRP sales volume: 4.0 billion → 3.3 billion stick equivalents
 - Ploom S sales volume revised downwards
 - Increasing competition in the high-temperature heating category
 - Trials and retention below our expectation
- JT RMC sales volume decline: c. -8% → c. -7.5%
 - Reflecting RMC industry volume trend in July-Sep period
 - Strive to recover market share

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Financial

- Core revenue: JPY580.0 billion → JPY570.0 billion
- AOP: JPY200.0 billion → JPY194.0 billion
 - Revision in the top-line
 - No compromise in marketing investment for mid-to long-term growth, while continuously pursuing cost efficiency

FY2020 onwards

- In terms of financials, it is challenging to turn around in the short-term
 - Prioritize maximizing share and sales volume
- For RRP, expand line-up of refills
 - Work on device upgrades to better meet consumer needs

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International Tobacco business: revised forecast

Revised forecast

- Total shipment volume growth: c. +5% → c. +4%
- Core revenue at constant FX: USD12,250 million → USD12,320 million
 - Revised upwards mainly driven by additional pricing gains
- Currency-neutral/reported AOP: Remains unchanged
 - Profit arising from the upward revision of core revenue will be reinvested in the business for mid- to long-term growth

Transformation

As our industry is evolving, we must transform ahead of it and leverage opportunities to fuel growth, increase speed and agility, improve service quality, enhance our competencies and empower our employees

WHY?

- Duplicate or unclear roles and responsibilities
- Inconsistencies due to non-standard department design and structure
- Insufficient prioritization of strategic resources
- High complexity and bureaucracy
- Narrow utilization of Business Services Centers

HOW?

- Clarify roles and responsibilities to avoid duplication
- Create Agile ways of working to deliver business solutions faster and more effectively
- Design the right spans of control and reduce layers
- Assign talent to strategic priorities
- Set up 3 Global Business Services centers (Warsaw, St. Petersburg & Manila)

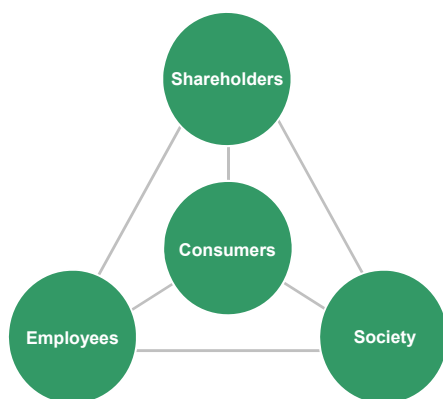
WHEN?

2020	Roll-out of the 'Agile model' in HQ. Initial set up of Global Business Services (GBS) centers
2021	Wider incubation and build-up of the 'Agile model' in focus markets.
2022	Continuous uplift of the 'Agile model' and related skillsets. Full implementation of GBS

Expected financial impact

- Restructuring costs of USD172 million in 19Q3
- Annual cost savings expected to exceed USD200 million upon completion of the 3-year plan

Closing remarks



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Regarding FY2019:

- Q3 YTD Results:
 - Grew currency-neutral AOP mainly driven by pricing gains in the International Tobacco business
- FY2019 revised forecast:
 - Consolidated AOP at constant FX broadly in-line with the previous forecast, despite downward revision in the Japanese Domestic Tobacco business.
Continue to aim for year-on-year growth in AOP at constant FX
- Expected annual dividend of JPY154 per share remains unchanged

Towards Business Plan 2020:

- Our intention to aim for sustainable profit growth over mid- to long-term remains unchanged
 - In Japan, we will primarily focus on maximizing market share and sales volume, as we recognize turning around financial performance in the short-term is challenging
- Despite difficult business environment, we acknowledge maintaining/increasing DPS is the key to shareholder return

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<Definitions>

Adjusted operating profit (AOP):	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
FCF:	FCF is sum of cash flows from operating activities and investing activities, but excludes the following items: <ul style="list-style-type: none"> • From operating CF: depreciation from lease transactions, interest received, dividends received, interest paid and income taxes related to these items excluding lease transactions • From investing CF: purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

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<Definitions>

Reduced-Risk Products (RRP):	Products with potential to reduce the risks associated with smoking
GFB:	Global Flagship Brands: Winston, Camel, MEVIUS and LD (4 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
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

<Definitions>

Industry volume: (Japanese domestic tobacco business)	Industry volume in Japan market by number of sticks based on the internal estimate. This includes cigarettes, little cigars, RRP and others
RMC: (Japanese domestic tobacco business)	Ready made cigarettes
RMC industry volume: (Japanese domestic tobacco business)	Industry volume of ready-made-cigarette in Japan market by number of sticks based on the internal estimate. This includes little cigars but excludes RRP
RMC sales volume: (Japanese domestic tobacco business)	JT's cigarette sales volume excluding the volume of Domestic duty free and the China businesses. This includes little cigars but excludes RRP
RRP sales volume: (Japanese domestic tobacco business)	JT's RRP sales volume excluding the volume of Domestic duty free business. One pack of consumables is equivalent to 20 sticks of combustible cigarette. This also excludes RRP devices, RRP related accessories, etc.
Little cigars	Products rolled in tobacco-based paper with the similar format to RMC and classified as "cigars" under the Tobacco Business Act in Japan
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