



JT Group 2018 Results & 2019 Forecast

Naohiro Minami
JT Group Chief Financial Officer

*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.

Currency neutral profit growth at mid to high single-digit rate

	2018 Actual	vs.2017	(JPY BN) vs. Revised forecast in Q3
At constant FX			
Adjusted Operating Profit	637.2	+8.9%	+13.2
Reported			
Revenue	2,216.0	+3.6%	+26.0
Adjusted Operating Profit	595.5	+1.7%	+20.5
Operating Profit	565.0	+0.7%	+33.0
Profit	385.7	-1.7%	+15.7
FCF	105.6	+33.0 (JPY BN)	-61.4

Adjusted Operating Profit at constant FX

- Increased by 8.9% driven by the international tobacco business
 - c.5% excluding one-time loss in the international tobacco in 2017

Adjusted Operating Profit (Reported basis)

- Favorable business performance partially offset by negative FX

Operating Profit

- Impacted by an increase in intangible amortization related to acquisitions

Profit

- Negative impact from an increase in financial costs

FCF

- (+) Higher proceeds from sale of real estate and improved working capital
- (-) Increase in cash outlay for acquisitions and capital expenditure

(Key variance from the revised forecast)

Adjusted Operating Profit

- Stronger performance in the Japanese domestic tobacco, international tobacco and pharmaceutical businesses
- Moderated FX impact

Operating Profit

- Higher than expected gain from sale of real estate

Japanese Domestic Tobacco Business (Results)

Conventional products: cigarette industry volume more resilient than assumed RRP: progress as planned

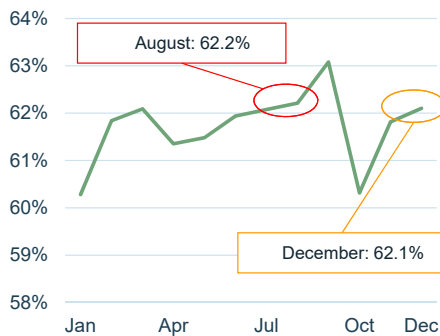
Conventional products

- Sales volume: declined but slower than expected, notably after the price increase
- Market share in Dec.: restored to the level before price increase
- Full-year market share: 61.8% (+0.5ppt vs 2017)

RRP

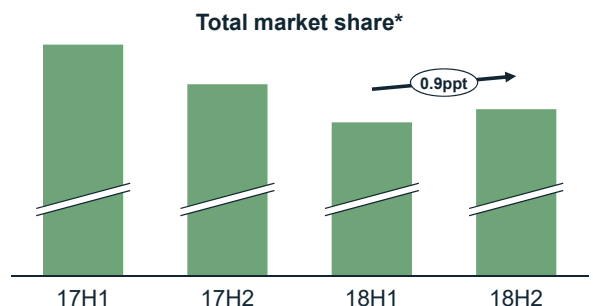
- Full-year market size: c. 21% of total tobacco industry
- JT RRP sales volume: 2.8 billion stick equivalent
- JT market share in RRP category in Q4: estimated c.10%

JT market share in cigarette category



Total market share (conventional products + RRP)

- Signs of recovery



Japanese Domestic Tobacco Business (Results)

Eying on 2019 and beyond, increased investments in difficult environments

(JPY BN)

	2018 Actual	<u>vs.2017</u>
Core Revenue	582.4	-1.4%
Adjusted Operating Profit	209.0	-10.0%

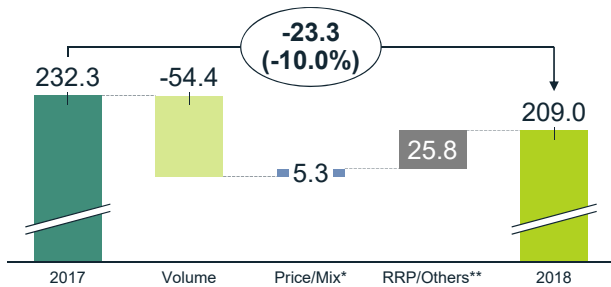
Core Revenue

- RRP growth and cigarette pricing mostly offset the significant decline of cigarette sales volume
- RRP related revenue : 64.6 billion yen
 - Over 10% of core revenue

Adjusted Operating Profit

- (-) Declined cigarette sales volume
- (-) Increased sales promotion investment for RRP
- (+) Cigarette pricing in October
- (+) RRP volume growth

Adjusted Operating Profit Roadmap (JPY BN)



*Including the impact of IFRS 15 application

**Including product cost, marketing investment and SG&A

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RRP: products with potential to reduce the risks associated with smoking

International Tobacco Business (Results)

Profit growth on a reported basis

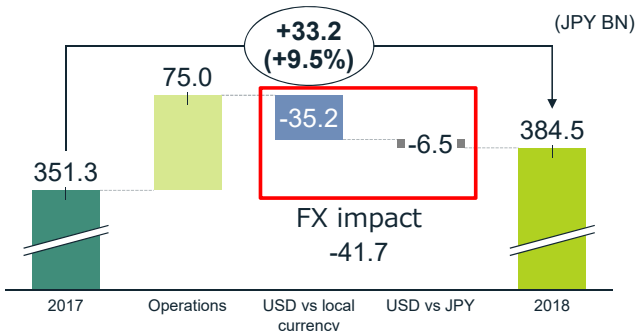
(JPY BN)

Reported basis	2018 Actual	<u>vs.2017</u>
Core Revenue	1,250.7	+6.3%
Adjusted Operating Profit	384.5	+9.5%

Solid business performance more than offset negative FX impact

- Driven by pricing
- Reported earnings up even excluding one-time loss in the prior year (21.9 billion yen)
- Negative FX impact: -41.7 billion yen
 - Mainly due to weak IRR and RUB

Adjusted Operating Profit Roadmap (on a reported basis) (JPY BN)



Change in FX rates (USD vs. local currencies)

	<u>2017</u>	<u>2018</u>	<u>Variance</u>
USD/IRR	38,811	61,649	-37.0%
USD/TRY	3.64	4.82	-24.5%
USD/RUB	58.35	62.68	-6.9%
USD/JPY	112.16	110.44	-1.5%

Operational FX exposure in Iran is to EUR only. EUR/IRR is converted to USD/IRR in the above table by using cross rates.

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Pharmaceutical and Processed Food Businesses (Results)

Pharmaceutical: Profit growth driven by increase in royalty revenue Processed Food: Earnings decline due to higher raw material costs

Pharmaceutical Business (JPY BN)

	2018 Actual	<u>vs.2017</u>
Revenue	114.0	+8.9%
Adjusted Operating Profit	28.4	+18.0%

- Royalty revenue growth and one-time milestone income
- No material impact on 2018 results from the termination of the exclusive license agreements for anti-HIV drugs

Processed Food Business (JPY BN)

	2018 Actual	<u>vs.2017</u>
Revenue	161.4	-1.1%
Adjusted Operating Profit	4.1	-23.6%

- Weak top-line due to intensifying competitive pressure
- Profit impacted by higher raw material costs

Consolidated Financial Forecast

Total tobacco aiming for mid to high single-digit profit growth rate Negative FX impact to continue

(JPY BN)

**2019
Forecast** vs.2018

At constant FX

Adjusted Operating Profit **610.0** +2.4%

Reported

Revenue **2,200.0** -0.7%

Adjusted Operating Profit **546.0** -8.3%

Operating Profit **540.0** -4.4%

Profit **370.0** -4.1%

FCF **360.0** +254.4 (JPY BN)

Adjusted Operating Profit at constant FX: +2.4% growth YoY

- Total tobacco business: currency neutral profit to increase c.7%
 - Japanese domestic: returns to profit growth
 - International: continues to deliver high single-digit profit growth driven by pricing
- Pharmaceutical business: significant decline in profit

Reported:

- Operating Profit and Profit: expected to decline
 - Negative FX impact of over 60.0 billion yen
 - Gain from sale of real estate to decline, and intangible amortization arising from acquisitions to increase
 - One-time compensation gain related to the termination of the exclusive license agreement in the pharmaceutical business
- FCF
 - Expected to improve significantly

Japanese Domestic Tobacco Business (Forecast)

Comprehensive approach combining conventional products and RRP leading to earnings increase while strengthening marketing investments

	(JPY BN)	
	2019 Forecast	<u>vs.2018</u>
Core Revenue	620.0	+6.5%
Adjusted Operating Profit	215.0	+2.9%

Core Revenue

- RRP revenue to expand including contribution from two new products (15%-20% of total core revenue)
- Revenue decline of conventional products to decelerate due to pricing carry-over from the previous year

Adjusted Operating Profit

- Emphasis on flexibility in execution to achieve the profit target
- (+) Pricing gains from conventional products
- (+) Top-line growth of RRP
- (-) Increase in marketing investments for RRP

The industry and sales volume assumptions for 2019 forecast

- Total tobacco industry volume: a decline of c.5%

	Industry volume	JT sales volume
Conventional products	a decline of over 7%	a decline of over 7.5%
RRP	a growth of over 3% (resulting in 22%-23% in total tobacco industry)	5.0 billion stick equivalent

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RRP: products with potential to reduce the risks associated with smoking

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International Tobacco Business (Forecast)

Strong business momentum, but weak local currencies to impact reported earnings

	(JPY BN)	
Reported basis	2019 Forecast	<u>vs.2018</u>
Core Revenue	1,240.0	-0.9%
Adjusted Operating Profit	356.0	-7.4%

Adjusted Operating Profit

- Pricing to remain robust
- M&A contribution to continue
- Local currency headwinds of over 60.0 billion yen, especially IRR and RUB
- Limited impact from unfavorable USD/JPY volatility

USD based adjusted operating profit at constant FX: +8.8% growth

FX rate assumptions

	<u>2018</u>	<u>2019</u>	<u>Variance</u>
USD/IRR	61,649	85,000	-27.5%
USD/TRY	4.82	5.50	-12.3%
USD/RUB	62.68	67.40	-7.0%
USD/JPY	110.44	110.00	-0.4%

Operational FX exposure in Iran is to EUR only. EUR/IRR is converted to USD/IRR in the above table by using cross rates.

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Pharmaceutical and Processed Food Businesses (Forecast)

Pharmaceutical: Impacted by license agreement termination and royalty revenue decline
Processed Food: Earnings growth through productivity gains

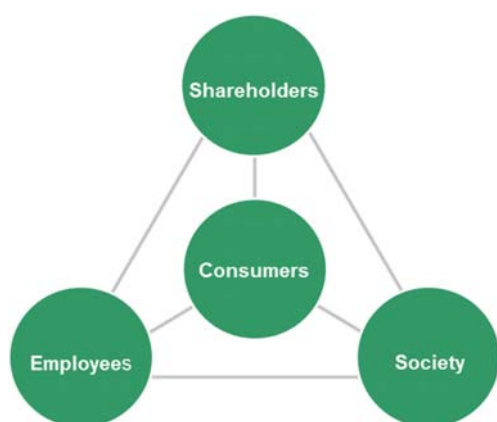
Pharmaceutical Business (JPY BN)			Processed Food Business (JPY BN)		
	2019 Forecast	<u>vs.2018</u>		2019 Forecast	<u>Vs.2018</u>
Revenue	81.0	-28.9%	Revenue	162.0	+0.4%
Adjusted Operating Profit	5.0	-82.4%	Adjusted Operating Profit	5.0	+21.3%

- Revenue from anti-HIV drug in Japan to dissolve
- Royalty revenue from outside Japan also to decline

- Revenue to remain flat year on year
- Profit growth driven by enhancing productivity

Closing remarks

- 2018 results and achievements:
 - Delivered solid business performance and continued to build foundation
- 2019 outlook:
 - Tobacco business to aim for currency neutral profit growth rate at mid to high single-digit
- Annual dividend per share
 - 2018: 150 yen
 - 2019: 154 yen
 - Will continue to increase in a stable and sustainable manner
- Share buyback
 - Up to 50 billion yen or 23 million shares
 - From Feb. 8 to Apr. 22



<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
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.

<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.