



Tokyo, August 1, 2018

2018 Second Quarter Results

Highlights

- First half adjusted operating profit at constant FX increased 3.1% year on year.
- Strong performance in the international tobacco business more than offset headwinds in the Japanese domestic tobacco business.
- Forecast for adjusted operating profit at constant FX remains unchanged.
- As stated in the “Business Plan 2018”, the Company announced an interim dividend of JPY 75 per share.

Key business segment information:

- **International tobacco business**
 - Adjusted operating profit at constant FX grew 13.2% driven by pricing gains across clusters.
 - Acquisitions in Ethiopia, Indonesia and the Philippines bolstered shipment volume, supporting geographic expansion.
 - Key markets update:
 - Russia: Solid pricing and market share gains. Completed the Donskoy Tabak acquisition
 - On track to achieve 2018 profit target through top-line growth
- **Japanese domestic tobacco business**
 - Adjusted operating profit was negatively impacted by cigarette industry volume decline.
 - RRP sales volume and its related revenue increased sequentially due to Ploom TECH’s nationwide roll-out in June.
 - 2018 outlook for cigarette and RRP market sizes is revised to reflect current dynamics.

Masamichi Terabatake, President and Chief Executive Officer of the JT Group, commented:

“Our first half results demonstrate a solid performance and we remain on track to achieve our consolidated full year profit target.”

“The international tobacco business delivered strong profit growth, led by pricing in key markets. We are confident about reaching our full year profit target as we expect our positive performance to continue into the second half. The acquisition of Donskoy Tabak companies will reinforce our No. 1 position in Russia, a long-term key market for the Group’s earnings growth.”

“In the Japanese domestic tobacco business, cigarette market share gains continued led by the robust performance of MEVIUS. Our RRP sales volume and revenue grew following an encouraging start of Ploom TECH’s nationwide roll-out while our capsule manufacturing capacity has continued to improve as planned. Although the current growth of the RRP market is slowing down, we believe that its market share could expand to 30% by 2020 driven by industry-wide innovations, an area in which we have also been making progress. To this effect, we are accelerating our investments in RRP initiatives, especially behind Ploom TECH, our unique offering, to establish the low-temperature heating category.”

Conference Call

A conference call with members of the investor community will be held at 4:00 pm, Tokyo Time, on August 2, 2018. For detailed information on the consolidated financial results, please visit the Company’s website. (<https://www.jt.com/investors/>).

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FY2018 Q2 Financial Results

Consolidated Results

(billions of JPY)	2017 Q2	2018 Q2	Variance	2017 YTD	2018 YTD	Variance
Revenue*	539.2	560.2	+3.9%	1,045.3	1,075.3	+2.9%
Adjusted operating profit	164.3	169.8	+3.3%	314.7	317.8	+1.0%
Operating profit	164.3	155.6	-5.3%	313.3	302.3	-3.5%
Profit attributable to owners of the parent	120.1	112.1	-6.7%	225.6	216.1	-4.2%
Adjusted operating profit at constant FX	164.3	173.3	+5.5%	314.7	324.3	+3.1%

2018 Q2

- **Revenue**

Revenue grew 3.9% to JPY 560.2 billion driven by pricing benefits in the international tobacco business as well as increased RRP contribution in the Japanese domestic tobacco business. An increase in royalty revenue in the pharmaceutical business also added to revenue growth. This overall positive performance was partially offset by the impact of cigarette sales volume contraction in the Japanese domestic tobacco business, and the negative impact of the yen versus the US dollar.

- **Adjusted Operating Profit**

Adjusted operating profit at constant FX increased 5.5% to JPY 173.3 billion driven by growth in the international tobacco business, despite a decrease in the Japanese domestic tobacco, pharmaceutical and processed food businesses.

On a reported basis, adjusted operating profit increased 3.3% to JPY 169.8 billion, due to the negative effect of the yen appreciation versus the US dollar.

- **Operating Profit**

Despite the increase in adjusted operating profit, operating profit declined 5.3% to JPY 155.6 billion due to an increase in an unfavorable comparative relating to a one-off gain on reversal of impairment in the previous year, together with trademark amortization related to acquisitions.

- **Profit Attributable to Owners of the Parent**

Profit attributable to owners of the parent declined 6.7% to JPY 112.1 billion due to lower operating profit.

2018 YTD

- **Revenue**

Revenue grew 2.9% to JPY 1,075.3 billion driven by pricing benefits and volume contribution in the international tobacco business as well as increased RRP contribution in the Japanese domestic tobacco business. An increase in royalty revenue in the pharmaceutical business also added to revenue growth. These benefits were partially offset by the impact of cigarette sales volume contraction in the Japanese domestic tobacco business, and the negative impact of the yen versus the US dollar.

- **Adjusted Operating Profit**

Adjusted operating profit at constant FX increased 3.1% to JPY 324.3 billion driven by growth in the international tobacco and pharmaceutical businesses, despite a decrease in the Japanese domestic tobacco and processed food businesses.

On a reported basis, adjusted operating profit increased 1.0% to JPY 317.8 billion, due to the negative effect of the yen appreciation versus the US dollar.

- **Operating Profit**

Despite the increase in adjusted operating profit, operating profit declined 3.5% to JPY 302.3 billion due to an increase in an unfavorable comparative relating to a one-off gain on reversal of impairment in the previous year, together with trademark amortization expenses related to acquisitions.

- **Profit Attributable to Owners of the Parent**

Profit attributable to owners of the parent declined 4.2% to JPY 216.1 billion primarily due to lower operating profit.

*As a result, compared to the application of the former accounting standard, "Revenue" and "Selling, general and administrative expenses" decreased by JPY 4,192 million and JPY 34,105 million respectively, and "Cost of sales" increased by JPY 29,913 million on the condensed interim consolidated statement of income for the six months ended June 30, 2018. These changes have no effect on Adjusted operating profit.

Results by Business Segment

International Tobacco Business

(billions of units, billions of JPY)	2017 Q2	2018 Q2	Variance	2017 YTD	2018 YTD	Variance
Total shipment volume	101.5	107.3	+5.6%	193.2	205.6	+6.4%
GFB shipment volume	68.1	68.6	+0.8%	128.3	130.6	+1.8%
Core revenue	301.3	325.2	+8.0%	577.2	620.0	+7.4%
Adjusted operating profit	103.2	118.0	+14.4%	195.1	214.3	+9.8%
<u>Reference (millions of USD)</u>						
Core revenue	2,712	2,981	+9.9% (+10.1%)*	5,141	5,705	+11.0% (+8.9%)*
Adjusted operating profit	929	1,082	+16.5% (+17.8%)*	1,738	1,971	+13.4% (+13.2%)*

*at constant FX

2018 Q2

- Volume and Market share**

Total shipment volume grew 5.6% driven by acquisitions in Ethiopia, Indonesia and the Philippines. Excluding acquisitions and unfavorable inventory adjustments, total shipment volume declined 0.5%. Quarterly volume increases and market share gains in Austria, Czech Republic, Germany, Hungary, Iran, the Netherlands, Poland, Switzerland and several emerging markets did not offset the impact of industry volume contraction, notably in France, Russia and Taiwan. GFB shipment volume increased 0.8%, growing in North & Central Europe and Rest-of-the-World, driven by Winston.

- Core revenue and Adjusted operating profit**

Core revenue increased 8.0% driven by volume contribution from acquisitions and a solid price/mix. Adjusted operating profit grew 14.4% including investments to strengthen the business foundation in the markets where we made acquisitions. Both core revenue and adjusted operating profit were impacted by a stronger JPY versus USD.

On a USD basis, core revenue grew 9.9% driven by a price/mix variance of USD 295 million, notably in Canada, Iran, the Philippines, Russia, Taiwan and the UK. This offset a negative volume contribution of USD 20 million and unfavorable currency movements of USD 6 million. Adjusted operating profit increased 16.5%, or 17.8% when excluding currency movements, mainly driven by a favorable price/mix variance of USD 286 million.

2018 YTD

- Volume and Market share¹**

Total shipment volume grew 6.4% driven by acquisitions in Ethiopia, Indonesia and the Philippines. Excluding acquisitions and unfavorable inventory movements, total shipment volume declined 1.3%. Volume increases and market share gains in the Czech Republic, Hungary, Iran, the Netherlands, the Philippines, Spain, Sweden, Switzerland and several emerging markets did not offset the impact of industry volume contraction, notably in France, Russia and Taiwan. GFB shipment volume increased 1.8%, growing in North & Central Europe, CIS+ and Rest-of-the-World, driven by Winston, Camel and LD.

Total and GFB market share grew in the key markets of France, Russia, Spain and Taiwan.

- **Core revenue and Adjusted operating profit**

Core revenue increased 7.4% driven by a volume contribution from acquisitions and a solid price/mix.. Adjusted operating profit grew 9.8% including investments to strengthen the business foundation markets where we made acquisitions. Both core revenue and adjusted operating profit were impacted by a stronger JPY versus USD.

On a USD basis, core revenue grew 11.0% driven by a price/mix variance of USD 404 million, notably in Canada, Iran, the Philippines, Russia and Taiwan. This was enhanced by USD 52 million in volume contribution and favorable currency movements of USD 107 million. Adjusted operating profit increased 13.4%, or 13.2% when excluding currency movements, mainly driven by a favorable price/mix variance of USD 387 million.

International Tobacco Business (Quarterly) Performance review by Cluster

South and West Europe

(billions of Units, millions of USD)	2017 Q2	2018 Q2	Variance
Total shipment volume	17.7	16.8	-5.1%
GFB shipment volume	14.2	13.7	-4.1%
Core revenue	531	542	+2.0% (-5.5%)*

*at constant FX

- **Volume and market share¹**

Total and GFB shipment volumes decreased 5.1% and 4.1%, respectively, due to industry volume contraction in France, Italy and Spain, and unfavorable inventory movements. Excluding inventory adjustments, total shipment volume declined 1.4%. Market share increased in France, Greece, Luxembourg, the Netherlands, Spain and Switzerland.

- **Core revenue**

Core revenue increased 2.0% as favorable currency movements of USD 40 million offset a negative volume contribution of USD 24 million and an unfavorable price/mix variance of USD 5 million, mainly from France. Excluding currency movements, core revenue decreased 5.5%.

- **By market**

In France, total shipment volume declined 10.9%, due to industry volume contraction and unfavorable inventory movements. Excluding inventory adjustments, total shipment volume declined 4.8%. GFB and fine cut shipment volumes declined 8.1% and 17.2%, respectively. Market share increased 0.4ppt to 22.5%, driven by Winston and Camel.

In Italy, total and GFB shipment volumes decreased 8.0% and 8.2%, respectively, due to industry volume contraction and unfavorable inventory adjustments. Excluding inventory movements, total shipment volume declined 1.0%. Fine cut shipment volume grew 0.3% mainly driven by Winston and Camel. On a quarterly basis, market share grew for three consecutive quarters driven by B&H and supported by a stable Winston and Camel. Year-on-year market share declined 0.2ppt to 23.2%, due to Winston and Camel.

In Spain, total, GFB and fine cut shipment volumes decreased 2.5%, 3.1% and 15.7%, respectively, due to industry volume contraction and unfavorable inventory adjustments. Excluding inventory movements, total shipment volume was stable. Market share increased 1.0ppt to 24.4%, led by Winston and Camel.

North and Central Europe

(billions of Units, millions of USD)	2017 Q2	2018 Q2	Variance
Total shipment volume	13.1	13.8	+4.8%
GFB shipment volume	5.5	6.4	+14.8%
Core revenue	479	563	+17.6% (+9.6%)*

*at constant FX

- **Volume and market share¹**

Total and GFB shipment volumes increased 4.8% and 14.8%, respectively, mainly driven by Austria, Czech Republic, Germany, Hungary and Poland. Market share grew in Austria, Czech Republic, Hungary and Sweden.

- **Core revenue**

Core revenue grew 17.6% driven by favorable price/mix variance of USD 34 million, notably in Ireland and the UK, positive USD 12 million volume contribution and favorable currency movements of USD 38 million. Excluding currency movements, core revenue increased 9.6%.

- **By market**

In Germany, total, GFB and fine cut shipment volumes increased 8.1%, 13.4% and 14.4%, respectively, driven by market share gains in the quarter. On a quarterly basis, market share increased for three consecutive quarters driven by Winston. Year-on-year market share declined 0.5ppt to 7.6%.

In the UK, total shipment volume declined 2.5% while fine cut shipment volume grew 1.4% driven by market share gains in the quarter. Quarterly market share increased 0.6ppt versus the second quarter in the previous year, although year-on-year market share was down 0.4ppt to 40.7%.

CIS+

(billions of Units, millions of USD)	2017 Q2	2018 Q2	Variance
Total shipment volume	35.0	33.3	-4.7%
GFB shipment volume	25.3	25.2	-0.2%
Core revenue	662	744	+12.4% (+17.5%)*

*at constant FX

- **Volume and market share¹**

Total shipment volume declined 4.7%, mainly due to industry volume contraction in Romania, Russia and Ukraine. GFB shipment volume was stable at -0.2%, supported by the strong performance of Winston. Market share grew in Kazakhstan, Romania and Russia.

- **Core revenue**

Core revenue increased 12.4% driven by a favorable price/mix variance of USD 159 million across most markets, offsetting an unfavorable volume contribution of USD 43 million and unfavorable currency movements of USD 34 million. Excluding the currency movements, core revenue increased 17.5%.

- **By market**

In Romania, total and GFB shipment volumes decreased 2.8% and 0.4%, respectively, as market share gains did not offset industry volume contraction. Market share reached 27.2%, an increase of 0.8ppt, driven by Winston and Sobranie.

In Russia, market share continued to grow, and reached 33.6%, an increase of 1.2ppt, with share of value increasing 1.4ppt to 35.2%. GFB market share grew 2.0ppt to a new record high of 25.0% driven by Winston, the number one tobacco brand, and LD. GFB shipment volume was broadly flat (-0.1%). Total shipment volume decreased 7.3% due to quarterly industry volume contraction² estimated at 8.2% as well as unfavorable inventory adjustments. Excluding inventory movements, total shipment volume declined 6.8%.

Rest-of-the-World

(billions of Units, millions of USD)	2017 Q2	2018 Q2	Variance
Total shipment volume	35.8	43.4	+21.3%
GFB shipment volume	23.0	23.4	+1.4%
Core revenue	1,039	1,131	+8.9% (+13.7%)*

*at constant FX

- **Volume and market share¹**

Total shipment volume grew strongly by 21.3% bolstered by acquisitions in Ethiopia, Indonesia and the Philippines and despite unfavorable inventory movements. Excluding acquisitions and inventory adjustments, total shipment volume increased 1.6% driven notably by Iran, Jordan, the Philippines, Thailand, Tunisia, Turkey and the USA. GFB shipment volume was up 1.4% driven by Winston and LD. Market share increased in several markets, most notably in Brazil, Canada, Iran, Jordan, Morocco, the Philippines and Taiwan.

- **Core revenue**

Core revenue increased 8.9%, driven by favorable price/mix variance of USD 107 million and positive volume contribution of USD 36 million, offsetting unfavorable currency movements of USD 50 million. Excluding the currency movements, core revenue increased 13.7%.

- **By market**

In Iran, despite unfavorable inventory movements, total and GFB shipment volumes increased 2.4% and 7.6%, respectively, driven by continued growth of Winston. Excluding inventory adjustments, total shipment volume grew 13.0%. Market share continued to increase and reached 54.9%, up 7.3ppt.

In Taiwan, total and GFB shipment volumes declined 22.3% and 24.3%, respectively, due to a double-digit industry volume contraction following the June 2017 tax increase. Market share grew 0.6ppt to 41.7%, strengthening our number one position, driven by Winston and LD.

In Turkey, total shipment volume grew 3.9% including inventory movements. On a inventory neutral basis, total shipment volume increased 8.1% driven by a higher industry size. GFB shipment volume was up 5.1% driven by Winston. Market share declined 1.0ppt to 28.1% due to Camel and LD.

¹ Source: IRI, Logista, Nielsen and JTI estimates on a 12-month rolling average, unless otherwise specified, for cigarettes and fine cut (excluding snus) at the end of June 2018. Germany, Sweden and Switzerland are on a 12-month rolling average at the end of May 2018. 12-month share of market growth for 2018 markets is calculated against a 12-month share of market at the end of June 2017.

² Source: JTI estimates based on April-June 2018 data versus the same period last year.

Japanese Domestic Tobacco Business

(billions of units, billions of JPY)	2017 Q2	2018 Q2	Variance	2017 YTD	2018 YTD	Variance
Cigarette industry volume	39.1	33.8	-13.4%	76.8	65.6	-14.5%
Cigarette sales volume	23.8	20.8	-12.6%	46.8	40.4	-13.8%
Core revenue	150.5	142.9	-5.1%	294.4	272.2	-7.5%
Adjusted operating profit	62.8	54.6	-13.1%	120.0	103.5	-13.7%

2018 Q2

- **Cigarette sales volume**

Cigarette industry volume decreased 13.4% impacted by the expansion of the RRP category and the underlying natural decline trend. JT's cigarette sales volume decreased 12.6% mainly due to cigarette industry volume contraction. JT's cigarette market share increased 0.6ppt to 61.6% versus the second quarter in the previous year and increased 0.2 ppt versus the first quarter this year, led by the solid performance of MEVIUS.

- **Reduced-Risk Products (RRP) performance**

JT estimates the overall RRP market size in Japan in the quarter was approximately 20%* of total tobacco industry volume, increasing slightly from the first quarter. In the quarter, JT RRP sales volume was 0.5 billion cigarette equivalent units. Based on sales volume, our share within the RRP category in the quarter was estimated at approximately 10% in convenience stores where our product was available. Ploom TECH's nationwide roll-out started in June and expanded to convenience stores in July.

*shipment basis

- **Core revenue and Adjusted operating profit**

Core revenue declined 5.1% mainly due to an unfavorable cigarette volume contribution of JPY 17.7 billion, partially offset by an increase in RRP related revenue. RRP related revenue was JPY 12.9 billion. Adjusted operating profit declined 13.1% due to negative cigarette volume contribution of JPY 14.6 billion, partially offset by an increase in RRP related profit and other factors of JPY 6.4 billion.

2018 YTD

- **Cigarette sales volume**

Cigarette industry volume decreased 14.5% impacted by the expansion of the RRP category and the underlying natural decline trend. Cigarette sales volume decreased 13.8% mainly due to cigarette industry volume contraction. JT's cigarette market share increased 0.5ppt to 61.5% led by the solid performance of MEVIUS.

- **Reduced-Risk Products (RRP) performance**

JT estimates the overall RRP market size in Japan was approximately 20%* of total tobacco industry volume. JT RRP sales volume was 0.8 billion cigarette equivalent units. The accumulated total sales volume of Ploom TECH devices since its launch exceeded four million units in July.

*shipment basis

- **Core revenue and Adjusted operating profit**

Core revenue declined 7.5% mainly due to an unfavorable cigarette volume contribution of JPY 38.4 billion, partially offset by an increase in RRP related revenue. RRP related revenue was JPY 21.2 billion. Adjusted operating profit declined 13.7% due to negative cigarette volume contribution of JPY 31.5 billion, partially offset by an increase in RRP related profit and other factors of JPY 15 billion.

Pharmaceutical Business

(billions of JPY)	2017 Q2	2018 Q2	Variance	2017 YTD	2018 YTD	Variance
Revenue	24.0	26.5	+10.6%	47.2	53.2	+12.7%
Adjusted operating profit	3.9	3.7	-6.1%	9.0	11.4	+26.7%

2018 Q2

- **Revenue and Adjusted operating profit**

Revenue increased 10.6% driven by higher royalty revenues from increased sales of original JT compounds and sales growth of Torii Pharmaceutical despite the impact of NHI* price revision. Adjusted operating profit decreased 6.1% due to increased R&D investments and increased cost of sales at Torii Pharmaceutical.

*National Health Insurance

2018 YTD

- **Revenue and Adjusted operating profit**

Revenue increased 12.7% driven by higher royalty revenues from increased sales of original JT compounds and sales growth of Torii Pharmaceutical and despite the impact of NHI* price revision. Despite increased R&D investments and increased cost of sales at Torii Pharmaceutical, adjusted operating profit grew 26.7% driven by revenue growth.

*National Health Insurance

Processed Food Business

(billions of JPY)	2017 Q2	2018 Q2	Variance	2017 YTD	2018 YTD	Variance
Revenue	39.2	39.3	+0.4%	77.5	77.0	-0.5%
Adjusted operating profit	1.0	0.7	-27.4%	2.2	1.4	-34.1%

2018 Q2

- **Revenue and Adjusted operating profit**

Revenue increased 0.4% due to the solid performance of staple food products and seasonings products offsetting the lower sales of other products. Adjusted operating profit declined 27.4% mainly as a result of higher raw material costs.

2018 YTD

- **Revenue and Adjusted operating profit**

Revenue decreased 0.5% due to the solid performance of staple food and seasonings products being offset by the lower sales of other products. Adjusted operating profit declined 34.1% mainly as a result of higher raw material costs.

FY2018 Forecasts

(billions of JPY)	2018 Initial forecast	2018 Revised forecast	Variance vs. Initial forecast	Variance vs. 2017 Result
Revenue	2,220.0	2,240.0	+20.0	+4.7%
Adjusted operating profit	600.0	586.0	-14.0	+0.1%
Operating profit	561.0	541.0	-20.0	-3.6%
Profit attributable to owners of the parent	394.0	377.0	-17.0	-3.9%
Adjusted operating profit at constant FX	607.0	607.0	-	+3.7%

- **Revenue**

The revenue forecast is revised upwards by JPY 20 billion driven by the acquisition of Donskoy Tabak and solid pricing in the international business as well as higher cigarette sales volume in the Japanese domestic tobacco business. These upsides more than offset the negative impact of revised FX assumptions and resulting in 4.7% growth versus the previous year.

- **Adjusted Operating Profit**

While the revenue forecast is revised upwards, the forecast for adjusted operating profit at constant FX is unchanged, resulting in 3.7% growth versus previous year. This is due to the increase in RRP investments in the domestic tobacco business, investments to strengthen the Donskoy Tabak business and reflecting the potential downside arising from uncertain business environment in Iran in international tobacco business.

On a reported basis, adjusted operating profit is revised downwards by JPY 14.0 billion from the initial forecast due to the revision of the FX assumptions and forecast to grow 0.1% versus the previous year.

- **Operating Profit and Profit Attributable to Owners of the Parent**

Operating profit and profit attributable to owners of the parent are revised downward by JPY 20 billion and JPY 17 billion respectively, as a result of downward revision of adjusted operating profit and the trademark amortization expense due to acquisitions. As a result, they are forecast to decline 3.6% and 3.9% respectively versus the previous fiscal year.

Forecasts by Business Segment

International Tobacco Business

(billions of JPY)	2018 Initial forecast	2018 Revised forecast	Variance vs. Initial forecast	Variance vs. 2017 Result
Total shipment volume	Increase c. 4.0%	Increase over 5.0%		
GFB shipment volume	Increase c. 2.0%	Increase over 1.0%		
Core revenue	1,265.0	1,270.0	+5.0	+7.9%
Adjusted operating profit	396.0	382.0	-14.0	+8.7%
<u>Reference (millions of USD)</u>				
Core revenue	11,500	11,630	+130	+10.8% (+9.5%)*
Adjusted operating profit	3,600	3,500	-100	+11.5% (+14.7%)*

*at constant FX

- **Volume**

Taking into account the acquisition of Donskoy Tabak, the forecast for total shipment volume is revised upwards to an increase by over 5.0%. The forecast for GFB shipment volume is revised downwards to an increase by over 1.0%, based on the uncertain situation in Iran.

- **Core revenue and Adjusted operating profit**

The forecast for core revenue is revised upwards by JPY 5 billion primarily as a result of solid pricing and the acquisition of Donskoy Tabak. These favourable items more than offset negative currency movements. Revenue is expected to increase 7.9% versus the previous year.

The forecast for adjusted operating profit is revised downward by JPY 14 billion as incremental top-line growth is re-invested back into the business, notably to strengthen Donskoy Tabak, and due to reflecting the potential downside arising from uncertain business environment in Iran as well as unfavorable currency movements. As a result, adjusted operating profit is expected to increase 8.7% compared to the previous year.

On a USD basis, core revenue is revised upwards by USD 130 million and is expected to increase 10.8% versus the previous year. The forecast for adjusted operating profit at constant FX remains unchanged, growing 14.7%. Due to the negative currency movement, adjusted operating profit at reported basis is revised downwards by USD 100 million, and expected to increase 11.5% versus the previous year.

Japanese Domestic Tobacco Business

(billions of JPY)	2018 Initial forecast	2018 Revised forecast	Variance vs. Initial forecast	Variance vs. 2017 Result
Cigarette industry volume	A decline c. 17.5%	A decline over 14.5%		
Cigarette sales volume	A decline over 16.5%	A decline over 14.0%		
Core revenue	573.0	584.0	+11.0	-1.1%
Adjusted operating profit	202.0	202.0	-	-13.0%

- **Volume**

Given current market conditions, the forecast for cigarette industry volume is revised from a decline of c. 17.5% to over 14.5%. Although the RRP market size in Japan is expected to increase, the current growth rate is slowing down so that the annual forecast for this market size is revised downwards to c.22% from c.23%*.

As a result, the forecast for total industry volume is revised in a range of decline from over 4.5% to c. 4.0%. JT cigarette sales volume is revised from a decline of over 16.5% to over 14.0%. 2018 RRP target sales volume remains unchanged at 4 billion sticks equivalent sales units (or 0.2 billion packs).

*shipment basis

- **Core revenue and adjusted operating profit**

As a result of the revised cigarette sales volume, the forecast for core revenue is revised upwards by JPY 11.0 billion to JPY 584 billion, representing a decrease of 1.1% compared to the previous year.

Despite the upward revision of core revenue, adjusted operating profit forecast remains unchanged to decline 13.0% versus the previous year, as a result of additional investments to establish the low temperature heating category and strengthen the promotion for Ploom TECH.

Pharmaceutical Business

(billions of JPY)	2018 Initial forecast	2018 Revised forecast	Variance vs. Initial forecast	Variance vs. 2017 Result
Revenue	109.0	110.0	+1.0	+5.0%
Adjusted operating profit	25.0	25.0	-	+3.8%

- **Revenue and Adjusted operating profit**

Led by sales growth of Torii Pharmaceutical and despite the impact of NHI price revision, the forecast for revenue is revised upwards to 5.0% growth versus the previous year,. Due to an increase in R&D investments and an increase in the cost of sales at Torii Pharmaceutical, adjusted operating profit forecast is unchanged at 3.8% growth versus the previous year.

Processed Food Business

(billions of JPY)	2018 Initial forecast	2018 Revised forecast	Variance vs. Initial forecast	Variance vs. 2017 Result
Revenue	165.0	165.0	-	+1.1%
Adjusted operating profit	5.5	5.5	-	+1.9%

- **Revenue and Adjusted operating profit**

The forecast for revenue and adjusted operating profit are remain unchanged and are expected to grow 1.1% and 1.9% versus the previous year respectively.

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Data Sheets

Results for 2018 Second Quarter (YTD)

1. Summary of Consolidated results

(Unit: JPY billion)

	2017 Q2	2018 Q2	Variance (abs)	Variance (%)
Revenue	1,045.3	1,075.3	+29.9	+2.9%
Operating profit	313.3	302.3	-11.0	-3.5%
Adjusted operating profit	314.7	317.8	+3.2	+1.0%
Profit before income tax	302.9	290.4	-12.5	-4.1%
Profit	227.3	217.6	-9.8	-4.3%
Profit (attributable to owners of the parent company)	225.6	216.1	-9.5	-4.2%
Interim dividend (JPY)	70.00	75.00	+5.00	+7.1%
Basic EPS*(JPY)	125.98	120.64	-5.34	-4.2%

*Based on profit attributable to owners of the parent company

[Reference] Consolidated results

(Unit: JPY billion)

	2017 Q2	2018 Q2	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	314.7	324.3	+9.7	+3.1%

2. Results by business segment

(Unit: JPY billion)

	2017 Q2	2018 Q2	Variance (abs)	Variance (%)
Revenue	1,045.3	1,075.3	+29.9	+2.9%
Japanese domestic tobacco	310.4	290.7	-19.6	-6.3%
Core revenue	294.4	272.2	-22.2	-7.5%
International tobacco	606.7	650.9	+44.2	+7.3%
Core revenue	577.2	620.0	+42.8	+7.4%
Pharmaceutical	47.2	53.2	+6.0	+12.7%
Processed food	77.5	77.0	-0.4	-0.5%
Others	3.6	3.4	-0.2	-5.6%
Consolidated: operating profit	313.3	302.3	-11.0	-3.5%
Japanese domestic tobacco	111.9	95.1	-16.8	-15.0%
International tobacco	188.0	195.4	+7.4	+3.9%
Pharmaceutical	9.0	11.4	+2.4	+26.7%
Processed food	2.2	1.4	-0.7	-33.4%
Others/Elimination	2.3	-1.0	-3.3	-
Adjustments, total	-1.4	-15.5	-14.1	-
Japanese domestic tobacco	-8.1	-8.4	-0.3	-
International tobacco	-7.1	-18.9	-11.7	-
Pharmaceutical	-	-	-	-
Processed food	-	0.0	+0.0	-
Others/Elimination	13.9	11.8	-2.1	-15.1%
Consolidated: adjusted operating profit	314.7	317.8	+3.2	+1.0%
Japanese domestic tobacco	120.0	103.5	-16.5	-13.7%
International tobacco	195.1	214.3	+19.2	+9.8%
Pharmaceutical	9.0	11.4	+2.4	+26.7%
Processed food	2.2	1.4	-0.7	-34.1%
Others/Elimination	-11.6	-12.8	-1.2	-

[Reference] International tobacco business

(Unit: USD million)

	2017 Q2	2018 Q2	Variance (abs)	Variance (%)
Core revenue	5,141	5,705	+564	+11.0%
Core revenue at constant FX	5,141	5,598	+457	+8.9%
Adjusted operating profit	1,738	1,971	+233	+13.4%
Adjusted operating profit at constant FX	1,738	1,968	+230	+13.2%

Results for 2018 Second Quarter (YTD)

3. Depreciation and amortization

(Unit: JPY billion)

	2017 Q2	2018 Q2	Variance (abs)
Consolidated	70.2	76.4	+6.1
Japanese domestic tobacco	28.1	26.8	-1.3
International tobacco	35.5	42.7	+7.2
Pharmaceutical	2.5	2.6	+0.1
Processed food	3.0	3.2	+0.2
Others/Elimination	1.1	1.1	+0.0

4. Consolidated financial position

(Unit: JPY billion)

	2017 Dec. end	2018 Jun. end	Variance (abs)
Total assets	5,221.5	4,996.1	-225.4
Total equity	2,842.0	2,751.4	-90.6
Equity attributable to owners of the parent	2,761.7	2,680.9	-80.8
BPS (attributable to owners of the parent) (JPY)	1,541.94	1,496.59	-45.36

5. Liquidity and interest-bearing debt

(Unit: JPY billion)

	2017 Dec. end	2018 Jun. end	Variance (abs)
Liquidity	291.8	255.7	-36.2
Interest-bearing debt	755.8	658.7	-97.1

6. Consolidated cash flow

(Unit: JPY billion)

	2017 Q2	2018 Q2	Variance (abs)
Cash flows from operating activities	40.5	229.2	+188.7
Cash flows from investing activities	-52.6	-60.8	-8.3
Cash flows from financing activities	-123.6	-208.9	-85.3
Cash and cash equivalents, beginning of the year	294.2	285.5	-8.7
Foreign currency translation adj. on cash & cash equivalents	2.0	-7.6	-9.6
Cash and cash equivalents, end of the year	160.5	237.4	+76.9
FCF	-13.4	181.8	+195.1

7. Capital expenditures

(Unit: JPY billion)

	2017 Q2	2018 Q2	Variance (abs)
Consolidated	52.3	61.8	+9.5
Japanese domestic tobacco	16.8	21.5	+4.7
International tobacco	27.4	26.5	-0.9
Pharmaceutical	1.9	3.4	+1.6
Processed food	4.8	7.9	+3.1
Others/Elimination	1.4	2.5	+1.1

8. FX actual (Reference information)

	2017 Q2	2018 Q2	Variance (abs)	Variance (%)	
JPY/USD	112.34	108.67	-3.67	-3.3%	JPY
RUB/USD	57.98	59.34	+1.35	-2.3%	RUB
GBP/USD	0.79	0.73	-0.07	+9.3%	GBP
EUR/USD	0.92	0.83	-0.10	+11.9%	EUR
CHF/USD	1.00	0.97	-0.03	+2.9%	CHF
TWD/USD	30.69	29.53	-1.16	+3.9%	TWD
TRY/USD	3.64	4.08	+0.45	-11.0%	TRY
IRR/USD	37,912	44,974	+7,062	-15.7%	IRR

FY2018 Revised Forecasts (as of August 1, 2018)

1. Summary of consolidated forecasts

(Unit: JPY billion)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Revenue	2,139.7	2,240.0	+100.3	+4.7%
Operating profit	561.1	541.0	-20.1	-3.6%
Adjusted operating profit	585.3	586.0	+0.7	+0.1%
Profit (attributable to owners of the parent company)	392.4	377.0	-15.4	-3.9%

[Reference] Consolidated forecast

(Unit: JPY billion)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	585.3	607.0	+21.7	+3.7%

2. EPS, DPS, ROE

(Unit: JPY)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Basic EPS	219.10	210.46	-8.64	-3.9%
DPS	140.00	150.00	+10.00	+7.1%
ROE (attributable to owners of the parent company)	15.0%	13.4%	-1.6%pt	

3. Forecasts by business segment

(Unit: JPY billion)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Revenue	2,139.7	2,240.0	+100.3	+4.7%
Japanese domestic tobacco	626.8	620.0	-6.8	-1.1%
Core revenue	590.6	584.0	-6.6	-1.1%
International tobacco	1,237.6	1,330.0	+92.4	+7.5%
Core revenue	1,177.0	1,270.0	+93.0	+7.9%
Pharmaceutical	104.7	110.0	+5.3	+5.0%
Processed food	163.1	165.0	+1.9	+1.1%
Others	7.5	6.5	-1.0	-12.9%
Consolidated: operating profit	561.1	541.0	-20.1	-3.6%
Japanese domestic tobacco	215.8	186.0	-29.8	-13.8%
International tobacco	325.6	336.0	+10.4	+3.2%
Pharmaceutical	24.1	25.0	+0.9	+3.8%
Processed food	5.4	5.5	+0.1	+2.3%
Others/Elimination	-9.8	-13.0	-3.2	-
Adjusted operating profit	585.3	586.0	+0.7	+0.1%
Japanese domestic tobacco	232.3	202.0	-30.3	-13.0%
International tobacco	351.3	382.0	+30.7	+8.7%
Pharmaceutical	24.1	25.0	+0.9	+3.8%
Processed food	5.4	5.5	+0.1	+1.9%
Others/Elimination	-27.8	-29.0	-1.2	-

[Reference] International tobacco business

(Unit: USD million)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Core revenue	10,498	11,630	+1,132	+10.8%
Core revenue at constant FX	10,498	11,500	+1,002	+9.5%
Adjusted operating profit	3,138	3,500	+362	+11.5%
Adjusted operating profit at constant FX	3,138	3,600	+462	+14.7%

FY2018 Revised Forecasts (as of August 1, 2018)

4. Free cash flow

(Unit: JPY billion)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)
FCF	72.6	71.0	-1.6

5. Capital expenditures

(Unit: JPY billion)

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)
Consolidated	140.9	188.0	+47.1
Japanese domestic tobacco	51.5	69.0	+17.5
International tobacco	68.4	86.0	+17.6
Pharmaceutical	6.2	12.0	+5.8
Processed food	10.4	15.0	+4.6
Others/Elimination	4.3	5.5	+1.2

6. Revised assumptions of 2018 Forecast

2018 Japanese domestic tobacco business

- Industry volume : a decline of c.4% (vs. 2017: 172.0 BnU)
- Cigarette industry volume : a decline of over 14.5% (vs. 2017: 151.4 BnU)
- JT cigarette sales volume : a decrease of over 14% (vs. 2017: 92.9 BnU)
- Reduced-Risk Products market share in tobacco industry (JT estimate) : c.22% (2017: 12%)

2018 International tobacco business

- Total shipment volume : an increase of over 5% (vs. 2017: 398.5 BnU)
 - GFB* shipment volume : an increase of over 1% (vs. 2017: 260.4 BnU)
- * From 2018 we changed GFB from 9 brands to 4 brands (Winston, Camel, MEVIUS, LD)
Above volume is based on 4 brands.

<FX assumptions>

	FY2017 Results	FY2018 Revised Forecasts	Variance (abs)	Variance (%)	
JPY/USD	112.16	109.34	-2.82	-2.5%	JPY
RUB/USD	58.35	60.00	+1.65	-2.8%	RUB
GBP/USD	0.78	0.71	-0.07	+9.4%	GBP
EUR/USD	0.89	0.81	-0.08	+9.6%	EUR
CHF/USD	0.98	0.95	-0.03	+3.7%	CHF
TWD/USD	30.44	29.20	-1.24	+4.2%	TWD
TRY/USD	3.64	4.40	+0.76	-17.2%	TRY
IRR/USD	38,811	44,100	+5,289	-12.0%	IRR

**FY2018 Revised Forecasts
vs Initial Forecasts
(as of August 1, 2018)**

1. Summary of consolidated forecasts

(Unit: JPY billion)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Revenue	2,220.0	2,240.0	+20.0	+0.9%
Operating profit	561.0	541.0	-20.0	-3.6%
Adjusted operating profit	600.0	586.0	-14.0	-2.3%
Profit (attributable to owners of the parent company)	394.0	377.0	-17.0	-4.3%

[Reference] Consolidated forecast

(Unit: JPY billion)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	607.0	607.0	-	-

2. EPS, DPS, ROE

(Unit: JPY)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Basic EPS	219.98	210.46	-9.52	-4.3%
DPS	150.00	150.00	-	-
ROE (attributable to owners of the parent company)	14.0%	13.4%	-0.6%pt	

3. Forecasts by business segment

(Unit: JPY billion)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Revenue	2,220.0	2,240.0	+20.0	+0.9%
Japanese domestic tobacco	608.0	620.0	+12.0	+2.0%
Core revenue	573.0	584.0	+11.0	+1.9%
International tobacco	1,320.0	1,330.0	+10.0	+0.8%
Core revenue	1,265.0	1,270.0	+5.0	+0.4%
Pharmaceutical	109.0	110.0	+1.0	+0.9%
Processed food	165.0	165.0	-	-
Others	6.5	6.5	-	-
Consolidated: operating profit	561.0	541.0	-20.0	-3.6%
Japanese domestic tobacco	186.0	186.0	-	-
International tobacco	356.0	336.0	-20.0	-5.6%
Pharmaceutical	25.0	25.0	-	-
Processed food	5.5	5.5	-	-
Others/Elimination	-13.0	-13.0	-	-
Adjusted operating profit	600.0	586.0	-14.0	-2.3%
Japanese domestic tobacco	202.0	202.0	-	-
International tobacco	396.0	382.0	-14.0	-3.5%
Pharmaceutical	25.0	25.0	-	-
Processed food	5.5	5.5	-	-
Others/Elimination	-29.0	-29.0	-	-

[Reference] International tobacco business

(Unit: USD million)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)	Variance (%)
Core revenue	11,500	11,630	+130	+1.1%
Core revenue at constant FX	11,350	11,500	+150	+1.3%
Adjusted operating profit	3,600	3,500	-100	-2.8%
Adjusted operating profit at constant FX	3,600	3,600	-	-

**FY2018 Revised Forecasts
vs Initial Forecasts
(as of August 1, 2018)**

4. Free cash flow

(Unit: JPY billion)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)
FCF	300.0	71.0	-229.0

5. Capital expenditures

(Unit: JPY billion)

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)
Consolidated	199.0	188.0	-11.0
Japanese domestic tobacco	76.0	69.0	-7.0
International tobacco	90.0	86.0	-4.0
Pharmaceutical	12.0	12.0	-
Processed food	15.0	15.0	-
Others/Elimination	5.5	5.5	-

6. Revised assumptions of FY2018 Forecast (vs FY2017 results)

Japanese domestic tobacco business	Initial Forecasts	Revised Forecasts
Industry volume	a decline of over 4.5%	→ a decline of c.4%
Cigarette industry volume	a decline of c. 17.5%	→ a decline of over 14.5%
JT cigarette sales volume	a decrease of over 16.5%	→ a decrease of over 14%
RRP market share in tobacco industry*	c. 23%	→ c. 22%

* JT estimate based on shipment, annual base

International tobacco business	Initial Forecasts	Revised Forecasts
Total shipment volume	an increase of c. 4%	→ an increase of over 5%
GFB* shipment volume	an increase of c. 2%	→ an increase of over 1%

* From 2018 we changed GFB from 9 brands to 4 brands (Winston, Camel, MEVIUS, LD), above volume is based on 4 brands.

<FX assumptions>

	FY2018 Initial Forecasts	FY2018 Revised Forecasts	Variance (abs)	Variance (%)	
JPY/USD	110.00	109.34	-0.66	-0.6%	JPY
RUB/USD	58.00	60.00	+2.00	-3.3%	RUB
GBP/USD	0.74	0.71	-0.03	+4.2%	GBP
EUR/USD	0.83	0.81	-0.02	+2.5%	EUR
CHF/USD	0.98	0.95	-0.03	+3.2%	CHF
TWD/USD	29.50	29.20	-0.30	+1.0%	TWD
TRY/USD	3.80	4.40	+0.60	-13.6%	TRY
IRR/USD	43,600	44,100	+500	-1.1%	IRR

<FX sensitivity>

FX Sensitivity Guidance for FX impact on 2018 adjusted operating profit of US\$ 3,500 MM based on the revised assumptions:

Local currency vs. US\$

1% deviation from the revised assumption rates against US\$ by all the currencies in the same direction (excluding JPY) leads to approx. US\$ 55MM impacting on US\$ based adjusted operating profit

Approx. US\$ 55MM composed of: RUB 25%, GBP 15%, TWD 15%, EUR 10%, TRY 5%, IRR 10%, CHF -10%

US\$ vs. JPY

JPY/\$ move of 1 yen from the assumption leads to approx. JPY 3.5 billion impact on JPY-based adjusted operating profit

Tobacco Business Data

International Tobacco Business

1. Summary (YTD)

	2017 Q2	2018 Q2	Variance	Variance (%)	
Total shipment volume	193.2	205.6	+12.4	+6.4%	BNU
GFB shipment volume	128.3	130.6	+2.4	+1.8%	BNU
Core Revenue	577.2	620.0	+42.8	+7.4%	JPY BN
Adjusted operating profit	195.1	214.3	+19.2	+9.8%	JPY BN

[USD Reference information]

Core Revenue	5,141	5,705	+564	+11.0%	\$MM
Adjusted operating profit	1,738	1,971	+233	+13.4%	\$MM
at constant FX basis					
Core Revenue	5,141	5,598	+457	+8.9%	\$MM
Adjusted operating profit	1,738	1,968	+230	+13.2%	\$MM

• Contribution by cluster

(BNU/\$MM)

2018Q2	Total Shipment Volume		GFB Shipment Volume		Core Revenue	
SWE	32.8	16%	26.6	20%	1,061	19%
NCE	26.0	13%	11.6	9%	1,054	18%
CIS+	61.4	30%	46.3	35%	1,375	24%
RoW	85.5	42%	46.1	35%	2,215	39%
Total	205.6		130.6		5,705	

2. Total shipment volume by cluster / markets (vs. PY)

2018	Q1	Q2	Q3	Q4	YTD
SWE	0.7%	-5.1%			-2.4%
France	-5.2%	-10.9%			-8.2%
Italy	4.5%	-8.0%			-2.1%
Spain	11.8%	-2.5%			4.0%
NCE	-1.8%	4.8%			1.6%
Germany	-6.7%	8.1%			0.9%
UK	-1.4%	-2.5%			-2.0%
CIS+	-3.3%	-4.7%			-4.1%
Romania	1.0%	-2.8%			-1.1%
Russia	-4.4%	-7.3%			-6.0%
RoW	22.7%	21.3%			22.0%
Iran	8.6%	2.4%			5.4%
Taiwan	-18.7%	-22.3%			-20.6%
Turkey	5.4%	3.9%			4.7%
Total	7.3%	5.6%			6.4%

3. GFB shipment volume by brand (vs. PY)

(BNU)

2018	Q1	Q2	Q3	Q4	YTD
Winston	34.9	38.8			73.7
	5.3%	4.2%			4.8%
Camel	13.1	13.7			26.8
	3.7%	-0.4%			1.6%
MEVIUS	3.7	4.1			7.8
	-17.3%	-18.9%			-18.1%
LD	10.3	12.1			22.4
	3.8%	-0.5%			1.5%

Tobacco Business Data

International Tobacco Business

4. GFB shipment volume by cluster / markets (vs. PY)

2018	Q1	Q2	Q3	Q4	YTD
SWE	1.8%	-4.1%			-1.3%
France	-4.4%	-8.1%			-6.4%
Italy	2.5%	-8.2%			-3.1%
Spain	16.4%	-3.1%			5.7%
NCE	0.5%	14.8%			7.9%
Germany	-7.8%	13.4%			2.7%
UK	-24.0%	-33.8%			-29.4%
CIS+	2.0%	-0.2%			0.8%
Romania	4.4%	-0.4%			1.7%
Russia	4.1%	-0.1%			1.8%
RoW	5.4%	1.4%			3.4%
Iran	15.6%	7.6%			11.5%
Taiwan	-21.8%	-24.3%			-23.1%
Turkey	8.4%	5.1%			6.7%
Total	3.1%	0.8%			1.8%

5. Share of market by key markets

	12 month moving average			3 month average				
	2017 June	2018 June	Change	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
France	22.1%	22.5%	+0.4%pt	21.9%	22.0%	21.9%	22.6%	23.3%
Italy	23.4%	23.2%	-0.2%pt	23.2%	23.0%	23.0%	23.4%	23.6%
Russia	32.5%	33.6%	+1.2%pt	33.1%	33.8%	33.9%	33.7%	33.2%
Spain	23.4%	24.4%	+1.0%pt	24.2%	24.3%	24.0%	24.5%	24.8%
Taiwan	41.0%	41.7%	+0.6%pt	42.2%	42.8%	40.3%	41.6%	42.0%
Turkey	29.0%	28.1%	-1.0%pt	28.9%	28.8%	28.2%	27.8%	27.5%
UK	41.1%	40.7%	-0.4%pt	40.3%	40.2%	40.6%	41.1%	40.9%

Source: IRI, Nielsen, Logista / Reflect the changes in historical data from the sources.

6. Core Revenue at constant FX by cluster (vs. PY)

(\$MM)

2018	Q1	Q2	Q3	Q4	YTD
SWE	455	502			957
	-1.0%	-5.5%			-3.4%
NCE	431	525			956
	-8.4%	9.6%			0.7%
CIS+	607	778			1,385
	9.7%	17.5%			13.9%
RoW	1,118	1,182			2,299
	18.2%	13.7%			15.8%
Total	2,611	2,987			5,598
	7.5%	10.1%			8.9%

Tobacco Business Data

International Tobacco Business

7. Breakdown of Core Revenue

• USD basis						(\$MM)
	Q1	Q2	Q3	Q4	YTD	
2017	2,429	2,712			5,141	
Volume	+72	-20			+52	
Price/Mix	+109	+295			+404	
2018 at constant	2,611	2,987			5,598	
FX	+113	-6			+107	
2018	2,724	2,981			5,705	

• Yen basis						(JPY BN)
	Q1	Q2	Q3	Q4	YTD	
2017	276.0	301.3			577.2	
Operations	+20.6	+30.5			+51.2	
Local currencies vs. USD	+12.9	-0.6			+12.2	
USD vs. JPY	-14.7	-5.9			-20.6	
2018	294.8	325.2			620.0	

8. Breakdown of Adjusted Operating Profit

• USD basis						(\$MM)
	Q1	Q2	Q3	Q4	YTD	
2017	810	929			1,738	
Volume	-7	-86			-93	
Price/Mix	+102	+286			+387	
Others	-31	-34			-65	
2018 at constant	874	1,094			1,968	
FX	+16	-13			+3	
2018	890	1,082			1,971	

• Yen basis						(JPY BN)
	Q1	Q2	Q3	Q4	YTD	
2017	92.0	103.2			195.1	
Operations	+7.3	+18.4			+25.7	
Local currencies vs. USD	+1.8	-1.4			+0.4	
USD vs. JPY	-4.8	-2.2			-6.9	
2018	96.3	118.0			214.3	

9. FX actual vs. PY

	<u>2018Q1</u>	<u>2018Q2</u>	<u>2018Q3</u>	<u>2018Q4</u>	<u>2018 YTD</u>
RUB/\$	56.88	61.80			59.34
	+3.4%	-7.5%			-2.3%
GBP/\$	0.72	0.73			0.73
	+12.3%	+6.5%			+9.3%
EUR/\$	0.81	0.84			0.83
	+15.4%	+8.6%			+11.9%
CHF/\$	0.95	0.98			0.97
	+5.9%	+0.1%			+2.9%
TWD/\$	29.30	29.76			29.53
	+6.2%	+1.7%			+3.9%
TRY/\$	3.81	4.36			4.08
	-3.1%	-17.9%			-11.0%
IRR/\$	46,583	43,365			44,974
	-17.8%	-13.4%			-15.7%
JPY/\$	108.22	109.10			108.67
	-4.7%	-1.8%			-3.3%

*JPY vs USD change rates: (Local currency exchange rates of current period / Local currency exchange rates of same period in previous year) -1

Local currency vs USD change rates: (Local currency exchange rates of same period in previous year / Local currency exchange rates of current period) -1

Tobacco Business Data

Japanese Domestic Tobacco Business

1. Summary (YTD)

	2017 Q2	2018 Q2	Variance	Variance (%)	
Cigarette industry volume	76.8	65.6	-11.1	-14.5%	BNU
Cigarette sales volume	46.8	40.4	-6.4	-13.8%	BNU
Excludes volumes of duty-free in Japan, China business (2.0BNU in 2017Q2 and 2.0BNU in 2018Q2, respectively) and RRP sales volume					
Core revenue	294.4	272.2	-22.2	-7.5%	JPY BN
Adjusted operating profit	120.0	103.5	-16.5	-13.7%	JPY BN

From FY2018, in accordance with the application of IFRS 15, certain items formerly treated as selling, general and administrative expenses are accounted for as reductions of revenue. There is no impact on adjusted operating profit.

2. Cigarette sales volume

	(BNU)				
	Q1	Q2	Q3	Q4	YTD
2017	23.0	23.8	23.5	22.6	92.9
2018	19.5	20.8			
vs. PY	-15.0%	-12.6%			

3. Revenue per thousand cigarettes

	(JPY)				
	Q1	Q2	Q3	Q4	YTD
2017	5,931	5,987	5,922	5,944	5,946
2018	5,895	5,938			

Revenue per thousand cigarettes = (retail price sales-retailer margins-consumption tax-excise taxes)/sales volume×1,000
From FY2018, figures include the effects of IFRS15 application

4. Results of Reduced-Risk Products

	(BNU / JPY BN)				
2018	Q1	Q2	Q3	Q4	YTD
RRP sales volume	0.3	0.5			0.8
RRP related revenue	8.3	12.9			21.2

5. Breakdown of financial results

	(JPY BN)				
	Q1	Q2	Q3	Q4	YTD
Core revenue					
2017	143.9	150.5			294.4
Volume	-20.7	-17.7			-38.4
Price/Mix*	-0.7	-1.0			-1.7
RRP/Others	+6.8	+11.1			+17.9
2018	129.3	142.9			272.2
Adjusted OP					
2017	57.2	62.8			120.0
Volume	-17.0	-14.6			-31.5
Price/Mix*	-0.7	-1.0			-1.7
RRP/Others	+9.4	+7.4			+16.8
2018	48.9	54.6			103.5

*From FY2018, figures include the effects of IFRS15 application

6. Market share in cigarettes category

	(%)				
	Q1	Q2	Q3	Q4	YTD
JT Total					
2017	61.0	61.0	61.1	62.4	61.3
2018	61.4	61.6			
MEVIUS					
2017	30.5	31.6	31.3	32.1	31.4
2018	31.0	31.9			
Winston					
2017	8.1	8.1	8.1	8.1	8.1
2018	8.0	8.0			
Seven Stars					
2017	7.5	7.6	7.6	7.8	7.6
2018	7.8	7.9			
Natural American Spirit					
2017	1.8	1.8	1.8	2.0	1.8
2018	2.0	2.0			

Pharmaceutical Business

Clinical Development as of August 1, 2018

<In-house development>

Code (Generic Name)	Potential Indication/Dosage form	Mechanism		Phase	Note
JTZ-951 (enarodustat)	Anemia associated with chronic kidney disease /Oral	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis- stimulating hormone, via inhibition of HIF-PHD.	Phase3 (Japan) Phase1 (Overseas)	In-house Co-development with Torii
JTE-052 (delgocitinib)	Autoimmune/allergic diseases /Oral, Topical *Atopic dermatitis/Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase3 (Japan)	In-house *Co-development with Torii
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase2 (Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1 (Overseas)	In-house
JTE-451	Autoimmune/allergic diseases /Oral	ROR γ antagonist	Suppresses overactive immune response via inhibition of ROR γ related to Th 17 activation.	Phase1 (Overseas)	In-house
JTT-751 (ferric citrate)	Iron-deficiency anemia/Oral	Oral iron replacement	Corrects iron-deficiency anemia by using absorbed iron for synthesis of hemoglobin.	Phase3 (Japan)	In-license (Keryx Biopharmaceuticals) Co-development with Torii Additional indication

Clinical trial phase presented above is based on the first dose.

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK pathway.	Marketing application submitted (trametinib+dabrafenib) for melanoma (adjuvant) with BRAF V600 mutation in EU
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
JTE-052	LEO Pharma ROHTO Pharmaceutical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	
JTZ-951	JW Pharmaceutical	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis- stimulating hormone, via inhibition of HIF-PHD.	

Updates since the previous announcement on May 1, 2018:

<In-house development>

- JTK-351: terminated
- JTS-661: terminated
- JTT-751: advanced to Phase3 in Japan

<Licensed compounds>

- trametinib: Novartis announced that Mekinist® (trametinib) has approved in U.S,
in combination with Tafinlar® (dabrafenib), for the treatment of BRAF V600E/K mutant melanoma(adjuvant) on April 30, 2018.*additional indication

(Reference)

- trametinib
Novartis announced that Mekinist® (trametinib) has approved in U.S,
in combination with Tafinlar® (dabrafenib), for the treatment of BRAF V600E mutant anaplastic thyroid cancer. (May 4, 2018) *additional indication.
- Novartis Pharma K.K. announced that Mekinist® (trametinib) has approved in Japan,
in combination with Tafinlar® (dabrafenib), for the treatment of BRAF V600 mutant melanoma(adjuvant). (July 2, 2018) *additional indication

Definitions

Terms	Definitions
Adjusted Operating Profit (AOP)	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
Reduced-Risk Products (RRP)	Products with potential to reduce the risks associated with smoking
GFB (Global Flagship Brands)	4 Brands (Winston, Camel, MEVIUS and LD)
Total Shipment volume: (International tobacco business)	Including fine cut, cigars, pipe tobacco, snus and kretek, but excluding contract manufactured products, waterpipe tobacco and RRP.
Core Revenue (International Tobacco Business)	Revenue including waterpipe tobacco and RRP, but excluding revenue 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
Industry Volume (Japanese Domestic Tobacco Business)	Industry volume of tobacco products in Japan market (including RRP, etc.)
Cigarette Industry Volume (Japanese Domestic Tobacco Business)	Industry volume of cigarettes in Japan market (excluding RRP, etc.)
Cigarette Sales Volume (Japanese Domestic Tobacco Business)	Not including sales volume from domestic duty free, the China business and RRP.
RRP Sales Volume (Japanese Domestic Tobacco Business)	1 pack corresponds to 20 cigarettes Exclusion: Domestic duty free, RRP devices, RRP related accessories, etc.
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 Inclusion: Domestic duty free, principally the device and the related accessories.
Liquidity	Cash and deposits + marketable securities + securities purchased under repurchase agreements
Interest-bearing debt	Short-term bank loans + CP + bonds + long-term borrowings + lease obligations
FCF	FCF is sum of cash flows from operating activities and investing activities, but excludes the following items; - From operating CF: interest received, dividends received, interest paid and income taxes related to these items - From investing CF: purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

Additional definitions are provided at <https://www.jt.com/media/glossary/index.html>

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Japan Tobacco Inc. is a leading international tobacco company with operations in more than 130 countries. With close to 60,000 employees, it manufactures and sells some of the world's best-known brands including Winston, Camel, MEVIUS and LD. The JT Group is committed to investing in Reduced-Risk Products (RRP) and currently markets Ploom TECH, its tobacco vapor product, and various e-cigarette products under the Logic brand. The Group is also present in the pharmaceutical and processed food businesses. For more information, visit <https://www.jt.com/>.

FORWARD-LOOKING STATEMENTS

This document 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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