

# Overview of Consolidated Financial Results for FY3/2013 and Full-term Forecasts for FY3/2014

CFO and Executive Vice President  
Naohiro Minami

\*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 understanding of individual businesses.

\*For details of each indicator, please refer to annotations on slide 30.



# Caution concerning Forward-Looking Statements

## 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.



# Consolidated results and forecast

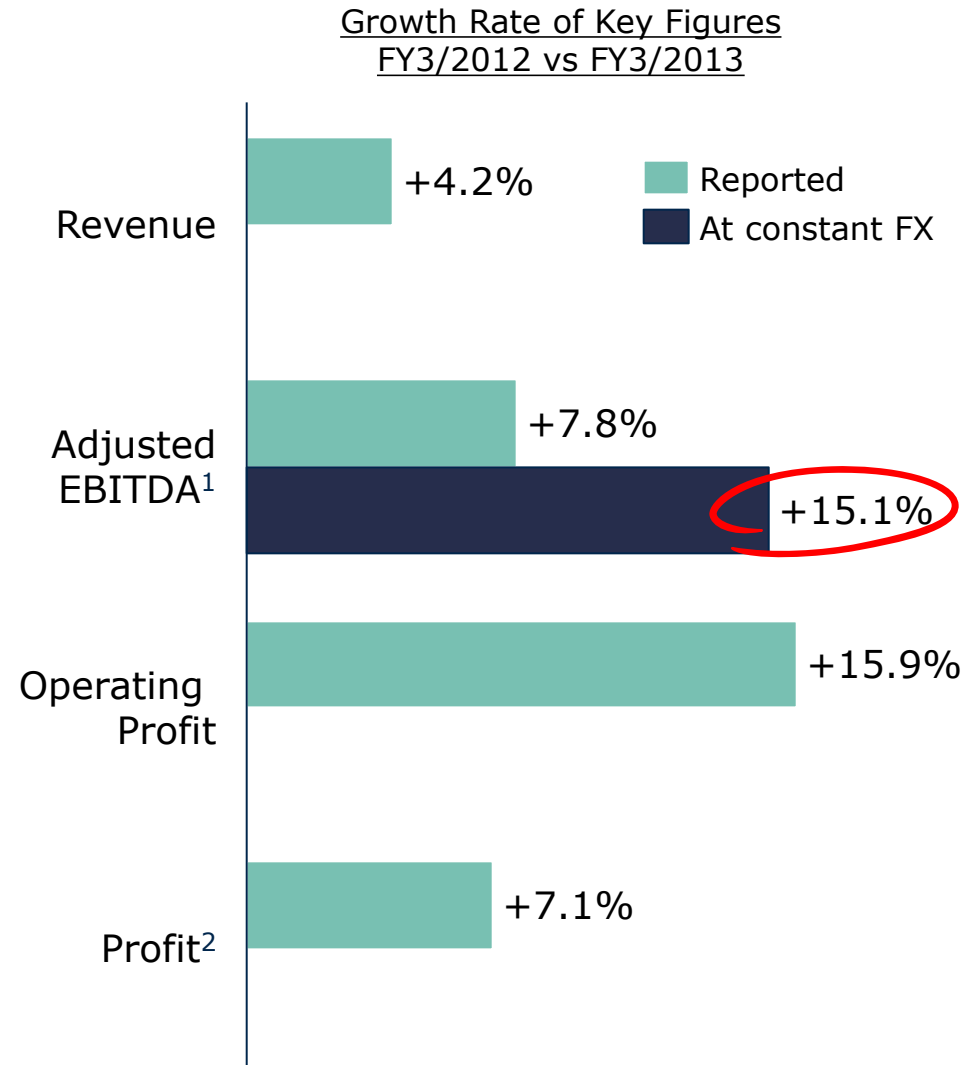
---



# Consolidated financial results for FY3/13: Strong results driven by top-line growth in tobacco business

## Key driver:

- Top-line growth in tobacco business
  - International:  
Strong Pricing  
Shipment volume growth
  - Japanese domestic:  
Steady recovery of market share  
Increase in sales volume



Consolidated financial forecast for FY3/14:  
Strong business momentum to continue, record high profits projected

<i>(JPY BN, %)</i>	<u>FY3/2013</u>	<u>FY3/2014</u>	<u>Change</u>
Revenue	2,120.2	<b>2,368.0</b>	<b>+11.7%</b>
Adjusted EBITDA <sup>1</sup>	622.1	<b>730.0</b>	<b>+17.3%</b>
Operating Profit	532.4	<b>616.0</b>	<b>+15.7%</b>
Profit <sup>2</sup>	343.6	<b>415.0</b>	<b>+20.8%</b>
FCF	316.0	<b>280.0</b>	<b>-11.4%</b>
<u>At Constant FX</u>			
Adjusted EBITDA <sup>1</sup>	622.1	<b>660.0</b>	<b>+6.1%</b>

Tobacco business



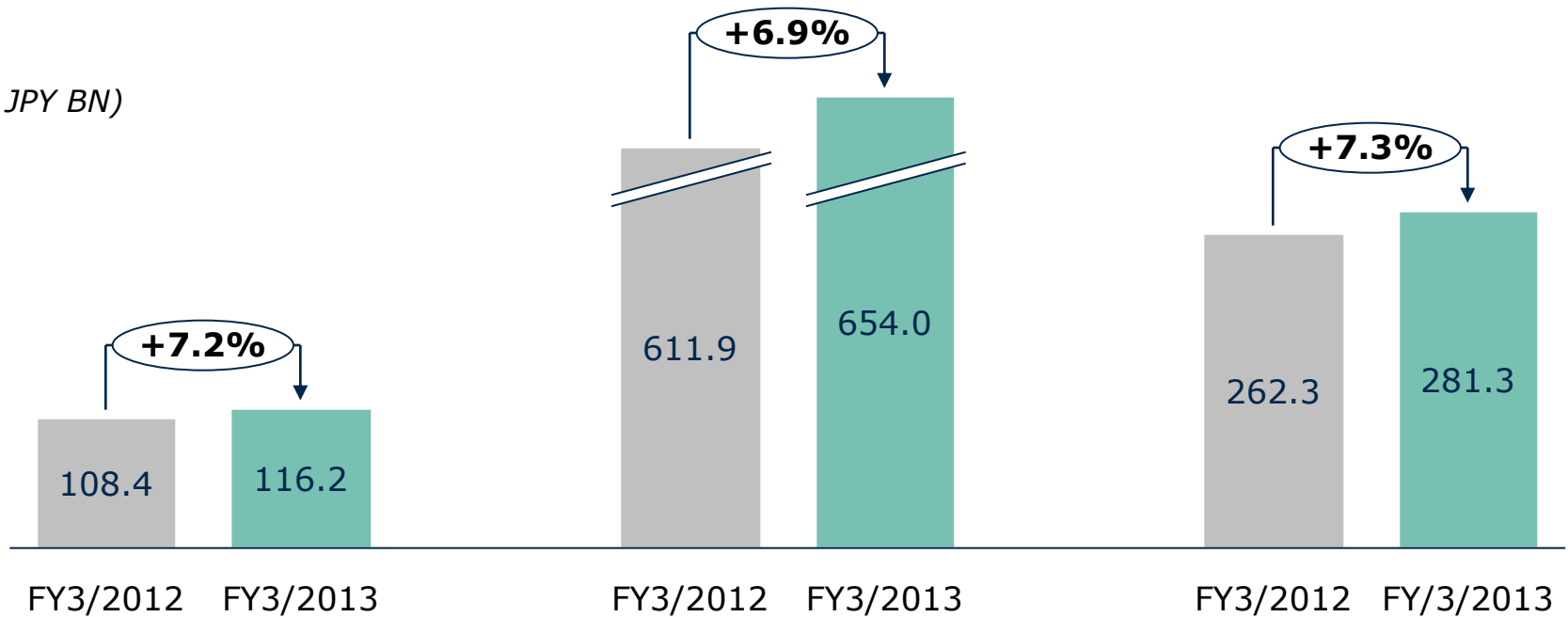
# Japanese Domestic Tobacco Business(Results): Revenue and profit growth from sales volume increase as market share recovered

Total Sales Volume<sup>3</sup>

Core Revenue<sup>4</sup>

Adjusted EBITDA<sup>1</sup>

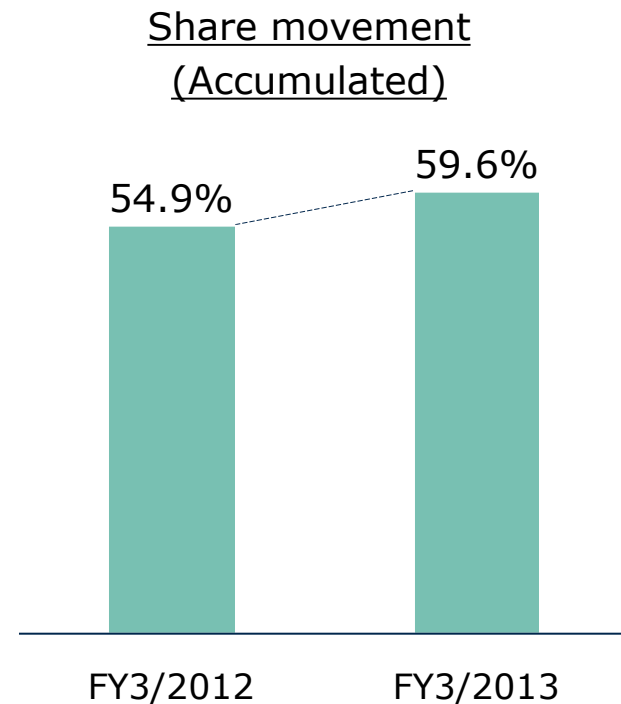
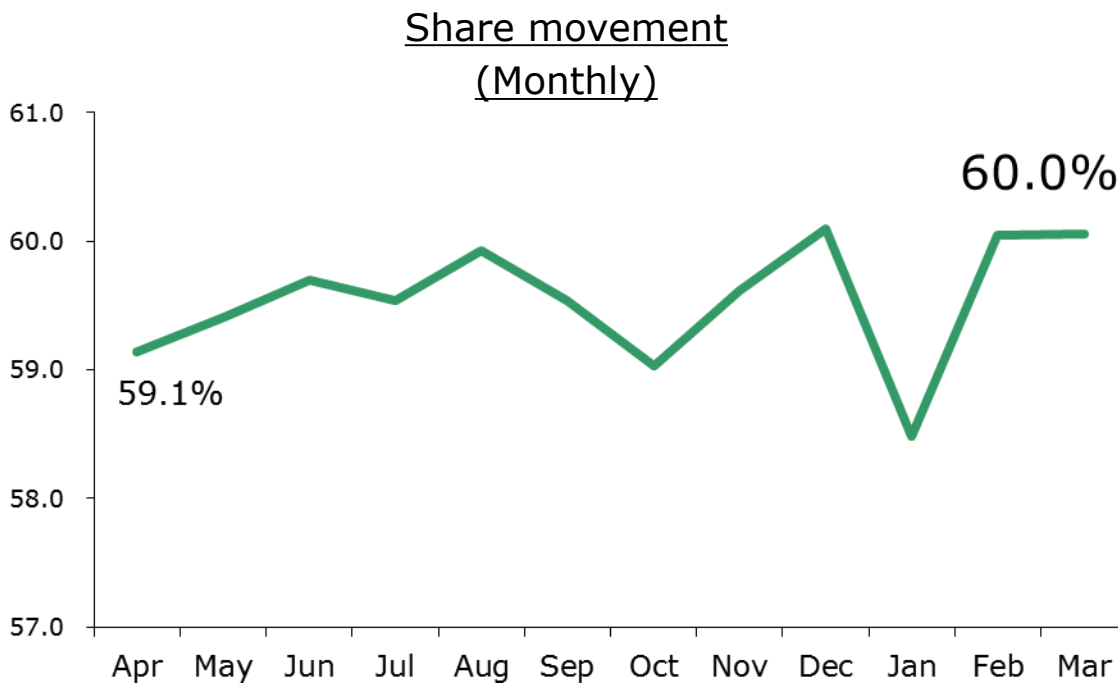
(BNU, JPY BN)



# Japanese Domestic Tobacco Business(Results):

## Steady recovery of market share through brand equity enhancement

- 60% market share achieved for the month of February and March
- Share of market recovered by +4.7ppt year-on-year
  - ✓ FY3/2012 : 54.9% ⇒ FY3/2013 : 59.6%



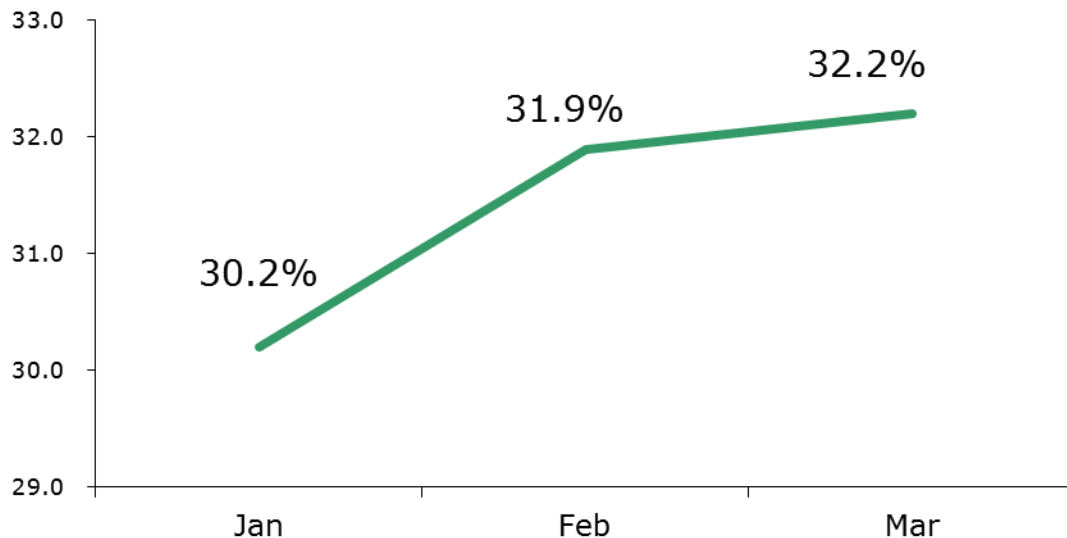
Source: TIOJ, JT Estimate



# Japanese Domestic Tobacco Business(Results): Transition to MEVIUS completed smoothly

- Market share of MEVIUS family increased every month
- High trial rate achieved
  - ✓ About 30% of non-MILD SEVEN consumers responded that they have tried MEVIUS after the name change (JT's own survey)

MEVIUS Monthly share movement



Source: TIOJ, JTestimate



# International tobacco business (Results): Strong results driven by top-line growth

<i>(BNU,MM\$,%)</i>	<u>2011</u>	<u>2012</u>	<u>Change</u>
<u>Shipment Volume</u>			
Total <sup>5</sup>	425.7	436.5	+2.5%
GFB	256.5	268.8	+4.8%
<u>At Constant Currency<sup>7</sup></u>			
Core Revenue <sup>6</sup>	11,211	12,623	+12.6%*
Adjusted EBITDA <sup>1</sup>	3,944	4,830	+22.5%**
<u>Reported</u>			
Core Revenue <sup>6</sup>	11,211	11,817	+5.4%
Adjusted EBITDA <sup>1</sup>	3,944	4,302	+9.1%
<u>Yen basis (JPN BN)</u>			
Core Revenue <sup>6</sup>	894.6	943.1	+5.4%
Adjusted EBITDA <sup>1</sup>	314.8	343.3	+9.1%

\*12.6% includes approximately 2ppt of pricing taken to mitigate the effect of a currency with substantial devaluation

\*\*22.5% includes approximately 6ppt of pricing taken to mitigate the effect of a currency with substantial devaluation

## Tobacco business: Mid- to long-term target and role

### Mid- to long-term target and role

- Grow adjusted EBITDA at mid to high single-digit rate per annum over the mid- to long-term as the core business and profit and growth engine of the JT Group
  - ✓ Japanese domestic: highly competitive platform of profitability
  - ✓ International: strengthen its role as the Group's profit growth engine

### ■ Priority on quality top-line growth

- ✓ Continue to strengthen our brand equity, with focus on our core brands
- ✓ Grow or maintain market share in existing key markets
- ✓ Broaden the geographical base
- ✓ Develop emerging product categories

### ■ Continuous cost improvement

# Japanese Domestic Tobacco Business(Forecast): Strive for further brand equity enhancement with focus on MEVIUS

- Industry contraction will be more than off-set by share recovery and temporary demand increase ahead of consumption tax hike - total sales volume projected to grow 2.4%
  - ✓ Total industry contraction: -2% ~ -3%
  - ✓ Temporary demand prior to consumption tax hike (April 14) : 0.3~0.5 month

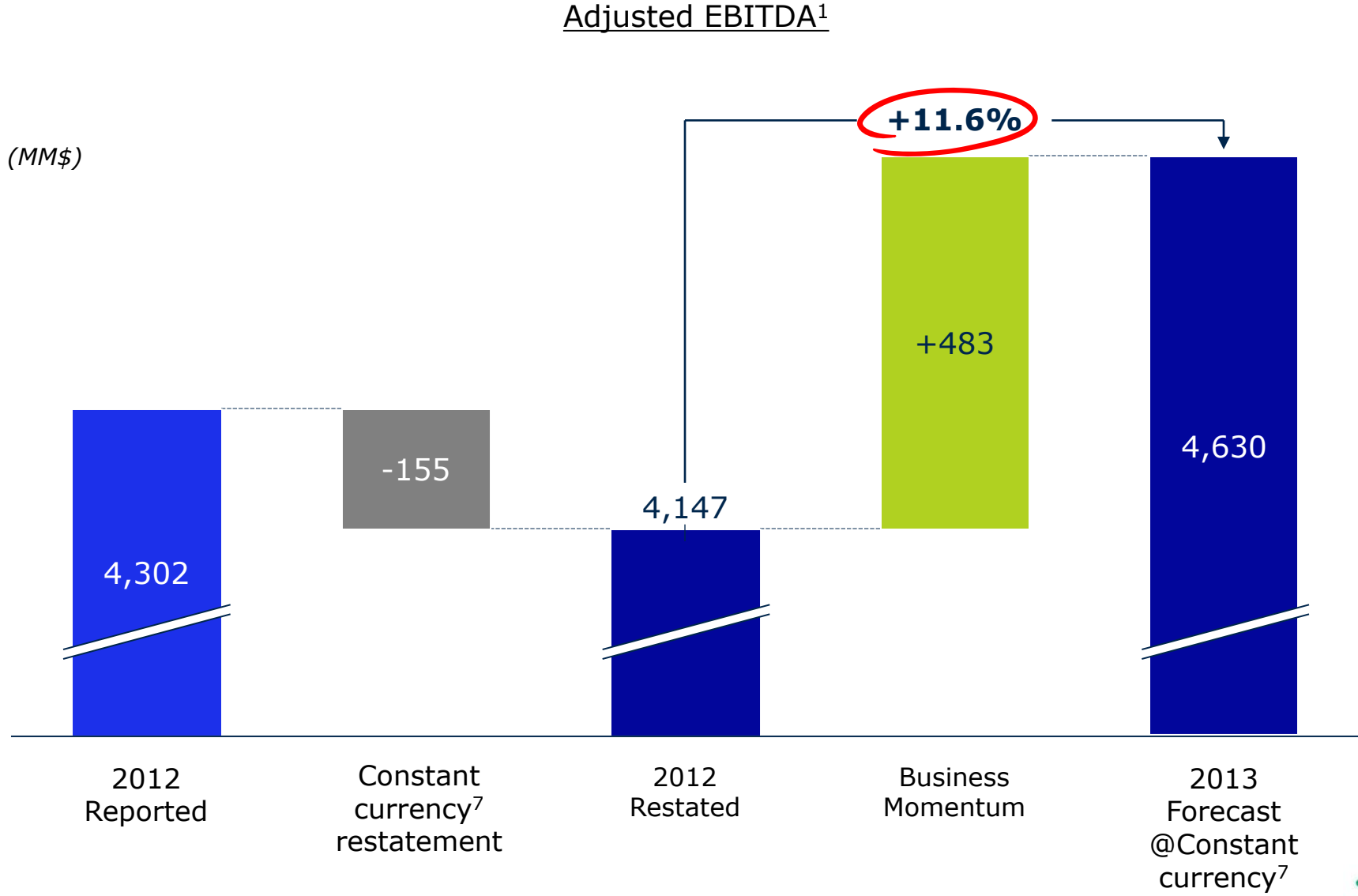


<i>(BNU, JPY BN, %)</i>	<u>FY3/2013</u>	<u>FY3/2014</u>	<u>Change</u>	<u>% Change</u>
Total Sales Volume <sup>3</sup>	116.2	<b>119.0</b>	<b>+2.8</b>	<b>+2.4%</b>
Core Revenue <sup>4</sup>	654.0	<b>669.0</b>	<b>+15.0</b>	<b>+2.3%</b>
Adjusted EBITDA <sup>1</sup>	281.3	<b>291.0</b>	<b>+9.7</b>	<b>+3.4%</b>

# International tobacco business(Forecast): Double-digit adjusted EBITDA growth at constant currency

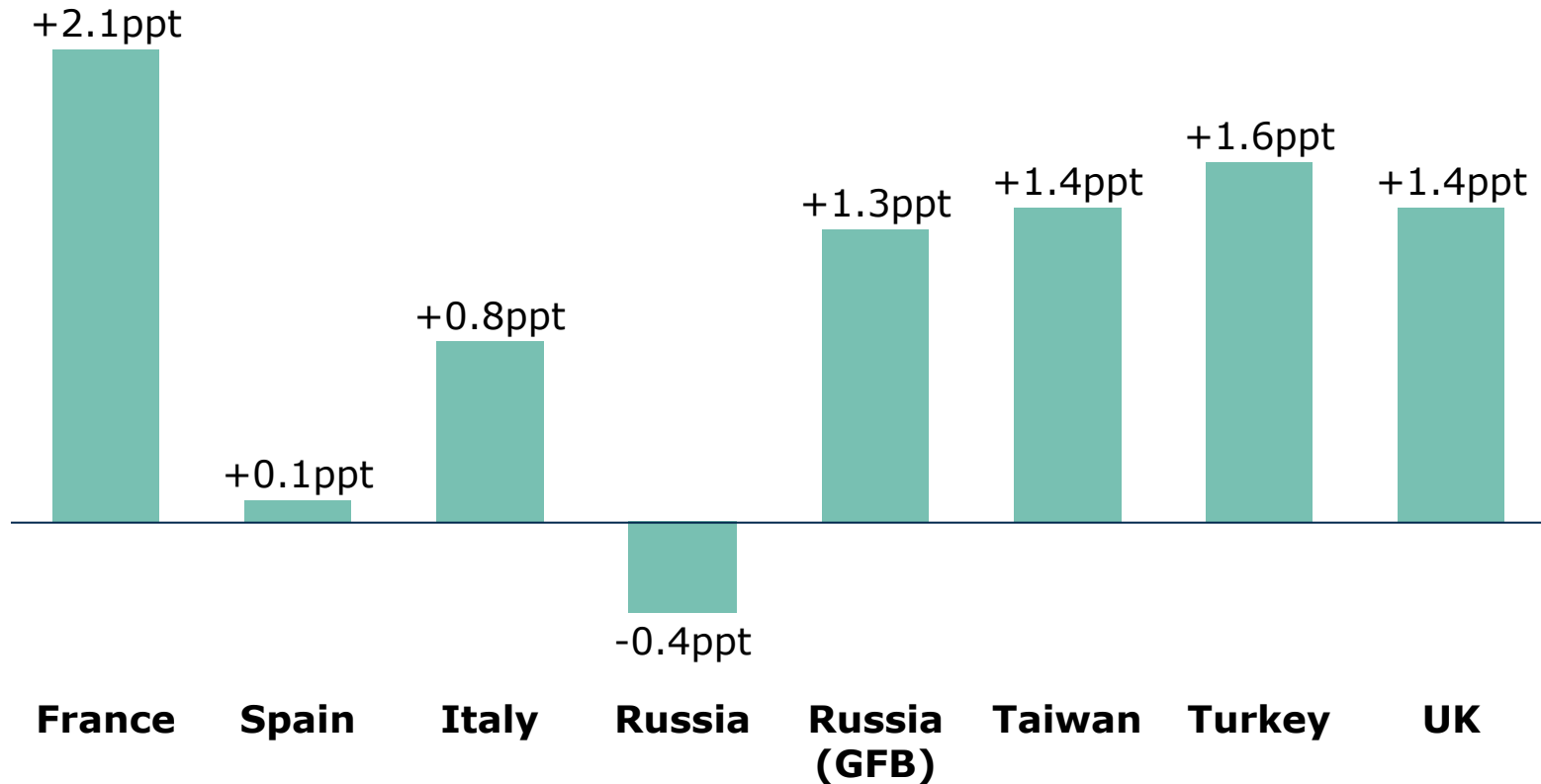
<i>(BNU,MM\$,%)</i>	<u>2012</u>	<u>2013</u>	<u>Change</u>
<u>Shipment Volume</u>			
Total <sup>5</sup>	4,365	<b>4,320</b>	<b>-1.0%</b>
GFB	2,688	<b>2,730</b>	<b>+1.6%</b>
<u>At Constant Currency<sup>7</sup></u>			
Core Revenue <sup>6</sup>	11,655	<b>12,550</b>	<b>+7.7%</b>
Adjusted EBITDA <sup>1</sup>	4,147	<b>4,630</b>	<b>+11.6%</b>
<u>Reported</u>			
Core Revenue <sup>6</sup>	11,817	<b>12,450</b>	<b>+5.4%</b>
Adjusted EBITDA <sup>1</sup>	4,302	<b>4,630</b>	<b>+7.6%</b>
<u>Yen basis (JPY BN)</u>			
Core Revenue <sup>6</sup>	943.1	<b>1,182.0</b>	<b>+25.3%</b>
Adjusted EBITDA <sup>1</sup>	343.3	<b>440.0</b>	<b>+28.2%</b>

# International tobacco business(Forecast): GFB growth and pricing are the main growth drivers



# International tobacco business (Jan-Mar results): Market share growth in most key markets

Share of Market variance\*

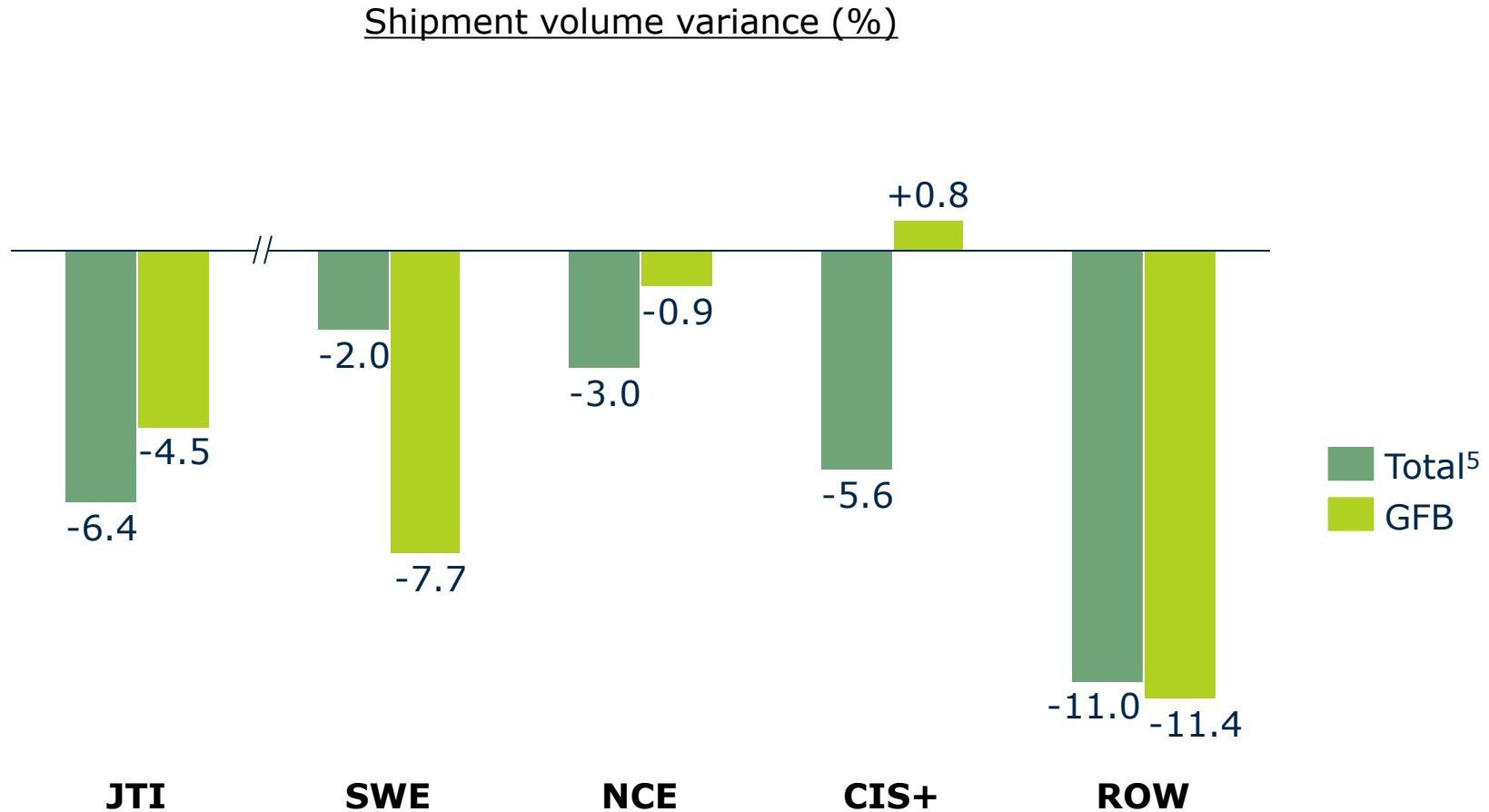


\*Share variance vs previous year (March 2012)

\*12M Moving Avg.

Source: Nielsen, Logista, Altadis

# International tobacco business (Jan-Mar results): Industry contraction and specific inventory adjustments impact shipment volume

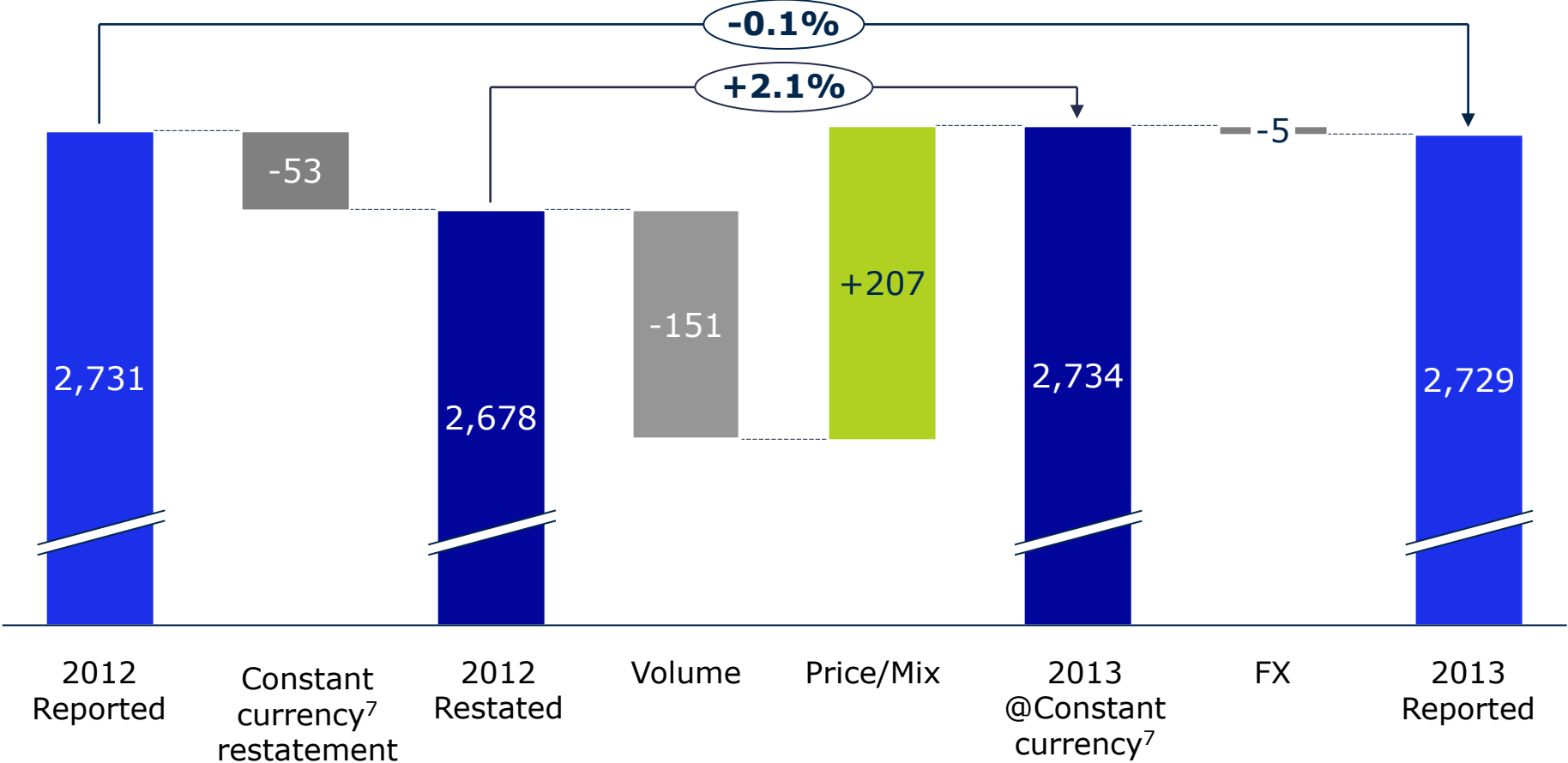


Volume variance vs pervious year (Jan-March 2012)

International tobacco business(Jan-Mar results):  
 Core revenue increased 2.1% driven by pricing

Core Revenue<sup>6</sup>

(MM\$)



Pharmaceutical business



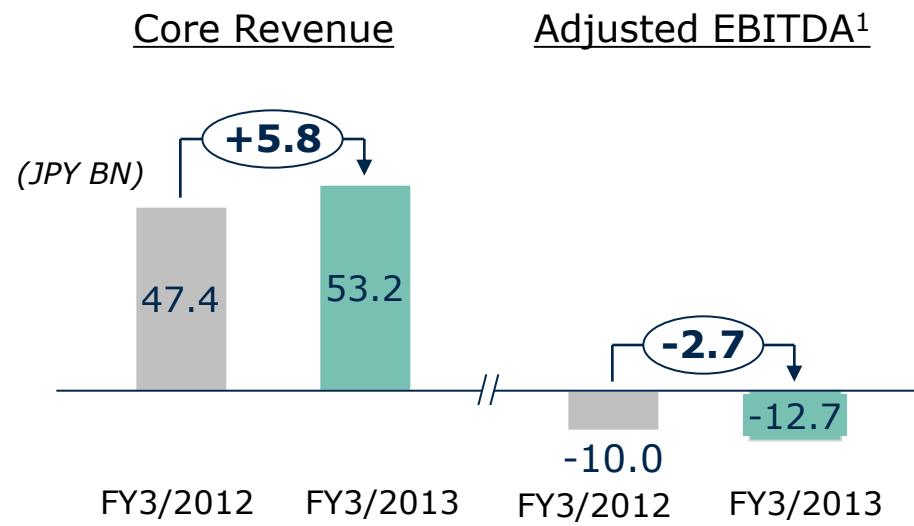
# Pharmaceutical Business(Results): Steady progress in establishing profit base

## Revenue

- Increase in sales of REMITCH CAPSULES and Truvada by Torii Pharmaceutical Co., Ltd
- Increase in milestone revenue at JT

## Adjusted EBITDA

- Increase in R&D expenses from progress in compound development



## Status of late phase clinical trials

- “Stribild® Combination Tablets” (HIV Infection) containing JT’s first original drug (JTK-303), approved and launched
  - ✓ BY licensee: launched in the US, filed for approval in EU  
JTK-303 as mono-agent, also filed for approval in the US and EU
  - ✓ By JT: approved in Japan (launch 14<sup>th</sup> May)
- MEK Inhibitor (melanoma): licensee has filed for approval
- In Japan: 2 compounds filed for approval
  - ✓ JTT-751 (Hyperphosphatemia)
  - ✓ TO-194SL (Cedar Pollinosis) by Torii Pharmaceutical Co., Ltd



Pharmaceutical Business(Forecast):  
 Performance expected to improve from stronger profit platform

Mid- to long-term target and role

- Strive to establish stronger profit platform through rapid and efficient market launch of compounds in late phases of clinical trials and value maximization of each product

- Rapid and efficient market launch of compounds in late phases of clinical trials, value maximization of each product
- Promote R&D for next generation of strategic compounds, seek optimum timing for out-licensing

<FY3/2014 Forecast>

- Revenue projected to increase and losses projected to improve from increase in revenue at Torii Pharmaceutical Co., Ltd and increase in milestone and royalty revenue

(JPY BN)	<u>FY3/2013</u>	<u>FY3/2014</u>	<u>Change</u>
Revenue	53.2	<b>59.5</b>	<b>+6.3</b>
Adjusted EBITDA <sup>1</sup>	-12.7	<b>-10.5</b>	<b>+2.2</b>



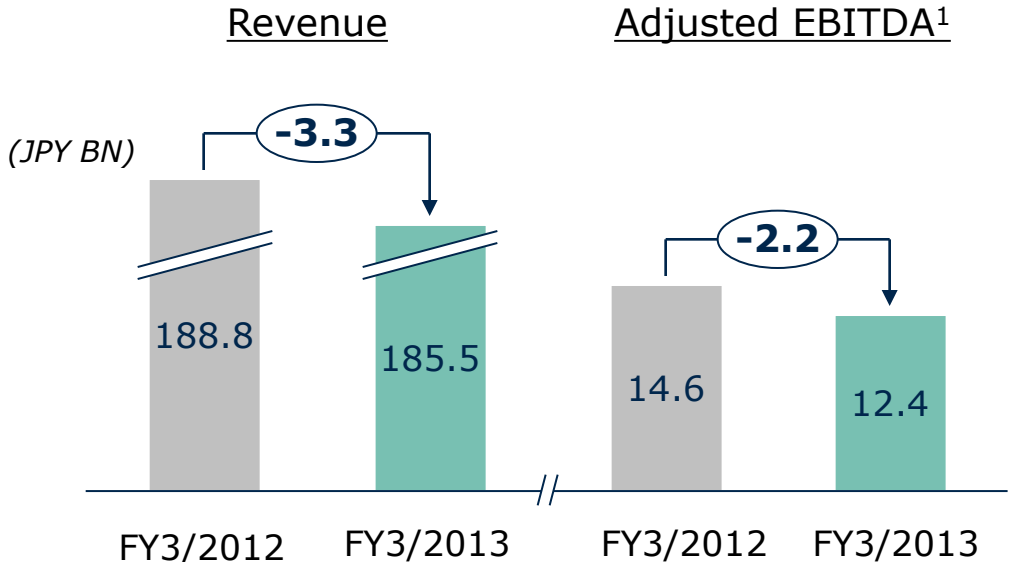
Beverage business



# Beverage Business(Results): Record high company sales volume

## Revenue

- Record high company sales volume, but affected by decrease in revenue from cup vending machines



## Adjusted EBITDA

- Affected by revenue decline and change in distribution channel composition, among others



# Beverage Business(Forecast):

In addition to Roots, foster "Momono Tennen sui" as the second pillar brand, focus on strengthening the business base

Mid- to long-term business targets

- Strengthen the business base for future growth in order to make further profit contribution to the JT group

- Brand equity investment in "Momono Tennen sui"
- Strive further for a high quality vending machine operation

(JPY BN)	<u>FY3/2013</u>	<u>FY3/2014</u>	<u>Change</u>
Revenue	185.5	<b>187.0</b>	<b>+1.5</b>
Adjusted EBITDA <sup>1</sup>	12.4	<b>10.5</b>	<b>-1.9</b>



23



[momo-ten]  
桃の天然水



Processed food business



# Processed Food Business(Results): Steady top-line performance from growth in staple food products

## Revenue

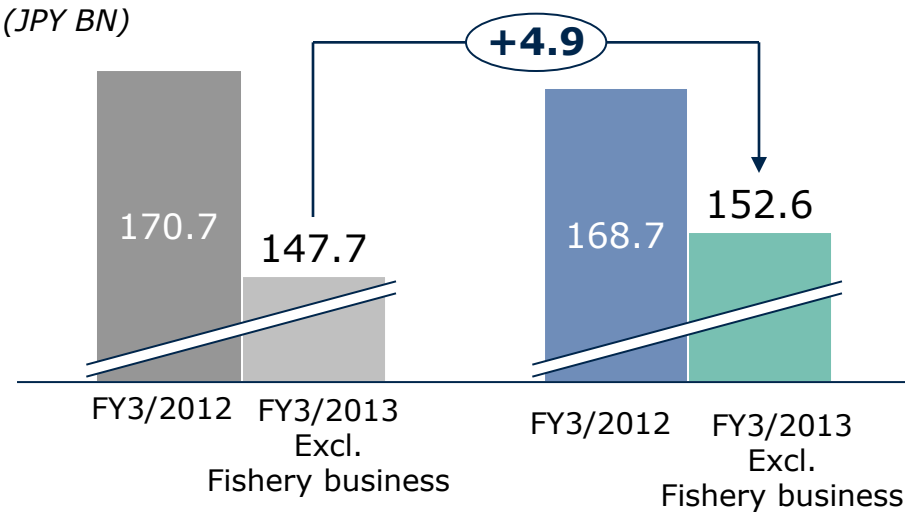
■Excluding processed fishery product business, strong growth in staple food products (12.4% growth y-on-y) drove top-line growth

## Adjusted EBITDA

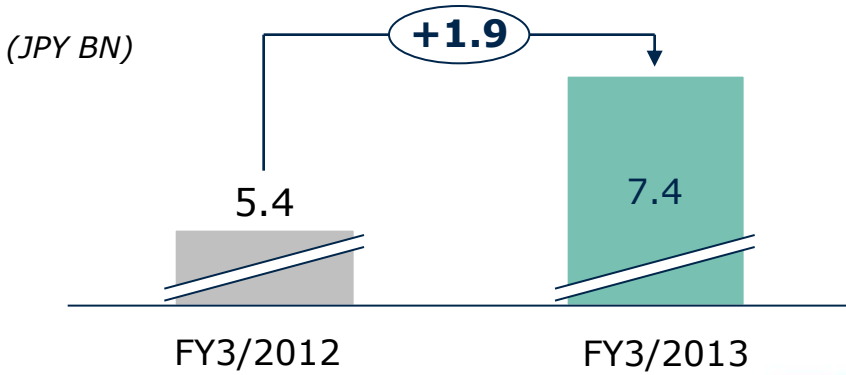
■Profitability improved steadily, driven by performance of staple food products  
 ■Increase in raw material cost is more than offset by the absence of expenses incurred in the same period of the prior year



## Revenue



## Adjusted EBITDA<sup>1</sup>



## Processed Food Business(Forecast):

Top-line growth with focus on staple food products to achieve steady improvement in profitability

Mid- to long-term target and role

- Strive to achieve operating profit margin on par with industry average and aim to make profit contribution to the JT group

- Combine our own technology with consumer needs to enhance product strength with focus on staple food products
- Minimize the effect of rising raw material cost and weak yen

<i>(JPY BN)</i>	<u>FY3/2013</u>	<u>FY3/2014</u>	<u>Change</u>
Revenue	168.7	<b>159.0</b>	<b>-9.7</b>
Revenue (Excl. fishery business)	152.6	<b>159.0</b>	<b>+6.4</b>
Adjusted EBITDA <sup>1</sup>	7.4	<b>9.5</b>	<b>+2.1</b>

Resource allocation and  
mid- to long-term shareholder return target



## Over the mid- to long-term, resources will be allocated based on “4S” model

- Investment in our business for sustainable future profit growth will be prioritized
- Moreover, target a competitive shareholder return comparable to global FMCG players

### Business Investment and Capital Policy

- Prioritize investment in tobacco business
- Pharmaceutical, beverage and processed food business will focus on investments that will enhance the base for future profit contribution
- To seek flexible business investment that can capture changing business environment – However, restriction placed on new equity issues
- Need to secure sufficient capital raising ability. In practice:
  - ✓ To establish even stronger financial position
  - ✓ To retain treasury stock for the moment

### Shareholder Return Policy

- Pursue competitive shareholder return comparable to the global FMCG players
  - Dividend payout ratio: target the level comparable to global FMCG players
  - Adjusted EPS growth at constant currency: target high single-digit growth per annum
    - ✓ The underlying growth to come from growth of our business, but share buy-backs will be considered as a complimentary initiative

## Closing remarks

- Strong results achieved in FY3/2013 in spite of difficult business environment
  - ✓ Adjusted EBITDA at constant currency of +15.1% achieved, superseding our original forecast
- Moreover, shareholder return has been enforced steadily
  - ✓ Dividend payout ratio of 37.6% achieved
  - ✓ Adjusted EPS at constant currency of 27.3% achieved from strong business momentum
  - ✓ Share buy-back of Yen 250 billion during government share disposal
- Record profit projected for FY3/2014
  - ✓ Adjusted EBITDA forecasted to grow 6.1% at constant currency
- Aim to achieve dividend payout ratio of 40%

Adjusted EPS =(Profit or loss attributable to owners of the parent company ± adjustment items (income and costs)\* ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares)

\*Adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others



## <Footnotes>

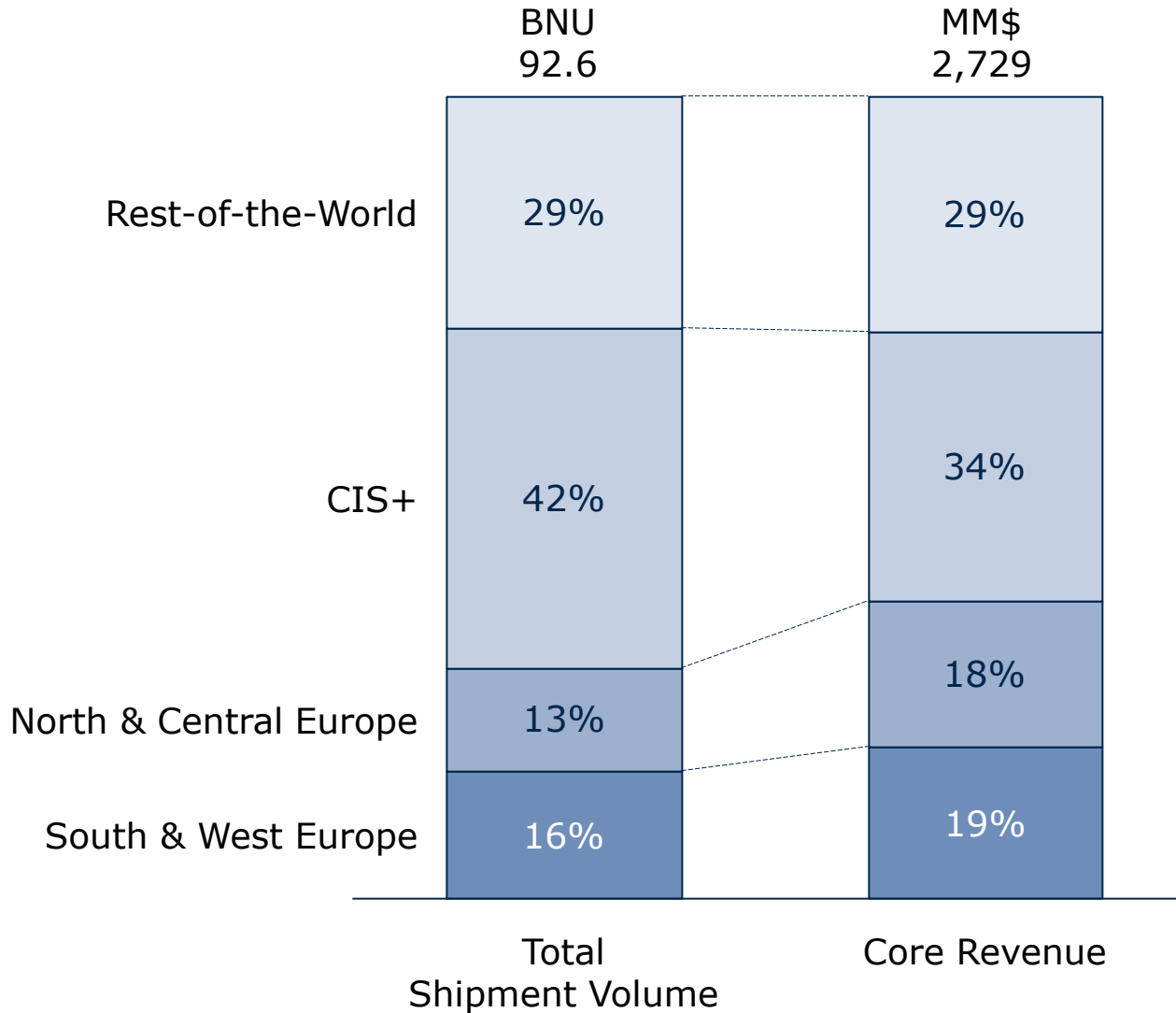
- 1 Adjusted EBITDA : Operating profit + depreciation and amortization  $\pm$  adjustment items (income and costs)\*
- \* adjustment items (income and costs) = impairment losses on goodwill  $\pm$  restructuring income and costs  $\pm$  others
- 2 Profit: Profit attributable to owners of the parent
- 3 Total Sales Volume:  
(Japanese Domestic Tobacco Business) Excludes sales volume of domestic duty free and the China business
- 4 Core Revenue:  
(Japanese Domestic Tobacco Business) Excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others
- 5 Total Shipment Volume:  
(International Tobacco Business) Includes fine cut, cigars, pipe tobacco and snus, but excludes contract manufactured products and waterpipe tobacco products
- 6 Core Revenue:  
(International Tobacco Business): Includes revenue from fine cut and waterpipe tobacco products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.  
(FY3/2013 results do not include revenue from waterpipe tobacco)
- 7 Constant Currency: Constant currency measures are computed by restating current year results at the previous year's foreign currency exchange rates. In 2013, market results/forecast, subject to highly volatile currency, significant currency devaluation and/or highly inflationary environments, are reported at actual/assumed exchange rates for figures both on a reported basis and at constant rates of exchange. Accordingly, 2012 results at constant rates of exchange have been restated for such markets. Results at constant rates of exchange should be considered in addition to, not as a substitute for, results reported in accordance with IFRS.

<Back up data>



# <Back up data> International Tobacco Business Composition Ratio by Cluster

【Results for January-March 2013】



## <Back up data> International Tobacco Business Share of Key Markets (12 Month Average)

	<u>2012</u> <u>March</u>	<u>2013</u> <u>March</u>	<u>Change</u>
France	16.1%	18.2%	+2.1ppt
Spain	20.6%	20.7%	+0.1ppt
Italy	20.7%	21.5%	+0.8ppt
Russia	36.9%	36.5%	-0.4ppt
(GFB)	20.9%	22.2%	+1.3ppt
Taiwan	37.9%	39.3%	+1.4ppt
Turkey	24.7%	26.3%	+1.6ppt
UK	38.4%	39.8%	+1.4ppt

Source: Nielsen, Logista, Altadis



	<b><u>2013</u></b>
	<b><u>Jan-Mar</u></b>
<b>JTI</b>	<b>-6.4%</b>
<b>South &amp; West Europe</b>	<b>-2.0%</b>
Spain	1.7%
Italy	-15.7%
France	8.3%
<b>North &amp; Central Europe</b>	<b>-3.0%</b>
UK	-8.2%
Ireland	4.0%
Austria	4.2%
Sweden	10.5%
Poland	-5.3%
<b>CIS+</b>	<b>-5.6%</b>
Russia	-4.3%
Ukraine	-17.2%
Kazakhstan	-5.9%
Romania	1.5%
<b>Rest of the World</b>	<b>-11.0%</b>
Turkey	3.0%
Taiwan	2.9%
Canada	-8.7%
Malaysia	-5.8%

# <Back up data> International Tobacco Business GFB Shipment Volume



\*Name change already rolled out in Singapore and Korea



# <Back up data> International Tobacco Business Tax and Price Increase

	<i>excise tax change</i>	<i>price increase</i>
Italy	<i>Sep 2011<sup>i)</sup></i>	<i>Jul, Sep 2011 Mar 2012</i>
France	<i>Jan 2013<sup>ii)</sup></i>	<i>Oct 2011 Oct 2012</i>
Spain	<i>Apr, Sep<sup>ii)</sup> 2012 Jan 2013</i>	<i>Temporary price reduction from June to Sep 2011 Apr, Sep 2012 Jan 2013</i>
UK	<i>Jan<sup>i)</sup>, Mar 2011 Mar 2012 Mar 2013</i>	<i>Jan, Mar, Sep 2011 Mar, Sep 2012 Mar 2013</i>
Russia	<i>Jan 2011 Jan, Jul 2012 Jan 2013</i>	<i>Jun, Dec 2011 Jun, Dec 2012</i>
Turkey	<i>Oct 2011 Jan 2013</i>	<i>Oct 2011 Jan 2013</i>
Taiwan	<i>Sep 2011<sup>ii)</sup></i>	<i>Mar-Apr<sup>iii)</sup>, Sep 2011 Aug-Sep 2012<sup>iii)</sup></i>

*i) Increase in VAT*

*ii) Tax structure change*

*iii) Price increase for some brands each month*



<Back up data> International Tobacco Business  
FX Assumptions

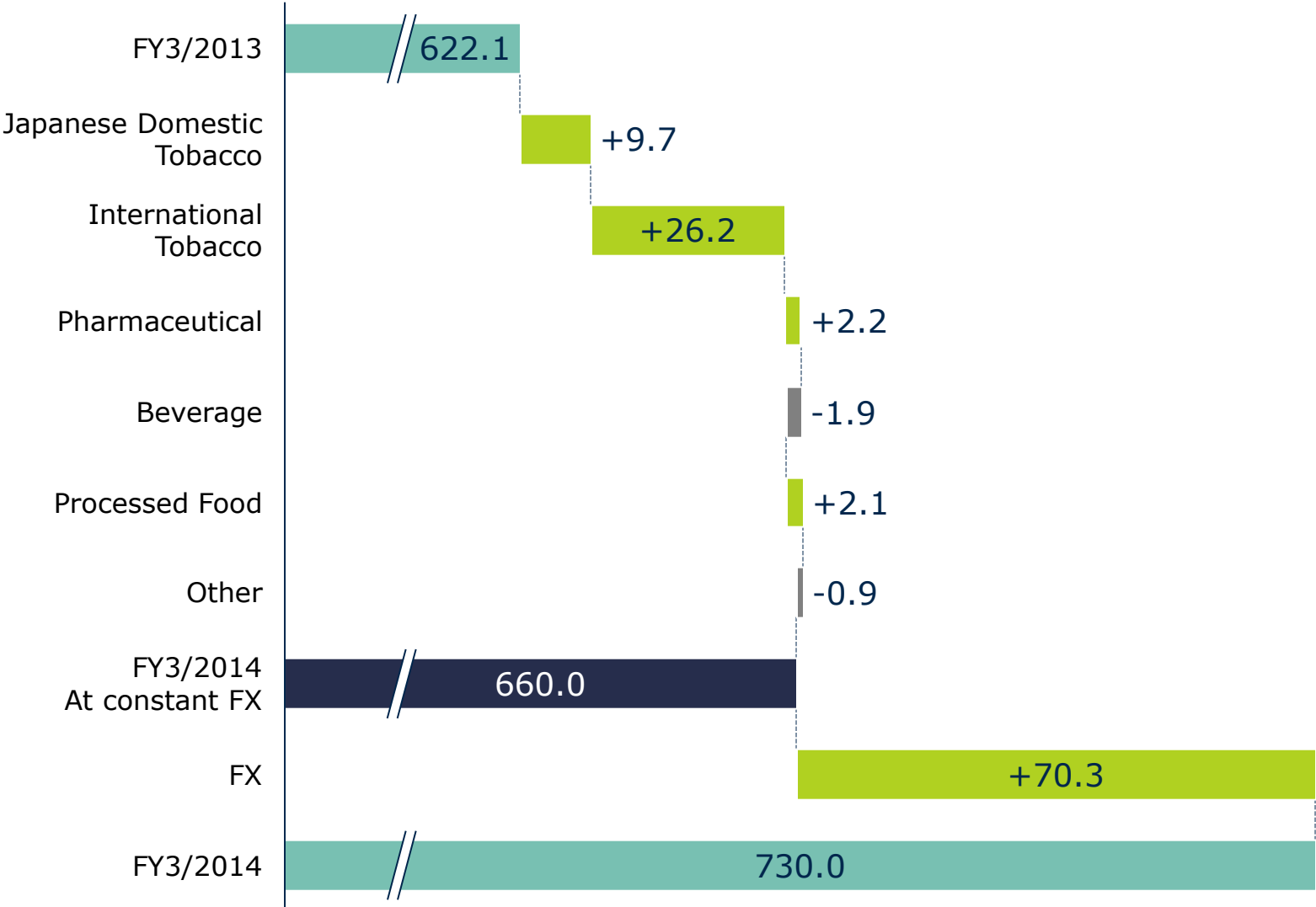
	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Forecast</u>	<u>Change</u>
RUB/\$	31.07	31.00	0.2%
GBP/\$	0.63	0.66	-4.4%
EUR/\$	0.78	0.80	-2.7%
CHF/\$	0.94	0.96	-2.3%
TWD/\$	29.57	29.71	-0.5%
YEN/\$	79.81	95.00	-16.0%

<Back up data> International Tobacco Business  
FX Actual

	<u>2012</u> <u>Jan-Mar</u>	<u>2013</u> <u>Jan-Mar</u>	<u>Change</u>
RUB/\$	30.15	30.40	-0.8%
GBP/\$	0.64	0.64	-1.1%
EUR/\$	0.76	0.76	+0.8%
CHF/\$	0.92	0.93	-0.9%
TWD/\$	29.71	29.47	+0.8%
YEN/\$	79.35	92.46	-14.2%

# <Back up data> Consolidated Financial Forecast

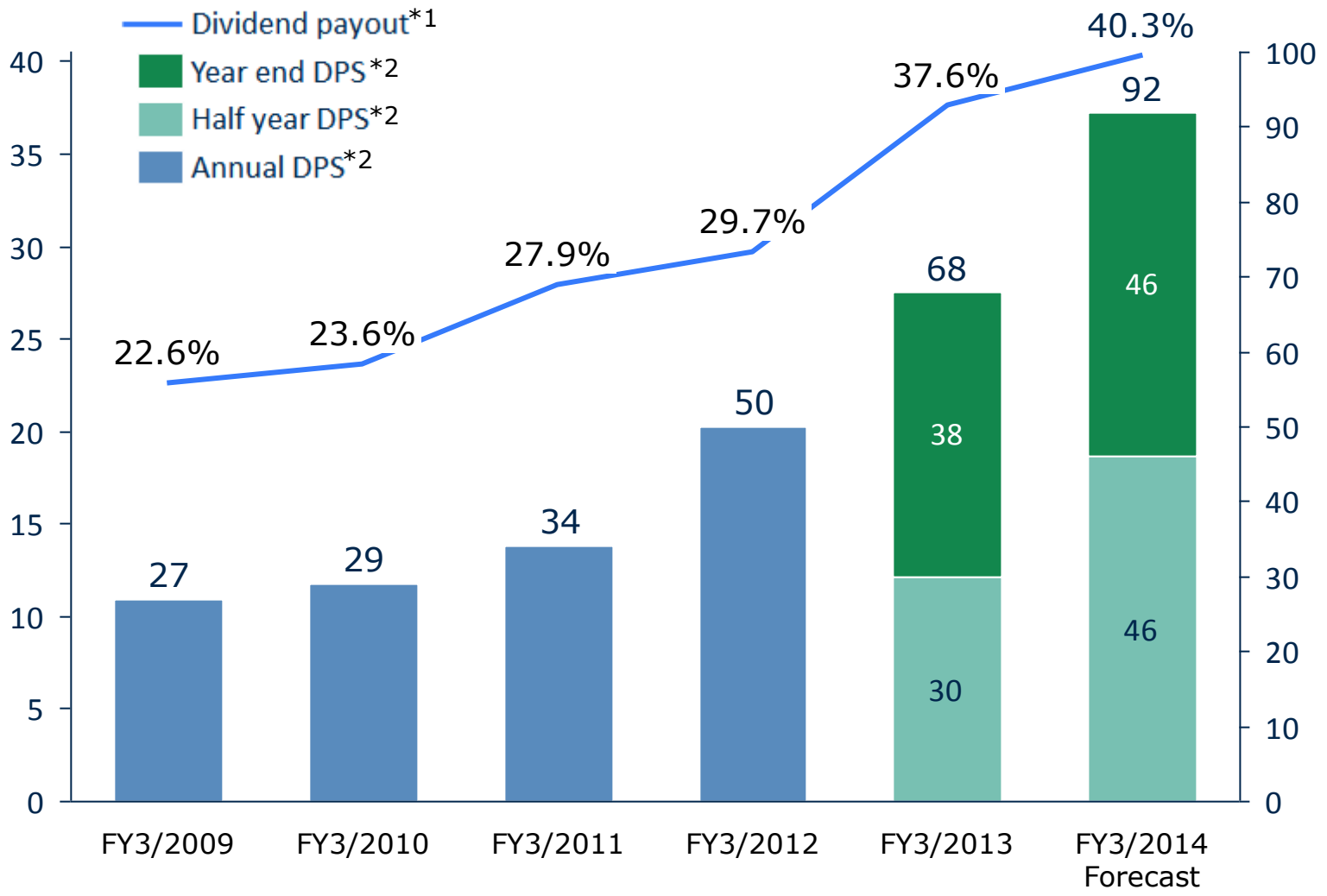
## Adjusted EBITDA analysis



\*Figures are rounded below JPY 100MM



# Evolution of dividend payment and dividend payout ratio



\*1 Consolidated dividend payout ratio after FY3 /2012 is in IFRS while, before FY3/2011, the ratio is in JGAAP based on earnings before goodwill amortization.

\*2 A 200 for 1 stock split took place, effective as of July 1, 2012. Figures prior to the stock split have been adjusted to reflect the stock split.

