JT Group
2019 Second-Quarter Results

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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 17 and 18.

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.

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First half performance

Adjusted Operating Profit (AOP) at constant FX

Robust growth driven by:

- International Tobacco: Volume and pricing gains
- Japanese Domestic Tobacco: Pricing gains and RRP sales volume increase

Adjusted Operating Profit

Decreased due to unfavorable currency movements

Operating Profit and Profit

Increased mainly due to a one-time compensation gain in the Pharmaceutical business

Partly offset by:

- a decline in profit from sale of real estate and an increase in amortization related to acquisitions
- higher financing costs

(JPY BN)

	2019H1	vs. PY
At constant FX		
Adjusted Operating Profit	336.6	+5.9%
Reported		
Revenue	1058.5	-1.6%
Adjusted Operating Profit	287.8	-9.4%
Operating Profit	311.3	+3.0%
Profit	226.5	+4.8%

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

Total industry volume resilient

Japan market industry volume in H1 JT estimate

Total industry volume

Declined c. 4%

✓ After delivery days adjustment : declined c. 3.5%

RMC industry volume

Declined c. 7%

✓ After delivery days adjustment : declined c. 6.5%

RRP

Market size is c. 22.5% of total tobacco industry

✓ Shipment base

Starting from this quarter, volume results and forecast for the industry and JT's Japanese domestic tobacco business performance includes estimated Little cigar volumes. To enable like-for-like comparison, previous year volumes have also been restated. Analyses impacted due to this change include Tobacco industry volume, RMC industry volume, RMC sales volume, RMC share and RRP market size.

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RMC: cigarettes and little cigars
Little Cigar: Little cigar is a product with the format same as cigarette, rolled in paper which is made from tobacco leaves.

Strong start of Ploom TECH+ with nationwide rollout

H1

JT RMC share within the category is 61.0%, a slight decrease vs. PY

- Camel grew share benefiting from downtrading, despite intense competition in value segment

JT RRP sales volume increased vs. PY

JT RRP share within the category is estimated at c. 8%

- Strong start of Ploom TECH+ with nationwide rollout and growth driver of JT RRP share reaching c. 10% in July
- Lower than expected share momentum in Ploom TECH
- Ploom S nationwide launch from August 5th

JT total share decreased vs. PY

Q2

JT RMC share increased slightly vs. Q1

JT RRP volume increased vs. Q1

JT RRP share flat vs. Q1 at c. 8%

JT total share increased vs. Q1

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Share : JT estimate, JT RRP category share is based on offtake

AOP growth driven by pricing gains

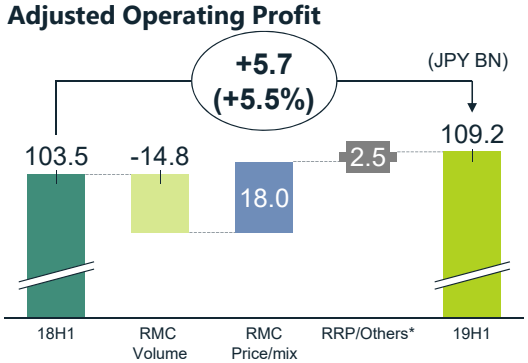
AOP growth driver:

- RMC pricing gains
- RRP sales volume increase
  - ✓ Reallocating investments between RMC and RRP

(JPY BN)

	2019H1	vs. PY
Core Revenue	282.3	+3.7%
Adjusted OP	109.2	+5.5%

Adjusted Operating Profit

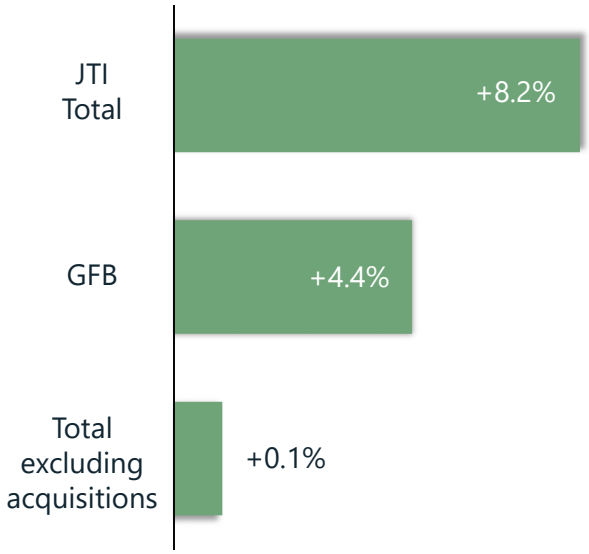


*Include product cost, marketing investment and SG&A

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Top-line growth fueled by acquisitions and share gains

Shipment volume – 19H1 vs. PY



	JTI SoM	JTI Variance	GFB SoM variance
FRANCE	24.0%	+1.5pp	+1.7pp
GERMANY	8.1%	+0.6pp	+0.9pp
IRAN	57.8%	+3.1pp	+1.0pp
ITALY	24.2%	+0.8pp	+0.3pp
ROMANIA	28.2%	+1.1pp	+0.5pp
RUSSIA	38.7%	+5.4pp	+0.4pp
SPAIN	25.1%	+0.8pp	+0.8pp
TAIWAN	43.9%	+2.3pp	+1.6pp
TURKEY	28.3%	+0.3pp	+0.7pp
UK	42.4%	+1.8pp	0.0pp

Note: SoM means Share of Market on a 12-month rolling average as of June, includes RMC and fine cut where relevant and acquisitions. Spain share shows a12-month rolling average as of May (JTI estimate)

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Solid pricing gains drive AOP at constant FX

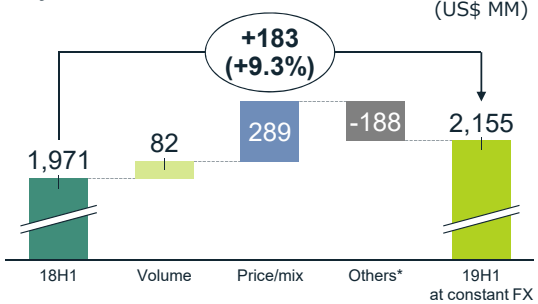
- Pricing gains namely in Canada, Germany, Iran, the Philippines, Russia and the UK
- AOP growth included continued investments, notably in M&A markets and RRP

(US$ MM)

Constant FX	2019H1	vs. PY
Core Revenue	6,187	+8.5%
Adjusted OP	2,155	+9.3%

Adjusted OP at constant FX

(US$ MM)



*Include product cost, marketing investment and SG&A

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Reported profit decreased due to unfavorable currencies

- Solid business performance over-shadowed by FX headwinds
  - Foreign currencies weakened against USD, mainly IRR and RUB
  - Partially offset by a stronger USD against JPY

(JPY BN)

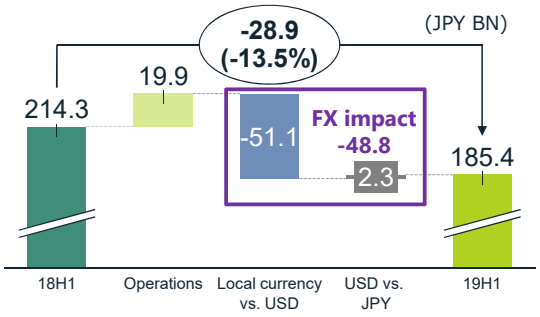
Reported	2019H1	vs. PY
Core Revenue	607.5	-2.0%
Adjusted OP	185.4	-13.5%

Change in FX rate

	18H1	19H1	Var.
USD/EUR	0.83	0.89	-6.6%
USD/GBP	0.73	0.77	-6.0%
USD/IRR	44,974	96,571	-53.4%
USD/RUB	59.34	65.34	-9.2%
USD/TRY	4.08	5.62	-27.3%
USD/JPY	108.67	110.06	+1.3%

EUR/IRR is converted to USD/IRR in table by using cross rate.

JPY Adjusted OP reported basis



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Russia | Strong conventional tobacco business momentum

Cigarette Industry volume

- Steadier H1 cigarette industry volume
- Revision of the FY assumption from -7% ~ -9% to -6% ~ -8%

JT share

- New quarterly market share record at 39.6%, driven by Global Flagship Brands (+0.7pp to 25.5%)

✓ Resilient Winston, the #1 tobacco brand, holding its quarterly market share at 16% vs. Q1

✓ Growing LD, the #2 tobacco brand, reaching a 9% market share in the quarter, its highest ever

- Positive pricing momentum with excise tax increase fully passed on since January
- Donskoy Tabak integration is on track and respective brands grew market share 0.6pp versus the same quarter last year, driven by coverage expansion
- Strengthened our leading position in Russia by becoming
  - ✓ #1 in the highly competitive compact format
  - ✓ #1 in the large and growing value price segment*, now representing 70% of total industry volume
- Track & Trace system is being introduced

*: Value price segment encompasses brands below RUB 107 per pack.

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Pharmaceutical and Processed Food Businesses (Result)

Pharma AOP declined due to the termination of license agreements Processed Food AOP increased driven by pricing

Pharmaceutical Business

- Decrease in Revenue and Adjusted OP mainly due to the termination of the exclusive license agreements for anti-HIV drugs in Japan

(JPY BN)

	2019H1	vs. PY
Revenue	41.8	-11.4
Adjusted OP	5.7	-5.7

Processed Food Business

- Revenue decreased as the growth of staple food and seasoning products could not offset the decline of other products
- AOP increased due to the pricing effects and an improvement in product mix

(JPY BN)

	2019H1	vs. PY
Revenue	75.4	-1.6
Adjusted OP	1.6	+0.2

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Consolidated forecast

Consolidated AOP at constant FX remains unchanged

- Currency neutral AOP remains unchanged, in spite of the downward adjustment in the Japanese domestic tobacco business, offset upward revisions mainly in the International tobacco and Pharmaceutical businesses
- Profit is revised downwards due to unfavorable currency adjustments

Japanese Domestic Tobacco Business

Downward adjustment in CR and AOP to reflect:
- A lower sales volume assumption for JT RRP

International Tobacco Business

Upward revision in CR and AOP at constant FX
Downward revision in reported AOP

Pharmaceutical Business

Upward revision in CR and AOP

(JPY BN)	2019 Revised forecast	vs. initial forecast	vs. 2018
At constant FX			
Adjusted OP	610.0	-	+2.4%
Reported			
Core Revenue (CR)	2,170.0	▲30.0	▲2.1%
Adjusted OP (AOP)	523.0	▲23.0	▲12.2%
Operating Profit	518.0	▲22.0	▲8.3%
Profit	360.0	▲10.0	▲6.7%

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Japanese Domestic Tobacco Business (Forecast)

Downward revision due to the change of RRP volume assumptions

- First half results and market dynamics drive revised assumptions and forecasts

Assumptions

- JT RRP sales volume: c. 5.0 BnU ⇒ c. 4.0 BnU
  - Due to weaker Ploom TECH performance
- JT Cigarette sales volume decline: over 7.5% ⇒ c. 8%
  - Due to the expansion of RRP market and intense competition in the value segment

Revised assumptions for industry volumes (JT estimate)

- Total industry volume: c. -5%⇒ c. -4%
- RMC industry volume: over -7%⇒ over -6.5%
- RRP market share in tobacco industry: 22-23%⇒ c. 23%

Revised forecast

Cost reduction of more than JPY 10 BN, unable to overcome top-line downside;

- Core Revenue JPY 620 BN ⇒ JPY 580 BN
- Adjusted OP JPY 215 BN ⇒ JPY 200 BN
  - Cost (Positive)
    - ✓ Optimize marketing investment and SG&A both in cigarette and RRP
  - Cost (Negative)
    - ✓ Increase in conversion costs per unit for RRP due to lower RRP sales volume
  - Decrease in revenue from RRP devices and accessories
  - Lower performance in Japan duty-free

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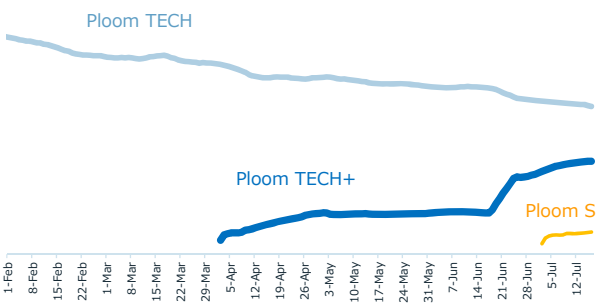
Japanese Domestic Tobacco Business (Forecast)

Our next move

- Second half: Continue to optimize marketing investments, and reallocate investment among RRP
  - ✓ Prioritize marketing support for Ploom TECH+

Ploom TECH	• Pursue efficiency by focusing on consumers who appreciate the benefits unique to Ploom TECH
Ploom TECH+	• Increase marketing support to expand consumer base
Ploom S	• Increase awareness and trial through sales promotion

JT RRP share of segment in nationwide



JT estimate: Offtake share, 7days moving average

- To return to profit growth over the mid to long term
  - Revisit top-line growth initiatives, and assess cost management capability in accordance with top-line volatility

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Revised forecast to reflect solid performance in H1 and FX headwinds

Assumptions

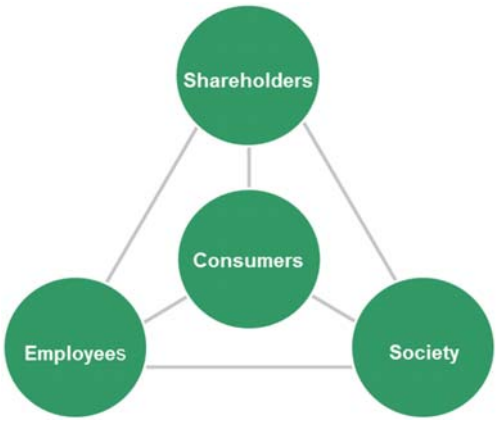
- Total shipment volume: increase c. 3.5% ⇒ c. 5%
- GFBs shipment volume: increase c. 1.0% ⇒ c. 3.5%

Revised forecast

- Core Revenue at constant FX: $ 11,950 MM ⇒ $ 12,250 MM
  Revised upward to reflect:
  - solid volume performance in H1
  - additional pricing implemented in H1
- AOP at constant FX: $ 3,800 MM ⇒ $ 3,850 MM
  Incremental revenue partially reinvested to fund mid-to-long term growth
- AOP at Reported: JPY 356.0 BN ⇒ JPY 338.0 BN
  Revised downward mainly due to weaker IRR, TRY and EUR as well as weaker USD to JPY

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Closing remarks



- **Solid performance in first half driven by pricing gains across both Tobacco businesses**
- **2019 forecast for JT group**
  - AOP at constant FX unchanged due to the downward revision in Japan offset mainly by upward revision from the International tobacco and the Pharmaceutical businesses
  - Annual dividend on schedule to JPY 154 per share
    - ✓ Interim dividend announced JPY 77 per share
- **JT Group's mid-to-long-term goal**
  - Achieving mid to high single digit currency neutral adjusted operating profit growth
    - ✓ confidence in delivering profit growth in "Tobacco business"
    - ✓ by strengthening conventional tobacco products, the main driver of our profit growth
    - ✓ by investing in RRP, the future growth driver
  - Targeting stable and sustainable dividend growth

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<Definitions>

Adjusted operating profit: Adjusted OP: 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.
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

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<Definitions>

Industry volume: (Japanese domestic tobacco business)	Industry volume in Japan market by number of sticks based on the internal estimate. This includes cigarettes, little cigars, RRP and others.
RMC	Ready made cigarettes
RMC industry volume: (Japanese domestic tobacco business)	Industry volume of ready-made-cigarette in Japan market by number of sticks based on the internal estimate. This includes little cigars but excludes RRP.
RMC sales volume: (Japanese domestic tobacco business)	JT's cigarette volume excluding the volume of Domestic duty free and the China businesses. This includes little cigars but excludes RRP.
RRP sales volume: (Japanese domestic tobacco business)	JT's RRP volume excluding the volume of Domestic duty free business. This excludes RRP devices, RRP related accessories, etc.
Little cigars	Products rolled in tobacco-based paper with the similar format to RMC and classified as "cigars" under the Tobacco Business Act in Japan.
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.

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