



JT Group Consolidated Financial Results 2017 Results and 2018 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 3 and 4.

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.

<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
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: Unitl 2017: Winston, Camel, MEVIUS, LD, Benson & Hedges, Glamour, Sobranie, Silk Cut, Natural American Spirit (9 brands) From 2018: 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>

Industry volume (Japanese domestic tobacco business)	Industry volume of tobacco products in Japan market (including Reduced-Risk Products)
Cigarette industry volume (Japanese domestic tobacco business)	Industry volume of cigarettes in Japan market (excluding Reduced-Risk Products)
Cigarette sales volume (Japanese domestic tobacco business)	Excludes sales volume of domestic duty free, the China business and Reduced-Risk Products
Core revenue: (Japanese domestic tobacco business)	Includes revenue from domestic duty free, the China business and Reduced-Risk Products such as Ploom TECH devices and capsules but excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others.

2017 Results

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5

Consolidated Financial Results

(JPY BN)

	<u>2017 Actual</u>	<u>Change vs. PY</u>
<u>At constant FX</u>		
Adjusted Operating Profit	583.2	-0.6%
<u>Reported</u>		
Revenue	2,139.7	-0.2%
Adjusted Operating Profit	585.3	-0.3%
Operating Profit	561.1	-5.4%
Profit	392.4	-6.9%
FCF	72.6	+388.8 (JPY BN)

Adjusted Operating Profit at constant FX

Delivered solid profit despite a challenging business environment

- Impacted by a non-recurring unfavorable event

Reported

- **Revenue, Adjusted Operating Profit**
 - Stable with limited FX impact
- **Operating Profit, Profit**
 - Declined due to a decrease in gains from the sale of real estate assets
- **FCF**
 - Increased mainly due to lower acquisition spending

International Tobacco Business Results – Volume / At constant FX

(BnU, %)	<u>Shipment Volume</u>	<u>vs. 2016</u>
Total	398.5	-0.1%
GFB	285.9	+0.8%

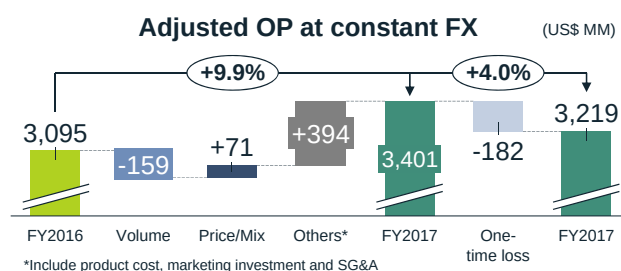
(US\$ MM, %)	<u>At constant FX</u>	<u>vs. 2016</u>
Core Revenue	10,457	-0.3%
Adjusted Operating Profit	3,219	+4.0%

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Profit growth driven by robust performance:

- Continued market share gains
- Acquisitions in the Philippines and Indonesia
- Moderate Price/Mix gains
- Cost reduction through planned manufacturing footprint optimization
- Impacted by a loss related to a UK distributor going into administration



7

International Tobacco Business Results – Reported basis

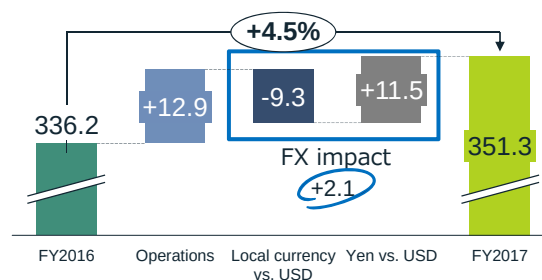
(US\$ MM, %)	<u>Reported USD basis</u>	<u>vs. 2016</u>
Core Revenue	10,498	+0.1%
Adjusted Operating Profit	3,138	+1.4%

(JPY BN, %)	<u>Reported JPY basis</u>	<u>vs. 2016</u>
Core Revenue	1,177.0	+3.4%
Adjusted Operating Profit	351.3	+4.5%

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Adjusted OP reported basis (JPY BN)



	FY2017 Actual FX rate	vs. PY
RUB/USD	58.35	+15.0%
GBP/USD	0.78	-4.8%
TRY/USD	3.64	-17.2%
JPY/USD	112.16	+3.1%

Note : Please refer to page 5 of Financial Results Supplemental Material for more details

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8

Japanese Domestic Tobacco Business Results - Sales volume / SoM

(BnU, %, %pt)	<u>Sales volume / SoM</u>	<u>vs. 2016</u>
Cigarette sales volume	92.9	-12.5%
JT Cigarette SoM	61.3%	+0.3%pt
MEVIUS SoM	31.4%	-0.0%pt

Cigarette sales volume declined while share increased

- Cigarette industry volume declined 12.9%
- Continued to focus on brand equity enhancement and strengthened the No.1 position in cigarette
- MEVIUS share recovered to the same level as prior year in spite of the price hike in April 2016

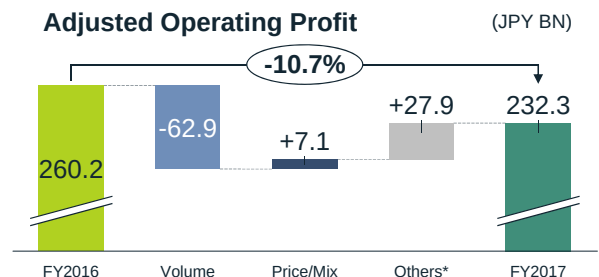
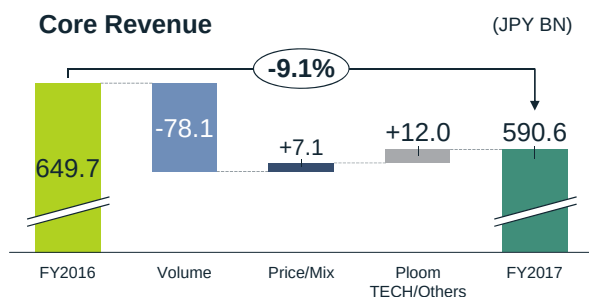
Continuously expanding sales area of Ploom TECH

- Capsules sales volume grew significantly in 4th quarter thanks to sales area expansion in Tokyo

Japanese Domestic Tobacco Business Results - Financial Results

(JPY Bn, %)	<u>2017 Actual</u>	<u>vs. 2016</u>
Core Revenue	590.6	-9.1%
Adjusted Operating Profit	232.3	-10.7%

Profit decreased due to lower cigarette sales volume partially offset by the optimization of investments



*Include marketing investment, SG&A, product costs and etc.

Pharmaceutical and Processed Food Business Results

(JPY BN)	<u>Pharmaceutical</u>	<u>vs. 2016 (abs.)</u>
Revenue	104.7	+17.5
Adjusted Operating Profit	24.1	+14.4

Achieved a combined profit growth of about 15 billion yen

- **Pharmaceutical**
 - Significant growth in royalty revenue driven by the increased sales of out-licensed compounds
 - Robust sales of Torii Pharmaceutical

(JPY BN)	<u>Processed Food</u>	<u>vs. 2016 (abs.)</u>
Revenue	163.1	-0.9
Adjusted Operating Profit	5.4	+0.4

- **Processed Food**
 - Achieved profit growth for the fifth consecutive year due to sales efforts focusing on higher margin products and cost reduction

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2018 Forecast

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13

Consolidated Financial Forecast

	(JPY BN)	
	<u>2018 Forecast</u>	<u>Change vs. PY</u>
<u>At constant FX</u>		
Adjusted Operating Profit	607.0	+3.7%
<u>Reported</u>		
Revenue	2,220.0	+3.8%
Adjusted Operating Profit	600.0	+2.5%
Operating Profit	561.0	-0.0%
Profit	394.0	+0.4%
FCF	300.0	+227.4 (JPY BN)

Adjusted Operating Profit at constant FX

Aim to grow profit and invest for the future amid a challenging business environment

Reported

- **Revenue, Adjusted Operating Profit**
 - To increase driven by international tobacco business returning to top-line growth
- **Operating Profit, Profit**
 - To remain flat, reflecting unfavorable comparisons and an increase in intangible amortization related to business acquisitions
- **FCF**
 - To invest in Reduced-Risk Products and our business foundations

International Tobacco Business Forecast – At constant FX

(US\$ MM, %)

At constant FX

vs. 2017

Core Revenue	11,350	+8.1%
Adjusted Operating Profit	3,600	+14.7%

Profit to increase driven by top-line growth

- Volume growth fueled by acquisitions and sustained momentum in emerging markets
- Returning to top-line growth, led by pricing
- Continue to invest towards sustainable growth

2018 shipment volume assumptions:

- Total shipment volume: an increase of c. 4% (vs. 2017: 398.5 BnU)
- GFB* shipment volume: an increase of c. 2% (vs. 2017: 260.4 BnU*)

Both total and GFB shipment volumes to grow driven by acquisitions and sustained growth in emerging markets

*GFB: Winston, Camel, Mevius and LD

International Tobacco Business Forecast – Reported basis

(US\$ MM, %)

Reported USD basis

vs. 2017

Core Revenue	11,500	+9.5%
Adjusted Operating Profit	3,600	+14.7%

(JPY BN, %)

Reported JPY basis

vs. 2017

Core Revenue	1,265.0	+7.5%
Adjusted Operating Profit	396.0	+12.7%

Limited FX movements impact

	2018 FX assumptions	vs. PY
RUB/USD	58.00	+0.6%
GBP/USD	0.74	+5.0%
EUR/USD	0.83	+6.9%
CHF/USD	0.98	+0.5%
TWD/USD	29.50	+3.2%
TRY/USD	3.80	-4.1%
IRR/USD	43,600	-11.0%
JPY/USD	110.00	-1.9%

Japanese Domestic Tobacco Business Forecast

(JPY BN, %)	<u>2018 Forecast</u>	<u>vs. 2017</u>
Core Revenue	573.0	-3.0%
Adjusted Operating Profit	202.0	-13.0%

Revenue and profit to decline due to lower volume

- Ploom TECH sales expansion partially offset negative cigarette volume
- Tax-led price increase is included based on certain assumptions

Invest in business towards sustainable profit growth

- Focused investment in RRP category, the growth driver
- Further SoM gains to maximize sales volume of cigarette, the platform of profitability to support growth

2018 estimation of Japanese tobacco market:

- Industry volume: a decline of over 4.5% (vs. 17') (2017 industry volume is estimated at 172.0 BnU)
- Cigarette industry volume: a decline of c. 17.5% (vs. 17') (2017 cigarette industry volume: 151.4 BnU)
- RRP market share: c. 23% on average in 18'

Assumptions for 2018 forecast:

- JT cigarette sales volume: a decrease of over 16.5% (vs. 17' actual)
- RRP contribution: c. 15% of core revenue

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

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17

Pharmaceutical and Processed Food Business Forecast

(JPY BN, %)	<u>Pharmaceutical</u>	<u>vs. 2017</u>
Revenue	109.0	+4.1%
Adjusted Operating Profit	25.0	+3.8%

Continuously contribute to the Group profit growth

- **Pharmaceutical**
 - Royalty revenue continues to grow while expecting a negative impact related to the drug price revision

(JPY BN, %)	<u>Processed Food</u>	<u>vs. 2017</u>
Revenue	165.0	+1.1%
Adjusted Operating Profit	5.5	+1.9%

- **Processed Food**
 - The sales of frozen and ambient processed food as well as seasonings expected to increase
 - CAPEX to expand capacity progressing as planned

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18

Closing Remarks

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19

Closing Remarks

● Profit growth target (Three-year CAGR)

Adjusted Operating Profit at constant FX growth

Mid to high single-digit

● Dividend per share

- 2017: **JPY 140** (+7.7% vs. 2016)
- 2018: **JPY 150** (+7.1% vs. 2017)

