



Business Plan 2018

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JT Group Chief Executive Officer

FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements. These statements appear in a number of places in this presentation 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) decrease in demand for tobacco products in key markets;
- (2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;
- (3) increases in excise, consumption or other taxes on tobacco products in markets in which we operate;
- (4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products ;
- (5) our ability to realize anticipated results of our acquisition or other similar investments;
- (6) competition in markets in which we operate or into which we seek to expand;
- (7) deterioration in economic conditions in areas that matter to us;
- (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.

Agenda

- **2017 Overview**
- **JT Group mid- to long-term strategy**
- **Business Plan 2018 (three-year plan)**

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2017 Overview

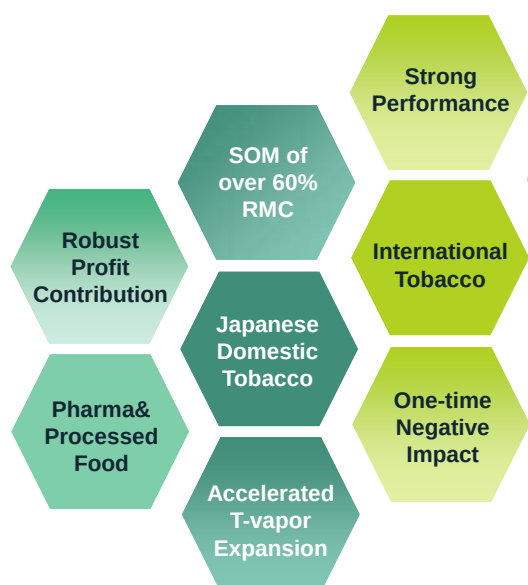
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5

2017 Overview - A year of mixed results for the JT Group

- **Delivered solid profitability under a challenging environment**



- Continued investing for the future growth
 - International: M&As
 - Domestic: Ploom TECH initiatives
- Will deliver a full year dividend of JPY 140 per share as committed

JT Group mid- to long-term strategy

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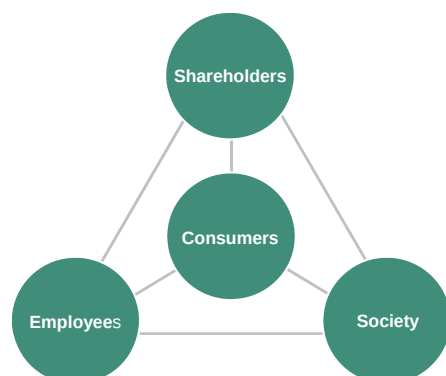
7

Our Management Policy

- **No change in our management principle, strategic framework and resource allocation**

Management Principle

We strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.



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Strategic framework

Quality
top-line
growth

×

Competitive
cost base

×

Robust
business
foundations

Resource allocation

- Resource allocation based on 4S model
- Prioritize business investments
 - Focus on growth of tobacco business
 - Optimize scale and timing based on our growth agenda
- Shareholder return policy
 - Enhance shareholder returns considering the Company's mid- to long-term profit growth
 - Deliver sustainable and steady increase of DPS

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Revolution of organizational capability

- 
- **Aim to be a company that initiates change and drives evolution**
 - **Eliminate complexity and enhance agility across the organizations**
 - **Encourage each employee to take actions towards change and innovation**
 - **Demonstrate the strong leadership for the transformation**

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Business Plan 2018 (three-year plan)

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11

Mid- to long-term target and the role of each business

Mid to high single-digit profit growth*

Tobacco Business JT Group's profit growth engine

Mid to high single-digit profit growth

RRP(Reduced-Risk Products)**

Drive the growth of tobacco business
through focused investment

- Strengthen product portfolio and business foundation

Traditional Tobacco Products

Remain the platform of profitability

- Enhance brand equity and expand market portfolio

Pharmaceutical Business and Processed Food Business Complement profit growth of the Group

Pharmaceutical Business

Continue to deliver profit

- Promote R&D for next-generation strategic products and maximize the value of each product

Processed Food Business

Grow via top-line expansion

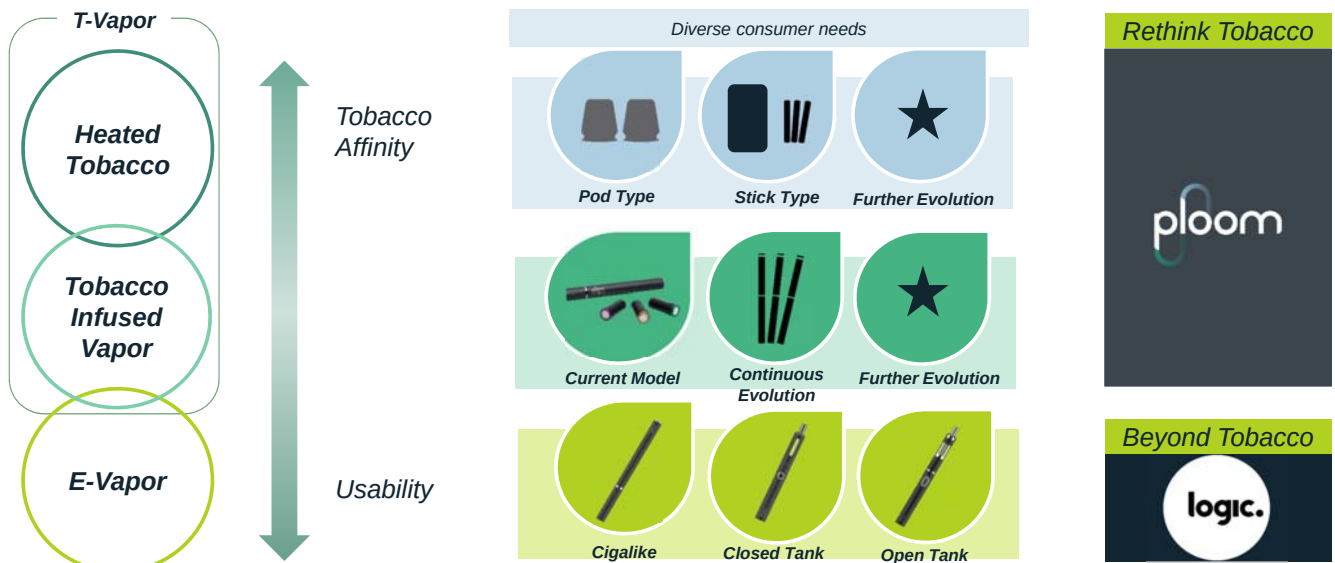
- Focus on frozen and ambient processed food, seasonings and bakery items

Tobacco Business

Tobacco Business Strategy – Investment for future growth

- **RRP enhances consumer satisfaction, and thus offers a real benefit to all of our stakeholders**
 - Reduced-Risk is the additional value most strongly coveted by consumers
 - RRP is now the centerpiece of our strategy and will drive sustainable future growth of the tobacco business
 - Investment in RRP is prioritized
 - ✓ Over 100 billion yen within next 3 years
- **No change in the importance of traditional tobacco products. Keep investing in**
 - Brand equity enhancement in established markets
 - Geographic expansion into emerging markets

- Fulfill diverse consumer needs with the highest quality product portfolio



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Japanese Domestic Tobacco Business – Business environment and objectives

- Business environment**
 - Ready-Made Cigarette (RMC) industry to continue declining while RRP category to expand further
 - Multi-year excise tax increases in both RMC and RRP categories
 - Tightening regulation

Roadmap towards target for 2020

2018

- Expand Ploom TECH sales nationwide
- Maximize RMC sales volume

2019

- Accelerate and maximize RRP sales volume

2020

- Achieve the No.1 SOM position in both RRP and RMC categories

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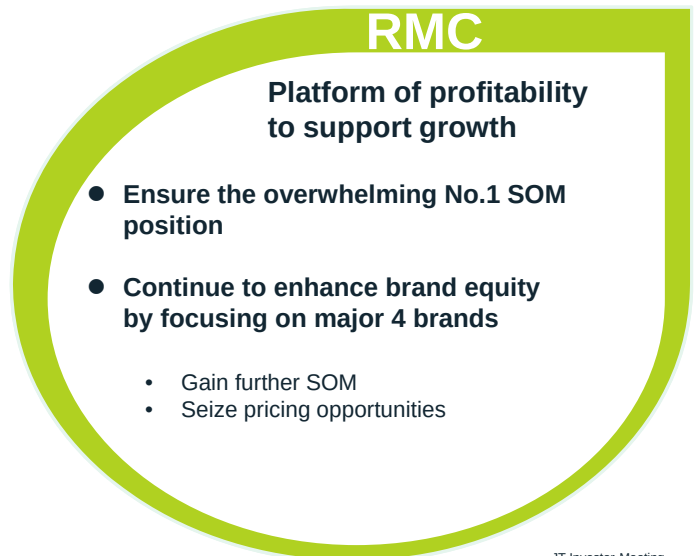
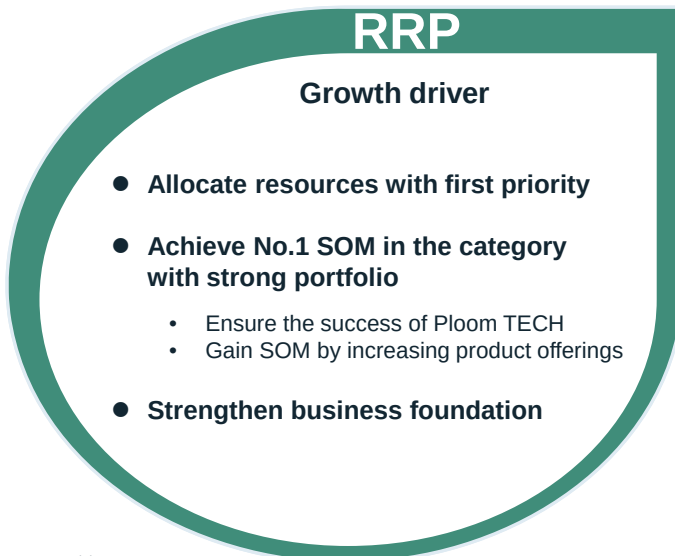
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16

Japanese Domestic Tobacco Business – Strategies for RRP and RMC

• Roles of RRP and RMC



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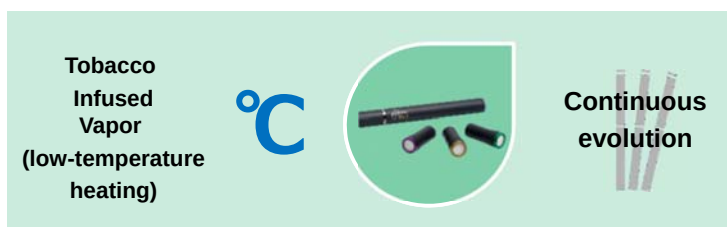
RRP / Reduced-Risk Products: products with potential to reduce the risks associated with smoking

17

Japanese Domestic Tobacco Business – RRP Portfolio Strategy

• Gain 40% SOM by the end of 2020 with expanded portfolio

• Ensure the success of Ploom TECH initiatives



• Boost SOM by entering Heated Tobacco category



Guided Trial



Ploom TECH ONLY Program



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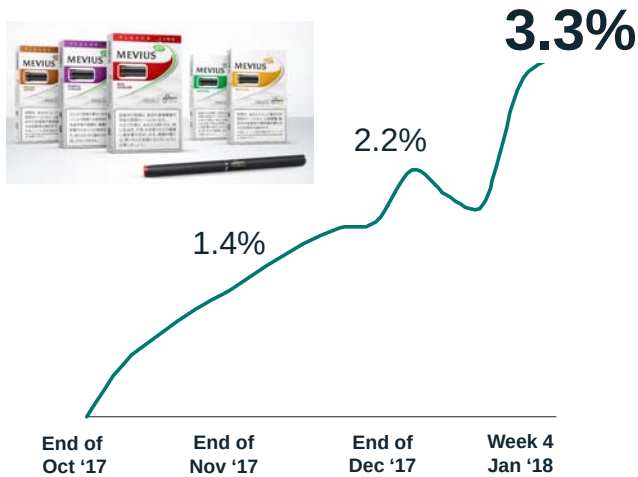
RRP / Reduced-Risk Products: products with potential to reduce the risks associated with smoking

18

Japanese Domestic Tobacco Business – Ploom TECH Performance in Tokyo

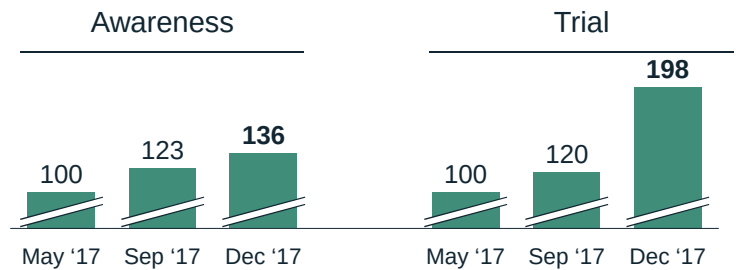
- Encouraging initial results under limited supply of devices

Off-take SOM at CVS in Tokyo



Source: JT estimates, Weekly data

- Penetration among consumers improving



Source: JT estimates (internet survey of approx.500 consumers in Tokyo)
The rates of awareness and trial in May '17 being indexed as 100

- Increasing number of facilities to exclusively admit the use of Ploom TECH

Number of "No Smoking, Ploom TECH only" restaurants in Tokyo

More than 800

Source: JT estimates at the end of January 2018

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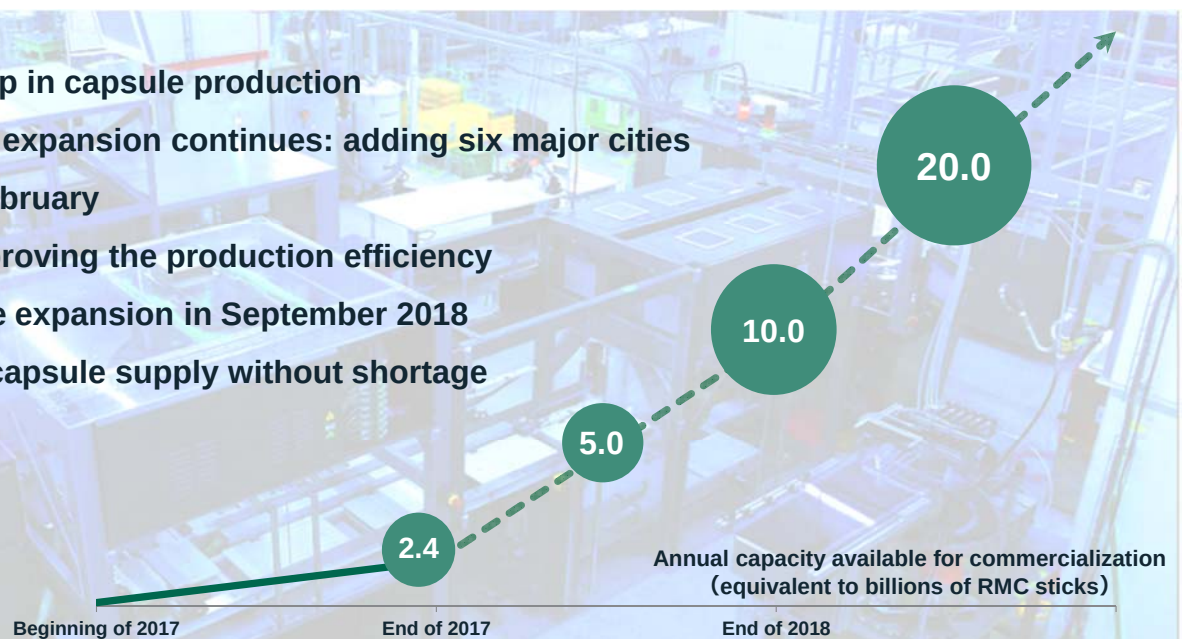
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RRP / Reduced-Risk Products: products with potential to reduce the risks associated with smoking

Japanese Domestic Tobacco Business – Ploom TECH Plans for capsule manufacturing capacity and sales expansion

- Steady build-up in capsule production
 - Sales area expansion continues: adding six major cities from 5th February
- Striving to improving the production efficiency
 - Nationwide expansion in September 2018 to secure capsule supply without shortage



Annual capacity available for commercialization (equivalent to billions of RMC sticks)

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20

International Tobacco Business – Business environment

- **Macro environment remains uncertain**
 - Expecting economic growth in most emerging markets but only moderate economic recovery in key markets
 - Unknowns due to currency fluctuations, changes in political climate and geopolitical risks
- **Challenging business environment continues**
 - Industry volume decline, down-trading, increasing price competition, tighter regulation and illicit trade

International Tobacco Business – Business objectives and strategies

- **Quality Top-line Growth**
- **Constantly delivering robust profit growth**



Grow in established markets

Brand equity
Market share gains
Pricing opportunities

Expand in emerging markets

Organic growth
M&A opportunities

Drive growth in the RRP category

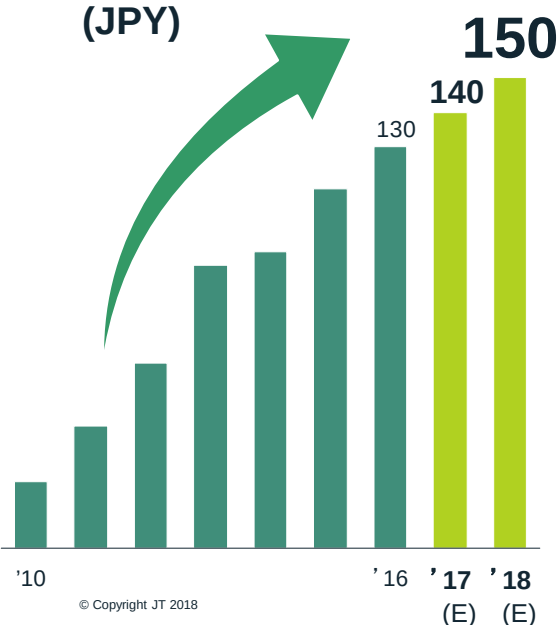
Products portfolio
Capabilities
Geographic expansion

**Continue to invest focusing on three pillars
to drive future growth**

Closing Remarks

Group profit target and shareholder return

Dividend per share (JPY)



- Profit growth rate target (Three-year CAGR)
AOP at constant FX growth

Mid to high single-digit

- Dividend per share (2018 forecast)

JPY 150 (+7.1% vs 2017)