



JT Group 2018 Third 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 15 and 16.

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.

Earnings growth at constant FX driven by pricing in the international tobacco business

(JPY BN, %)

<u>At constant FX</u>	<u>Jan-Sep 2018</u>	<u>vs. 2017</u>
Adjusted Operating Profit	530.7	+9.2%
Reported		
Revenue	1,675.8	+5.2%
Adjusted Operating Profit	511.0	+5.1%
Operating Profit	477.1	+1.6%
Profit	332.7	-0.3%

Adjusted Operating Profit at constant FX

International tobacco business:

- Strong profit growth

Japanese domestic tobacco business:

- Profit decrease relatively small with a favorable inventory adjustment at retailers before price increase

Reported - Impacted by negative currency movements**Core revenue**

International tobacco business:

- Volume increase driven by acquisitions and strong pricing

Japanese domestic tobacco business:

- Favorable inventory adjustment and RRP revenue growth

Adjusted Operating Profit

Negative FX impact of -19.7 billion yen

Operating Profit & Profit

- Increase in amortization of intangibles due to acquisitions
- Unfavorable comparison related to one-off profit in the previous year
- Increase of financial costs (impacted on profit)

Consolidated Forecast

Forecast for Adjusted Operating Profit at constant FX revised upward while updated FX assumptions leading to lower reported earnings outlook

(JPY BN, %)

<u>At constant FX</u>	<u>2018 Revised Forecast</u>	<u>Change vs. Previous Forecast</u>	<u>vs. 2017</u>
Adjusted Operating Profit	624.0	+17.0	+6.6%
Reported			
Revenue	2,190.0	-50.0	+2.4%
Adjusted Operating Profit	575.0	-11.0	-1.8%
Operating Profit	532.0	-9.0	-5.2%
Profit	370.0	-7.0	-5.7%

Key assumption changes from previous forecast

- International Tobacco Business
 - Improved volume trends
 - Stronger pricing
 - Unfavorable FX assumption
- Japanese Domestic Tobacco Business
 - Higher cigarette sales volume
 - Lower Ploom TECH sales volume

Total market share continues to improve

[RMC]

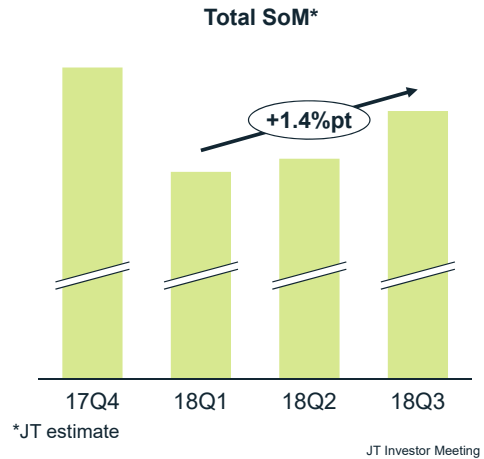
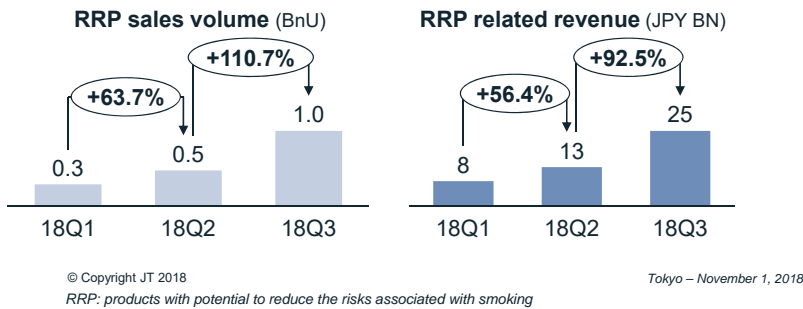
- Robust market share momentum despite sales volume decline
- Share of market growth for five consecutive months

[RRP]

- RRP sales volume and revenue continue to grow

[Total share of market (RMC + RRP)]

- Continues to recover as we...
- focus on RRP as the growth driver, and
- strengthen the undisputed No.1 RMC position



Full-year profit forecast unchanged while revising sales volume assumptions

[Revised sales volume assumption for 2018]

RMC

- Cigarette industry volume: **a decline of over 13%** (previously, a decline of over 14.5%)
- JT cigarette sales volume: **a decline of over 12%** (previously, a decline of over 14%)

RRP

- RRP category share: **c.21%* on average** (previously, c.22%)
 - JT RRP sales volume: **2.8 billion stick equivalent** (previously, 4.0 billion)
- * based on total tobacco industry shipment volume

Total industry volume (RMC and RRP) : **a decline of c.3.5%** (previously a decline of c.4%)

[Full-year profit forecast]

- No change to AOP forecast (**202.0 billion yen**) due to (+) Positive cigarette sales volume revision and cost reduction (-) Revised Ploom TECH sales volume

[Our longer-term outlook for Japan market]

- Rate of total industry volume decline will depend on:
 - Impact of the price increases
 - Influence of Environmental Tobacco Smoke Regulations
 - RRP category expansion will continue in the mid- to long-term despite recent slowdown driven by:
 - New products launches and aggressive marketing activities
 - Less restrictive regulations
 - We still expect the RRP category to reach 30% of total industry volume by the end of 2020
- We continue to prioritize RRP in allocating resources

Accelerate Ploom TECH growth

- Establishing the “low-temperature heating” category is essential to capture the future leading position in RRP
- JT’s “low-temperature heating” type product is a proven better alternative to satisfy consumer needs and has high potential

What needs improvement

- Benefits of “low-temperature heating” type product were not fully conveyed to consumers



What we will do

- Enhance communication with consumers
 - Offer more opportunities to experience Ploom TECH
- Deliver scientific findings to prove the benefits

Social
Consideration

Convenience

Reduced Risk
Potential

- Current limited product offerings were not enough for consumers’ diverse preference



- Expand product line-up
 - New color device
 - New Pianissimo branded consumables
 - More Pianissimo consumables in 2019 Q1
- Launch Ploom TECH+ for consumers who prefer richer vapor and flavor

Creating the most diverse RRP portfolio by launching Ploom TECH+ and Ploom S in 2019

- Executing our portfolio strategy - multiple choices for consumers
 - Ploom TECH (low-temp. heating type) : Feature high usability, less odor and clear tobacco taste
 - Ploom TECH+ (low-temp. heating type) : Offer richer vapor and flavor combined with usability and less odor
 - Ploom S (high-temp. heating type) : Gain share from competitors in an already established market
- Ploom TECH+ and Ploom S launch
 - Both products will be launched by the end of March 2019
 - Prioritize existing Ploom TECH and concentrate our resources on its line-up expansion
 - We will introduce them initially via online shop and flagship stores (Ploom Shops)
 - Strongly supported by marketing investment
 - Sales area to be expanded under a roll-out plan and national launch to be completed within 2019

2019

pbom
TECH



驚くほど、クリーンで手軽。
カジュアルに楽しむ。

pbom
TECH+



クリーン、なのにパワフル。
低温に、吸いごたえをプラス。

pbom S



立ち上がる、たばこ葉のうまみ。
こだわりの一服。

低温加熱型 

高温加熱型 

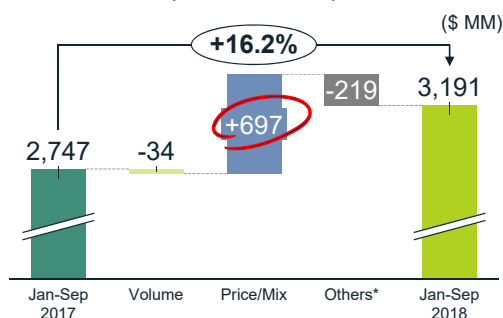
International Tobacco Business (Results & Forecast)

AOP at constant FX forecast revised upward reflecting solid business momentum

[Year-to-Date Results]

- Double-digit profit growth with solid business momentum
- Robust price/mix gains in several markets

Adjusted Operating Profit Roadmap
(at constant FX)



*Includes product cost, marketing investment and SG&A

[Forecast]

- Forecast for AOP at constant currency is revised upwards from \$3,600MM to **\$3,770MM (+20.1% vs. 2017)** driven by:
 - Continued strong volume and pricing momentum
 - Ongoing uncertainties remaining in several markets will not impact 2018 performance, but need monitoring
 - Excluding a one-time loss in the previous year, revised profit forecast represents a 13.1% growth vs. 2017
 - Acquisition in Bangladesh is not yet completed and not included

Currency headwinds accelerate in the 2nd half

- Reported AOP forecast is revised downward due to unfavorable currency movements
382.0 billion yen → **373.0 billion yen (-9.0 billion yen)**
- All key local currencies are weakening
- Year-on-year FX impact on reported AOP:
 - First half : -6.5 billion yen
 - Second half : **c.-43 billion yen** (Q3: -13.2 billion yen, Q4: c.-30 billion yen)

Exchange rate assumptions (Local currency per US dollar)

	2017 Actual	2018 Previous Forecast	2018 Revised Forecast	2017/ 2018 Variance	Previous/ Revised Variance
USD/IRR	38,811	44,100	66,000	-41.2%	-33.2%
USD/TRY	3.64	4.40	5.00	-27.1%	-12.0%
USD/GBP	0.78	0.71	0.75	+3.6%	-5.3%
USD/RUB	58.35	60.00	63.00	-7.4%	-4.8%

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

Pharmaceutical and Processed Food Businesses (Results and Forecast)

Pharmaceutical : Solid results, unchanged AOP forecast

Processed Food : AOP forecast revised downward due to higher raw material costs

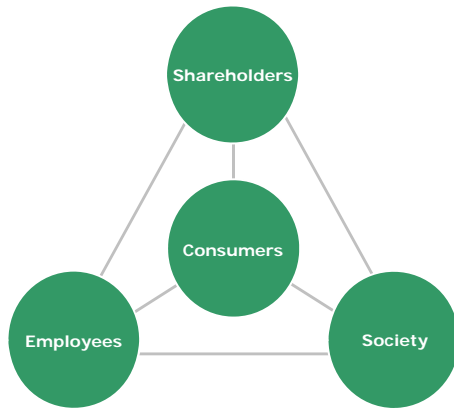
[Pharmaceutical Business]

- Solid year-to-date performance
- No change in profit forecast
(AOP: **25.0 billion yen**)
- Will update regarding ongoing discussion with Gilead Sciences, Inc., when appropriate

[Processed Food Business]

- Profit decline as a result of higher raw material costs
- Profit forecast revised 0.5 billion yen downward
(AOP: **5.0 billion yen**)
- Re-align an organizational structure with more emphasis on top-line growth

2018 revised forecast supports our robust business foundations



- Adjusted Operating Profit at constant FX in Jan-Sep increased, despite volatile business environment
 - Reconfirm our robust business foundation
 - Flexibly respond to changes in the environment
- Aim to achieve full-year profit target, and build a foundation for growth in 2019 and onwards
- Annual dividend per share of 150 yen, same as initial forecast

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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
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.