



2017 Second Quarter Results (January 1–June 30, 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 – June 2017

Consolidated Financial Results

Profit growth led by international tobacco and pharmaceutical businesses

(JPY BN)

	<u>Jan-Jun</u> <u>2016</u>	<u>Jan-Jun</u> <u>2017</u>	<u>Change</u> <u>vs. PY</u>
<u>At constant FX</u>			
Adjusted Operating Profit	318.3	329.7	+3.6%
<u>Reported</u>			
Revenue	1,076.9	1,045.3	-2.9%
Adjusted Operating Profit	318.3	314.7	-1.2%
Operating Profit	345.0	313.3	-9.2%
Profit	247.1	225.6	-8.7%

Results by business segment January – June 2017

International Tobacco Business

Profit growth driven by cost optimization

(BNU, US\$ MM)

	<u>Jan-Jun</u> <u>2016</u>	<u>Jan-Jun</u> <u>2017</u>	<u>Change</u> <u>vs. PY</u>
Total Shipment Volume	199.7	193.2	-3.3%
GFB Shipment Volume	140.7	140.8	+0.0%
<u>At Constant FX</u>			
Core Revenue	5,239	5,224	-0.3%
Adjusted OP	1,729	1,886	+9.1%
<u>Reported</u>			
Core Revenue	5,239	5,141	-1.9%
Adjusted OP	1,729	1,738	+0.5%
<u>JPY Basis (JPY BN)</u>			
Core Revenue	584.1	577.2	-1.2%
Adjusted OP	193.1	195.1	+1.0%

Year-on-year variance by cluster

	<u>Jan-Mar 2017</u>	<u>Apr-Jun 2017</u>	<u>Change vs. PY</u> <u>Jan-Jun 2017</u>
South & West Europe			
Total Shipment Volume	-6.4%	0.9%	-2.7%
GFB Shipment Volume	-5.9%	1.3%	-2.2%
Core Revenue at constant FX	-5.9%	0.7%	-2.5%
North & Central Europe			
Total Shipment Volume	-5.0%	-5.0%	-5.0%
GFB Shipment Volume	-4.0%	-3.8%	-3.9%
Core Revenue at constant FX	-8.9%	-11.4%	-10.2%

Keynote in Apr-Jun 2017

South & West Europe

- Continued market share growth

North & Central Europe

- Industry volume contraction continued
- UK: Impact of tightened regulation to materialize in 2H17 requiring close monitoring of market dynamics

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Year-on-year variance by cluster

	<u>Jan-Mar 2017</u>	<u>Apr-Jun 2017</u>	<u>Change vs. PY</u> <u>Jan-Jun 2017</u>
CIS+			
Total Shipment Volume	-6.7%	-10.8%	-9.0%
GFB Shipment Volume	-6.2%	-6.7%	-6.5%
Core Revenue at constant FX	-6.2%	-11.7%	-9.3%
Rest-of-the-World			
Total Shipment Volume	3.4%	2.9%	3.1%
GFB Shipment Volume	12.1%	11.9%	12.0%
Core Revenue at constant FX	12.9%	13.3%	13.1%

Keynote in Apr-Jun 2017

CIS+

- Industry volume contraction continued
- Ongoing competition in mid-price and value segments
- Russia: SOM in recovery trend

Rest-of-the-world

- Strong GFB momentum continued
- Strong price/mix contribution

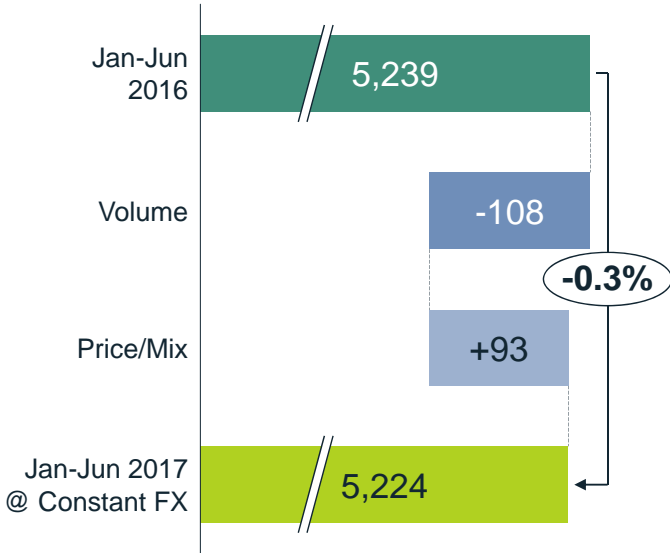
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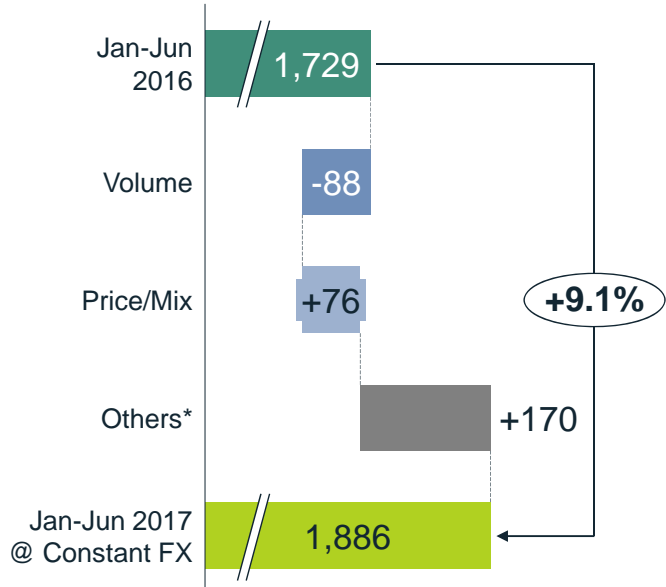
Profit growth driven by cost optimization without compromising business investment

(US\$MM, At constant FX)

Core Revenue



Adjusted OP

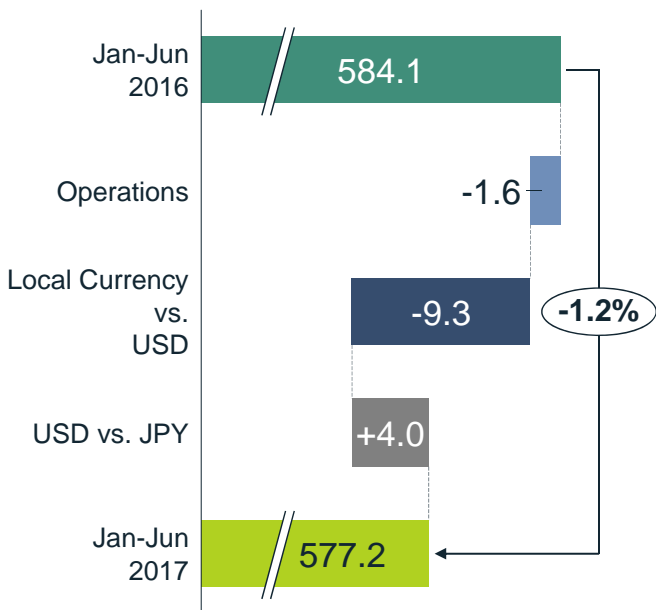


* Include product cost, marketing investment and SG&A

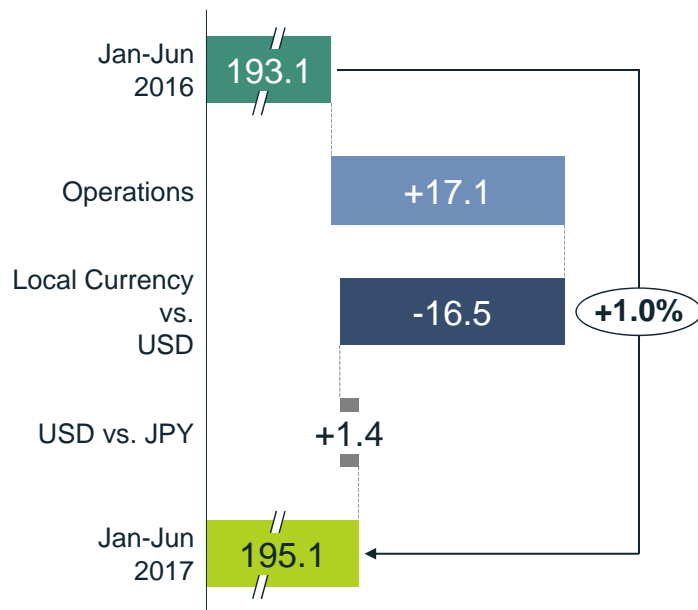
Impacted by unfavorable currency movements

(JPY BN)

Core Revenue



Adjusted OP

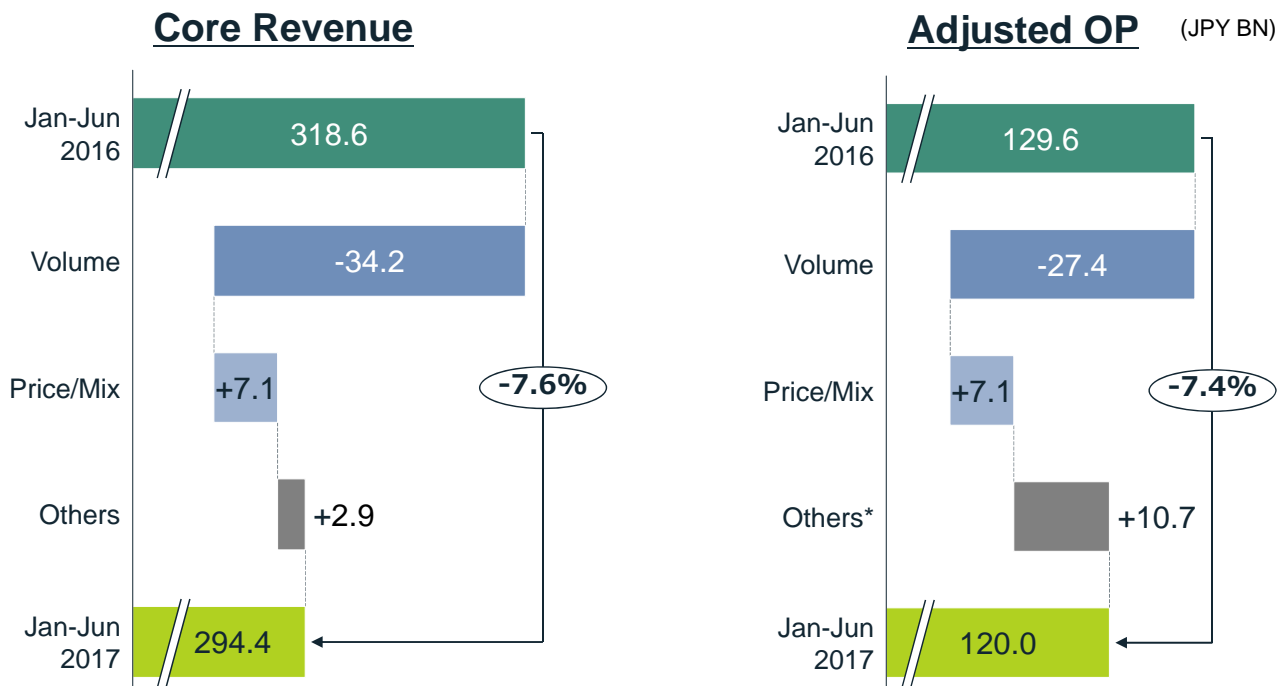


Share remained solid but cigarette sales volume was weaker than expected

(BNU)

	<u>Jan-Jun</u> <u>2016</u>	<u>Jan-Jun</u> <u>2017</u>	<u>Change</u> <u>vs. PY</u>
Cigarette industry volume	86.2	76.8	-11.0%
Cigarette sales volume	52.7	46.8	-11.2%
SoM of JT core brands	<u>Jan-Jun</u> <u>2016</u>	<u>Jan-Jun</u> <u>2017</u>	<u>Change</u> <u>vs. PY</u>
JT	61.1%	61.0%	-0.1%pt
MEVIUS	31.5%	31.1%	-0.4%pt
Winston	8.0%	8.1%	+0.1%pt
Seven Stars	7.5%	7.6%	+0.1%pt
Natural American Spirit	1.5%	1.8%	+0.3%pt

Profit declined impacted by lower cigarette volume despite optimization of investments



Pharmaceutical : Royalty revenue increase led to profit growth
Processed food : Profit decrease impacted by weaker topline

(JPY BN)

	<u>Jan-Jun</u> <u>2016</u>	<u>Jan-Jun</u> <u>2017</u>	<u>Change</u> <u>(abs.)</u>	<u>Change</u> <u>vs. PY</u>
Pharmaceutical Business				
Revenue	40.3	47.2	+6.9	+17.1%
Adjusted OP	2.8	9.0	+6.2	+224.5%
Processed Food Business				
Revenue	79.9	77.5	-2.5	-3.1%
Adjusted OP	3.1	2.2	-1.0	-30.9%

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2017 Revised Forecast

Consolidated Financial Forecast

Adjusted operating profit at constant FX to grow in an increasingly competitive environment

(JPY BN)

	<u>Initial Forecast</u>	<u>Revised Forecast</u>	<u>Change vs. Initial Forecast</u>	<u>Change vs. PY</u>
<u>At constant FX</u>				
Adjusted Operating Profit	607.0	597.0	-10.0	+1.7%
<u>Reported</u>				
Revenue	2,110.0	2,125.0	+15.0	-0.9%
Adjusted Operating Profit	587.0	589.0	+2.0	+0.4%
Operating Profit	560.0	565.0	+5.0	-4.8%
Profit	402.0	402.0	-	-4.7%

On track to achieve 2017 profit growth target

(BNU, US\$MM)

	<u>Initial Forecast</u>	<u>Revised Forecast</u>	<u>Change vs. Initial Forecast</u>	<u>Change vs. PY</u>
Total Shipment Volume	395.0	391.0	-4.0	-1.9%
GFB Shipment Volume	288.0	288.0	-	+1.5%
<u>At Constant FX</u>				
Core Revenue	10,440	10,440	-	-0.5%
Adjusted OP	3,375	3,375	-	+9.1%
<u>Reported</u>				
Core Revenue	10,170	10,370	+200	-1.1%
Adjusted OP	3,150	3,230	+80	+4.4%
<u>JPY Basis (JPY BN)</u>				
Core Revenue	1,118.0	1,152.0	+34.0	+1.2%
Adjusted OP	347.0	359.0	+12.0	+6.8%

Forecasting weaker performance due to accelerated cigarette industry volume contraction while strengthening investment in emerging products

(BNU, JPY BN)

	<u>Initial Forecast</u>	<u>Revised Forecast</u>	<u>Change vs. Initial Forecast</u>	<u>Change vs. PY</u>
Cigarette Sales Volume	96.0	93.0	-3.0	-12.4%
Core Revenue	620.0	602.0	-18.0	-7.3%
Adjusted Operating Profit	244.0	230.0	-14.0	-11.6%

Ploom TECH : Sales area expansion making a solid start

Tokyo Launch

June 29th at “Ploom Shops”
 July 10th Certain tobacco stores in the Tokyo metropolitan area
 ...
 End of 2017 Full coverage of Tokyo area



Online shop

June 29th Sales of “Ploom TECH” starter kits resumed



Steady progress towards nationwide sales expansion

Pharmaceutical and Processed Food Businesses

Pharmaceutical: Over ten billion yen profit growth expected Processed food: Aim to achieve initial target

(JPY BN)

	<u>Initial Forecast</u>	<u>Revised Forecast</u>	<u>Change vs. Initial Forecast</u>	<u>Change vs. PY</u>
Pharmaceutical Business				
Revenue	98.0	102.0	+4.0	+14.8
Adjusted OP	19.0	23.0	+4.0	+13.3
Processed Food Business				
Revenue	165.0	165.0	-	+0.9
Adjusted OP	6.0	6.0	-	+1.0

Closing

Closing Remarks

Aim to achieve profit growth while investing in business despite the increasingly challenging business environment

- Achieved profit growth at constant FX basis in the first half of 2017
- Annual dividend per share of JPY 140, same as initial forecast
- Continue aiming to achieve mid to high single-digit profit growth in the mid to long-term

