Supplementary Document

Tokyo, October 31, 2016
Japan Tobacco Inc.

Japan Tobacco International (JTI)
Results for the 3-month period ended September 30, 2016

GFBs and pricing drive robust financial performance

(billions of units, millions of US$)	Jul-Sep		Change vs. prior year	Jan-Sep		Change vs. prior year
	2016	2015		2016	2015	
Total shipment volume[1]	104.5	104.3	0.1%	304.2	295.6	2.9%
GFB shipment volume[1]	75.5	73.5	2.8%	216.3	205.4	5.3%
Core revenue[2]	2,823	2,761	2.2%	8,062	7,823	3.1%
Core revenue at constant FX	2,976	2,761	7.8%	8,676	7,823	10.9%
Adjusted operating profit	897	945	-5.0%	2,626	2,715	-3.3%
Adjusted operating profit at constant FX	1,051	945	11.2%	3,134	2,715	15.4%

Highlights

3 months quarter-to-date 2016 (July-September)

- Adjusted operating profit at constant FX grew 11.2%, driven by solid price/mix net of the impact of ongoing investments. On a reported basis, adjusted operating profit declined 5.0%, due to unfavorable currency movements.
- Core revenue increased 7.8% at constant FX and 2.2% on a reported basis, led by strong GFB performance and price/mix gains.
- Total and GFB shipment volumes grew 0.1% and 2.8%, respectively, reflecting continued market share gains as well as contributions from seeding markets and acquisitions. In fine cut, total and GFB shipment volumes grew 5.1% and 12.5%, respectively.
- Year-on-year market share[3] increased in the key markets of France, Italy, Spain, Taiwan and the UK. In Russia, GFB market share continued to grow, with Winston and LD achieving new market share records.

9 months year-to-date 2016 (January-September)

- Core revenue and adjusted operating profit grew 10.9% and 15.4% at constant FX, respectively, driven by strong volume and pricing. Business investments accelerated, particularly in seeding markets and emerging products.
- Reported core revenue increased 3.1%, led by positive volume and robust pricing offsetting currency fluctuations. Reported adjusted operating profit declined 3.3%, due to unfavorable currency movements.
- Total and GFB shipment volumes grew 2.9% and 5.3%, respectively, driven by market share gains, contributions from seeding markets and acquisitions, as well as favorable trade inventory adjustments mainly in the first quarter. In fine cut, total and GFB shipment volumes increased 10.4% and 21.9%, respectively.

Performance review

Core revenue and adjusted operating profit

3 months quarter-to-date 2016 (July-September)

Core revenue at constant FX grew 7.8% or US$215 million to US$2,976 million, driven by US$208 million in price/mix contribution.

Adjusted operating profit at constant FX increased 11.2% or US$106 million to US$1,051 million, reflecting a positive price/mix of US$206 million and ongoing investments.

On a reported basis, core revenue was up 2.2% as continued GFB growth momentum and positive price/mix offset currency fluctuations, while adjusted operating profit declined 5.0% due to unfavorable currency movements.

9 months year-to-date 2016 (January-September)

Core revenue at constant FX increased 10.9% or US$853 million to US$8,676 million, primarily driven by US$611 million in price/mix contribution.

Adjusted operating profit at constant FX grew 15.4% or US$419 million to US$3,134 million, reflecting a positive price/mix of US$596 million, solid volume growth and increased investments in seeding markets and emerging products.

On a reported basis, core revenue was up 3.1%, while adjusted operating profit declined 3.3% due to currency fluctuations.

Total shipment volume

(billions of units)	Jul-Sep		Change vs. prior	Jan-Sep		Change vs. prior
Cluster	**2016**	**2015**	**year**	**2016**	**2015**	**year**
South & West Europe	16.8	16.8	-0.1%	51.3	48.8	5.1%
North & Central Europe	14.4	14.3	0.9%	41.4	40.1	3.2%
CIS+	37.8	41.4	-8.7%	108.1	114.9	-5.9%
Rest-of-the-World	35.5	31.9	11.3%	103.4	91.8	12.7%
Total JTI	**104.5**	**104.3**	**0.1%**	**304.2**	**295.6**	**2.9%**

3 months quarter-to-date 2016 (July-September)

Total shipment volume increased 0.1% to 104.5 billion cigarette equivalent units. Acquisitions and positive performance in Brazil, France, Germany, Iran, Kazakhstan, Middle East and North Africa markets, the Philippines, Romania, Spain, Taiwan and Turkey offset declines mainly attributed to industry contraction in Russia. In fine cut, shipment volume grew 5.1%, primarily led by France, Germany, Hungary, Switzerland and the UK.

9 months year-to-date 2016 (January-September)

Total shipment volume increased 2.9% to 304.2 billion cigarette equivalent units. This was driven by Brazil, France, Germany, Iran, Italy, Kazakhstan, Korea, Middle East and North Africa markets, the Philippines, South East Asia markets, Spain and Turkey, as well as acquisitions and inventory adjustments. Excluding acquisitions and inventory adjustments, total shipment volume was positive. In fine cut, shipment volume increased 10.4%, led by the solid growth momentum in the European clusters.

GFB shipment volume

(billions of units) Cluster	Jul-Sep 2016	Jul-Sep 2015	Change vs. prior year	Jan-Sep 2016	Jan-Sep 2015	Change vs. prior year
South & West Europe	15.0	14.9	1.2%	46.1	43.0	7.1%
North & Central Europe	9.1	8.3	8.9%	25.8	22.9	12.6%
CIS+	29.0	31.0	-6.4%	81.8	84.9	-3.7%
Rest-of-the-World	22.5	19.3	16.2%	62.6	54.5	14.9%
Total JTI	**75.5**	**73.5**	**2.8%**	**216.3**	**205.4**	**5.3%**

3 months quarter-to-date 2016 (July-September)

GFB shipment volume increased 2.8% to 75.5 billion cigarette equivalent units, driven by Brazil, France, Germany, Iran, Kazakhstan, Middle East and North Africa markets, the Philippines, Romania, Spain, Taiwan, Turkey, the UK and the addition of Natural American Spirit. Over the quarter, GFB fine cut shipment volume was up 12.5%, primarily led by growth in the Benelux, France, Germany, Hungary, Switzerland and the UK.

Winston: Shipment volume increased 6.5% to 37.4 billion cigarette equivalent units, mainly driven by Brazil, France, Germany, Iran, Kazakhstan, Middle East markets, the Philippines, Spain, Taiwan, Turkey and Ukraine. Fine cut shipment volume grew 7.2%, led by France and Germany.

Camel: Shipment volume increased 1.2% to 13.8 billion cigarette equivalent units, reflecting growth in Brazil, France, Iran, the Philippines and Poland. Fine cut shipment volume grew 1.1%, primarily led by the Benelux.

Mevius: Shipment volume increased 0.6% to 4.6 billion cigarette equivalent units, mainly driven by growth in Central Asia markets and Singapore.

LD: Despite continued growth in Canada, Kazakhstan and Turkey, shipment volume declined 6.9% to 12.7 billion cigarette equivalent units, primarily due to industry volume decline in the Caucasus markets, Russia and Ukraine. Fine cut shipment volume grew 2.2%, mainly led by Poland.

9 months year-to-date 2016 (January-September)

GFB shipment volume grew 5.3% to 216.3 billion cigarette equivalent units, led by the Benelux, Brazil, Canada, France, Germany, Iran, Italy, Kazakhstan, Korea, Middle East and North Africa markets, the Philippines, Romania, South East Asia markets, Spain, Taiwan, Turkey and the UK, as well as inventory adjustments and the acquisition of Natural American Spirit. In fine cut, GFB shipment volume increased 21.9% driven by continued growth momentum in European clusters.

GFBs represented 71.1% of total shipment volume, up 1.6ppt from the same period last year.

Cluster review

3 months quarter-to-date 2016 (July-September)

South and West Europe

(billions of units, millions of US$)	Jul-Sep 2016	2015	Change vs. prior year
Total shipment volume	16.8	16.8	-0.1%
GFB shipment volume	15.0	14.9	1.2%
Core revenue at constant FX	521	500	4.2%

Core revenue at constant FX increased 4.2%, driven by positive price/mix of US$17 million.

GFB shipment volume grew 1.2%, primarily driven by positive performance in the Benelux, France, Spain and Switzerland. Total shipment volume was almost flat, as positive GFB performance was offset by unfavorable trade inventory adjustments in Italy. Market share increased in the Benelux, France, Greece, Italy, Spain and Switzerland.

In France, total and GFB shipment volumes grew 2.4% and 3.5%, respectively, driven by Winston, Camel and Natural American Spirit. Fine cut shipment volume increased 2.5%, led by Winston. Market share grew 0.5ppt to 21.8%, driven by Winston, Camel and Fleur du Pays.

In Italy, total and GFB shipment volumes declined 6.1% and 5.6%, respectively, mainly due to unfavorable inventory adjustments. Fine cut shipment volume decreased 13.9% despite positive contribution from Winston and Natural American Spirit. Market share increased 1.8ppt to 22.4% driven by all GFBs.

In Spain, total and GFB shipment volumes grew 4.9% and 4.7%, respectively, mainly led by Winston, Camel and Benson & Hedges. Fine cut shipment volume increased 4.4%. Market share grew 0.4ppt to 22.6%, primarily driven by Winston, Camel and Benson & Hedges.

North and Central Europe

(billions of units, millions of US$)	Jul-Sep 2016	2015	Change vs. prior year
Total shipment volume	14.4	14.3	0.9%
GFB shipment volume	9.1	8.3	8.9%
Core revenue at constant FX	653	623	4.7%

Core revenue at constant FX grew 4.7%, led by US$31 million in price/mix contribution.

Total and GFB shipment volumes increased 0.9% and 8.9%, respectively, mainly driven by Germany, Hungary, Slovakia and Sweden, as well as the addition of Natural American Spirit. Market share grew in Austria, Czech Republic, Germany, Hungary, Ireland, Sweden and the UK.

In Austria, GFB shipment volume grew 3.8%, driven by Winston, Camel and Benson & Hedges. Total shipment volume declined 3.9%, mainly due to industry contraction. Market share increased 0.5ppt to 31.6%, led by Winston, Camel and Benson & Hedges.

In Poland, total and GFB shipment volumes declined 1.2% and 0.6%, respectively. Market share decreased 0.5ppt to 15.9%, as the positive performance of Winston was more than offset by LD.

In the UK, GFB shipment volume grew 23.9%, driven by Benson & Hedges and the addition of Natural American Spirit. Total shipment volume declined 4.1%, mainly due to industry contraction. Fine cut shipment volume increased 2.6%, driven by Sterling and Natural American Spirit. Market share grew 0.3ppt to 42.1%, led by continued growth of Amber Leaf, the number one tobacco brand in the market, and Benson & Hedges.

CIS+

(billions of units, millions of US$)	Jul-Sep		Change
	2016	2015	vs. prior year
Total shipment volume	37.8	41.4	-8.7%
GFB shipment volume	29.0	31.0	-6.4%
Core revenue at constant FX	780	771	1.1%

Core revenue at constant FX grew 1.1%, led by price/mix gains of US$73 million.

Total and GFB shipment volumes declined 8.7% and 6.4%, respectively, mainly due to industry contraction. GFB market share increased in Kazakhstan, Romania and Russia.

In Romania, total and GFB shipment volumes grew 4.5% and 7.2%, respectively, primarily driven by Winston and Sobranie. Market share increased 0.7ppt to 26.1%, led by Winston, Sobranie and LD, which benefitted from a successful migration from More.

In Russia, total and GFB shipment volumes declined 10.3% and 4.4%, respectively. This was mainly due to quarterly industry contraction[4] estimated at 6.6%, as well as competitive pressure at the low-end of the market. Share of market and share of value declined 0.7ppt to 33.2% and 0.4ppt to 34.5%, respectively. GFB market share grew 0.5ppt to 24.6%, driven by Winston and LD reaching new market share records.

Rest-of-the-World

(billions of units, millions of US$)	Jul-Sep		Change
	2016	2015	vs. prior year
Total shipment volume	35.5	31.9	11.3%
GFB shipment volume	22.5	19.3	16.2%
Core revenue at constant FX	1,022	866	18.0%

Core revenue at constant FX grew 18.0%, led by strong volume and price/mix of US$87 million.

Total and GFB shipment volumes increased 11.3% and 16.2%, respectively, driven by Iran (including the acquisition of Arian Tobacco Industry), Middle East and North Africa markets, Taiwan and Turkey, as well as positive contribution from seeding initiatives in Brazil, Egypt, Myanmar and the Philippines. Market share grew in several markets, including Canada, Korea, Malaysia and Taiwan.

In Taiwan, total and GFB shipment volumes grew 2.6% and 21.4%, respectively, underpinned by the successful migration from More to Winston. Share of market and share of value increased 0.3ppt to 39.5% and 0.7ppt to 45.8%, respectively, driven by Winston and LD.

In Turkey, total and GFB shipment volumes increased 4.4% and 3.2%, respectively, driven by improving industry trends. Market share declined 0.9ppt to 29.7%, as the positive performance of Winston was more than offset by Camel.

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Notes:

[1] Including fine cut, cigars, pipe tobacco and snus, but excluding contract manufactured products, waterpipe tobacco and emerging products.
[2] Revenue including waterpipe tobacco and emerging products, but excluding revenue from distribution, contract manufacturing and other peripheral businesses.
[3] Source: IRI, Logista, Nielsen and JTI estimates on a 12-month rolling average, unless otherwise specified, for cigarettes and fine cut at the end of September 2016. Germany, Kazakhstan, Spain and Switzerland are on a 12-month rolling average at the end of August 2016. 12-month share of market growth for August 2016 markets is calculated against a 12-month share of market at the end of September 2015.
[4] Source: JTI estimates based on July-September 2016 data versus the same period last year.

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

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