



2017 First Quarter Results (January 1– March 31, 2017)

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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 3.

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.

<Annotation>

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

Shipment volume:
(International tobacco business)

Includes fine cut, cigars, pipe tobacco and snus but excludes contract manufactured products, waterpipe tobacco and emerging products

Core revenue:
(International tobacco business)

Includes revenue from waterpipe tobacco and emerging products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.

Cigarette industry volume
(Japanese domestic tobacco business)

Industry volume of cigarettes in Japan market (excluding Emerging Products)

Cigarette sales volume
(Japanese domestic tobacco business)

Excludes sales volume of domestic duty free, the China business and Emerging Products

Core revenue:
(Japanese domestic tobacco business)

Includes revenue from domestic duty free, the China business and emerging products such as Ploom TECH devices and capsules but excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others.

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Consolidated financial results January-March 2017

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Consolidated Financial Results

2017 First Quarter : Performance in line with expectations Steady progress towards full year target

(JPY BN)	<u>Jan-Mar 2017</u>	<u>Change vs. PY</u>	<u>2017 full year forecast</u>	<u>Change vs. PY</u>
<u>At constant FX</u>				
Adjusted OP	159.3	-3.1%	607.0	+3.4%
<u>Reported</u>				
Revenue	506.1	-5.2%	2,110.0	-1.6%
Adjusted OP	150.3	-8.6%	587.0	+0.0%
Operating Profit	149.0	-26.9%	560.0	-5.6%
Profit	105.5	-27.5%	402.0	-4.7%

One-off factors in 2016 Q1 causing unfavorable comparisons

<u>Japanese Domestic Tobacco</u>	Trade inventory adjustments ahead of the MEVIUS price increase
<u>International Tobacco</u>	Favorable trade inventory adjustments
<u>Others/Corporate</u>	Significant profit from sales of real estate assets

Results by business segment January-March 2017

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International Tobacco Business

Pricing and cost optimization maintain profit growth

(BNU, US\$ MM)

	<u>Jan-Mar</u> <u>2016</u>	<u>Jan-Mar</u> <u>2017</u>	<u>Change</u> <u>vs. PY</u>
Total Shipment Volume	94.4	91.7	-2.9%
GFB Shipment Volume	66.4	66.0	-0.5%
<u>At Constant FX</u>			
Core Revenue	2,468	2,469	+0.0%
Adjusted OP	863	875	+1.5%
<u>Reported</u>			
Core Revenue	2,468	2,429	-1.6%
Adjusted OP	863	810	-6.1%
<u>JPY Basis (JPY BN)</u>			
Core Revenue	284.7	276.0	-3.1%
Adjusted OP	99.5	92.0	-7.6%

Year-on-year variance by cluster

	<u>Jan-Mar 2017</u> <u>vs. PY</u>
South & West Europe	
Total Shipment Volume	-6.4%
GFB Shipment Volume	-5.9%
Core Revenue at constant FX	-5.9%
North & Central Europe	
Total Shipment Volume	-5.0%
GFB Shipment Volume	-4.0%
Core Revenue at constant FX	-8.9%

South & West Europe

- Steady positive market share momentum
- Unfavorable comparison in key markets versus last year due to inventory adjustments

North & Central Europe

- Market share growth continued
- UK: Continued consumer volatility ahead of new regulations

Year-on-year variance by cluster

	<u>Jan-Mar 2017</u> <u>vs. PY</u>
CIS+	
Total Shipment Volume	-6.7%
GFB Shipment Volume	-6.2%
Core Revenue at constant FX	-6.2%
Rest-of-the-World	
Total Shipment Volume	3.4%
GFB Shipment Volume	12.1%
Core Revenue at constant FX	12.9%

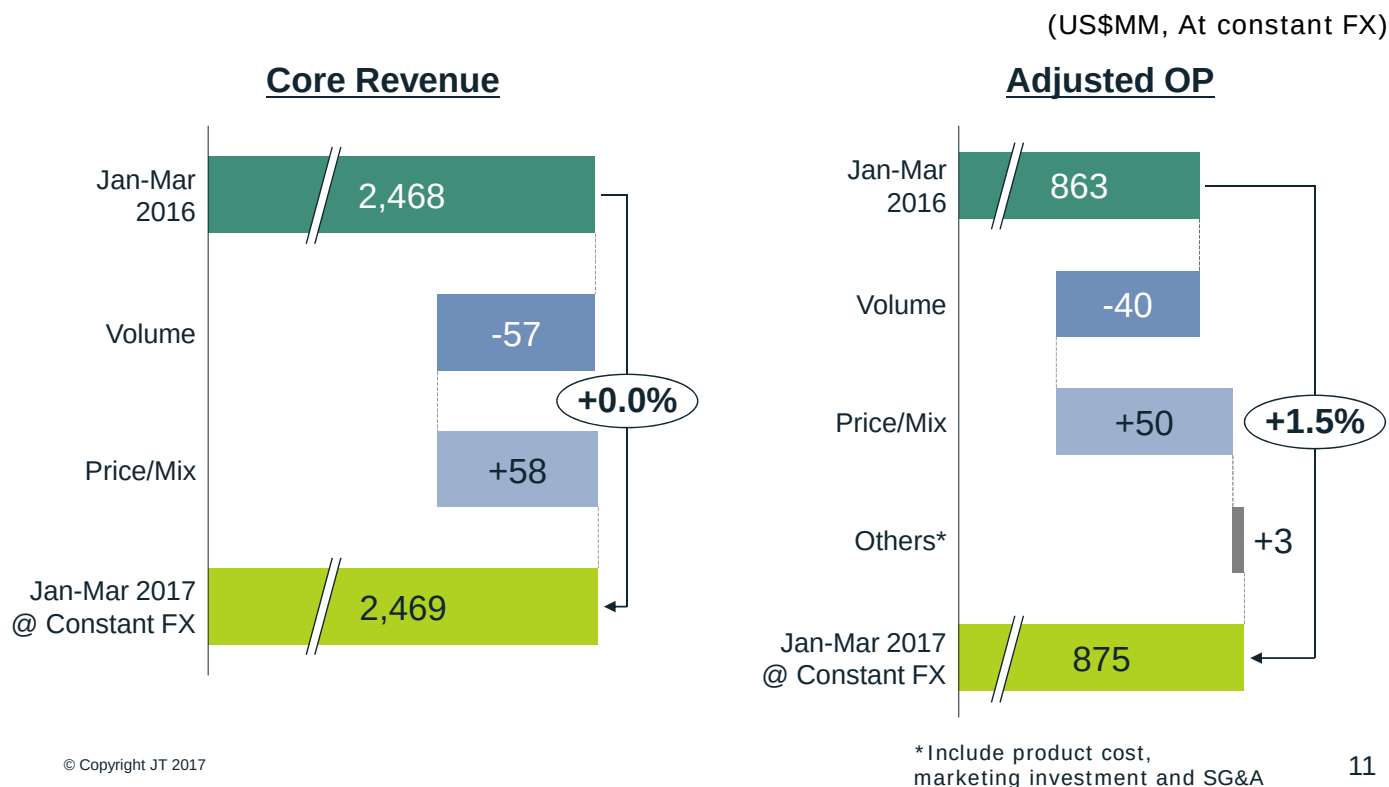
CIS+

- Industry volume contraction continued
- Ongoing price discounting in the value segment

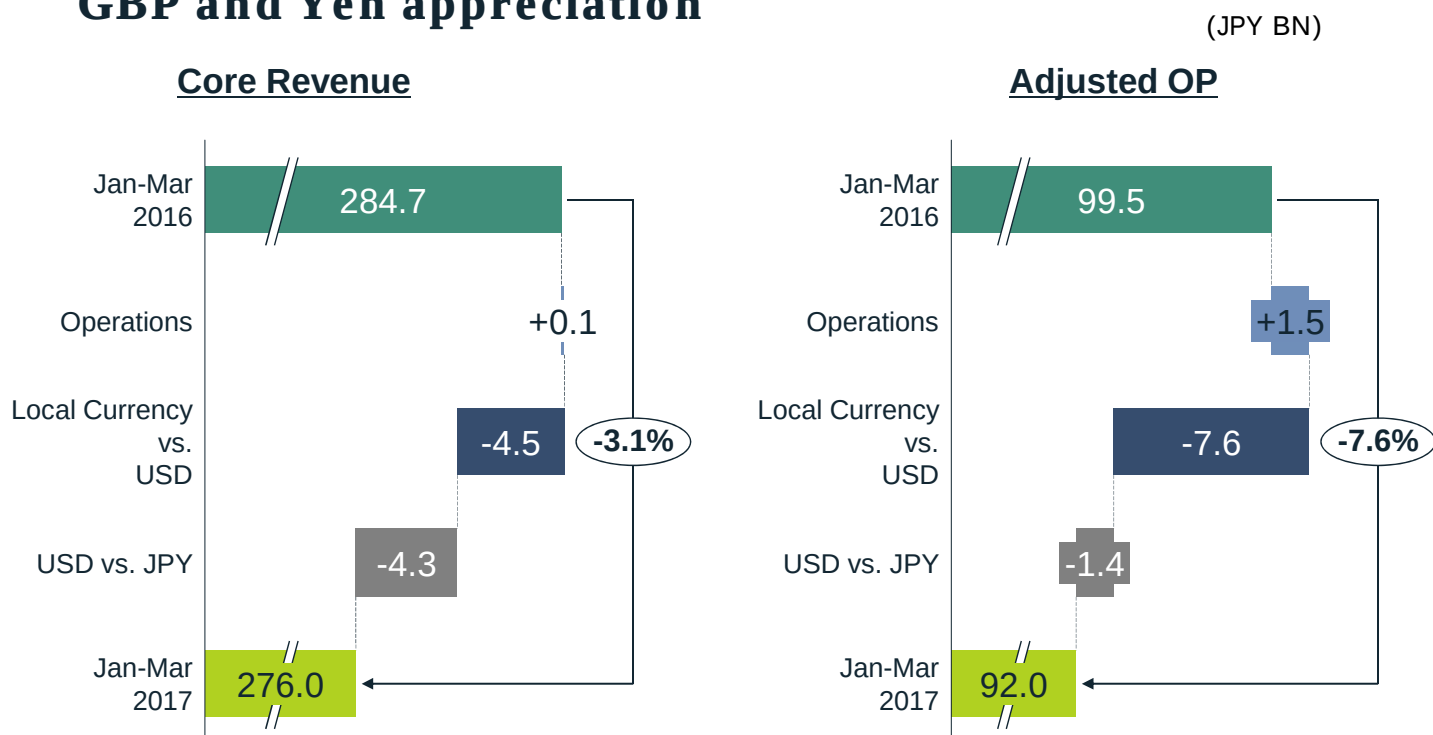
Rest-of-the-world

- Shipment volume growth and pricing gains in emerging markets
- Strong GFB momentum in both volume and share
- Continued organic growth in Iran

Pricing and cost optimization more than offset volume decline and increased investment



Unfavorable currency movements mainly due to weak GBP and Yen appreciation



Cigarette volume on track

(BNU)

	<u>Jan-Mar 2017</u>	<u>Change vs. PY</u>
Cigarette industry volume	37.7	-13.3%
Cigarette sales volume	23.0	-15.3%

Year-on-year volume decline mainly due to

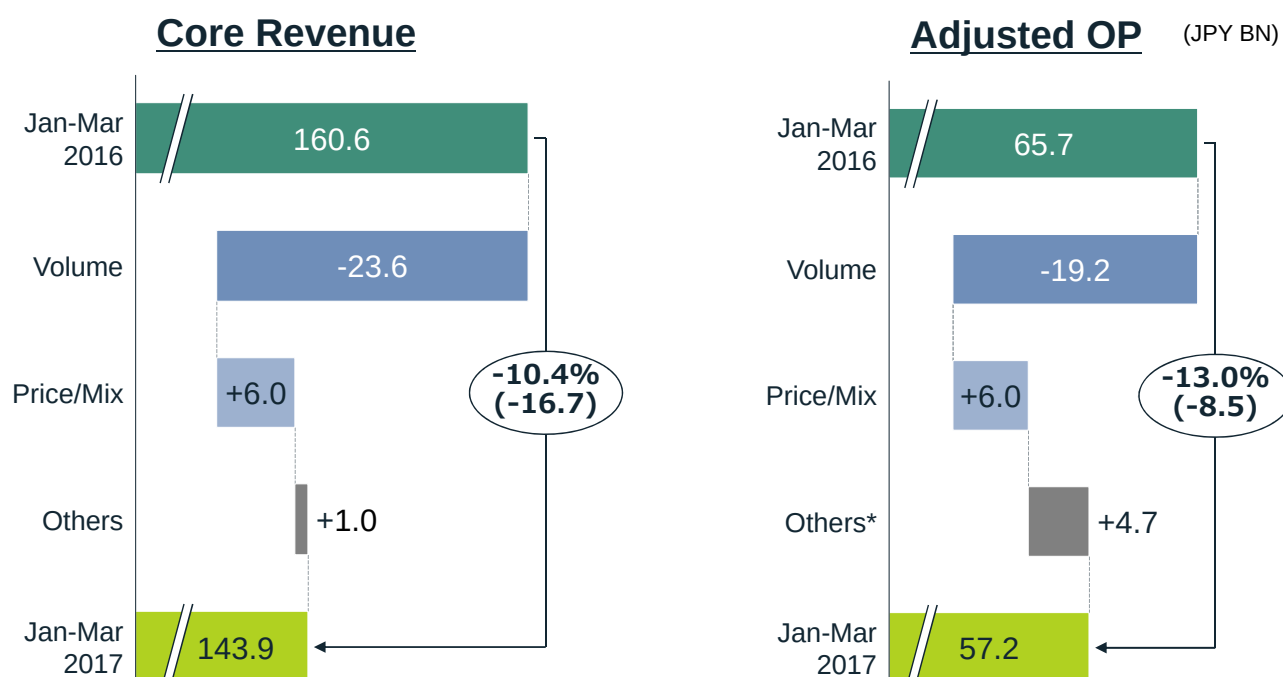
- Expansion of T-Vapor market, and
- Specific factors including temporary demand increase in 2016 Q1 ahead of the MEVIUS price increase

<u>SoM of JT core brands</u>	<u>2016 Actual</u>	<u>Jan-Mar 2017</u>	<u>Change vs. PY</u>
JT SoM	61.1%	61.0%	-0.1ppt
MEVIUS	31.4%	30.5%	-0.9ppt
Winston	8.0%	8.1%	+0.1ppt
Seven Stars	7.5%	7.5%	-0.0ppt
Natural American Spirit	1.5%	1.8%	+0.2ppt

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Financials negatively impacted by cigarette volume decline partly offset by optimization of investments



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*Include product cost, marketing investment and SG&A

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Pharmaceutical and Processed food businesses delivering steady performance

(JPY BN)

	<u>Jan-Mar</u> <u>2016</u>	<u>Jan-Mar</u> <u>2017</u>	<u>Change</u> <u>vs. PY</u>
Pharmaceutical Business			
Revenue	21.5	23.2	+7.7%
Adjusted OP	3.2	5.1	+58.9%
Processed Food Business			
Revenue	39.4	38.3	-2.9%
Adjusted OP	1.2	1.2	+0.7%

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Closing

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Closing Remarks

Confident for achieving 2017 full year target

- 2017 first quarter confirms a solid start toward the annual target
- Ploom TECH to be expanded in Tokyo from end of June
- Committed to investing in business for mid- to long-term profit growth despite the challenging business environment
- Continue aiming to achieve mid to high single-digit profit growth in the mid to long term

