2017 Third Quarter Results (January 1–September 30, 2017)

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CFO and Senior Vice President

*Please be reminded that the figures shown on these slides may differ from those shown in the financial statements as they are intended to facilitate the reader's understanding of individual businesses.
*For details of each term, please refer to annotations on slide 3.

FORWARD-LOOKING STATEMENTS

This presentation contains forward-looking statements. These statements appear in a number of places in this presentation and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may", "will", "should", "would","expect", "intend", "project", "plan", "aim", "seek", "target", "anticipate", "believe", "estimate", "predict","potential" or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

(1) decrease in demand for tobacco products in key markets;
(2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;
(3) increases in excise, consumption or other taxes on tobacco products in markets in which we operate;
(4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products ;
(5) our ability to realize anticipated results of our acquisition or other similar investments;
(6) competition in markets in which we operate or into which we seek to expand;
(7) deterioration in economic conditions in areas that matter to us;
(8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
(9) fluctuations in foreign exchange rates and the costs of raw materials; and
(10) catastrophes, including natural disasters.

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<Annotation>

Adjusted operating profit: Adjusted OP:	Adjusted operating profit = operating profit + amortization cost of acquired intangibles arising from business acquisitions + adjusted items (income and costs)* * Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others
Profit:	Profit attributable to owners of the parent company
Shipment volume: (International tobacco business)	Includes fine cut, cigars, pipe tobacco and snus but excludes contract manufactured products, waterpipe tobacco and emerging products
Core revenue: (International tobacco business)	Includes revenue from waterpipe tobacco and emerging products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.
Cigarette industry volume (Japanese domestic tobacco business)	Industry volume of cigarettes in Japan market (excluding emerging products)
Cigarette sales volume (Japanese domestic tobacco business)	Excludes sales volume of domestic duty free, the China business and emerging products
Core revenue: (Japanese domestic tobacco business)	Includes revenue from domestic duty free, the China business and emerging products such as Ploom TECH devices and capsules but excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others.

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Consolidated financial results January – September 2017

Adjusted operating profit at constant FX increased

(JPY BN)

	Jan-Sep 2016	**Jan-Sep 2017**	**Change vs. PY**
At constant FX			
Adjusted Operating Profit	476.5	**489.7**	**+2.8%**
Reported			
Revenue	1,618.5	**1,592.9**	**-1.6%**
Adjusted Operating Profit	476.5	**486.1**	**+2.0%**
Operating Profit	494.6	**469.7**	**-5.0%**
Profit	350.0	**333.7**	**-4.7%**

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Results by business segment
January – September 2017

International Tobacco Business

Earnings growth remains on track for full year target

(BNU, US$ MM)

	Jan-Sep 2016	Jan-Sep 2017	Change vs. PY
Total Shipment Volume	304.2	**298.0**	**-2.0%**
GFB Shipment Volume	216.3	**216.8**	**+0.2%**
At Constant FX			
Core Revenue	8,062	**7,941**	**-1.5%**
Adjusted Operating Profit	2,626	**2,868**	**+9.2%**
Reported			
Core Revenue	8,062	**7,895**	**-2.1%**
Adjusted Operating Profit	2,626	**2,747**	**+4.6%**
JPY Basis (JPY BN)			
Core Revenue	873.1	**882.9**	**+1.1%**
Adjusted Operating Profit	285.0	**307.1**	**+7.8%**

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Year-on-year variance by cluster

	Jan-Mar 2017	Apr-Jun 2017	Jul-Sep 2017	Jan-Sep 2017
			Change vs. PY	
South & West Europe				
Total Shipment Volume	-6.4%	0.9%	**0.1%**	**-1.8%**
GFB Shipment Volume	-5.9%	1.3%	**0.8%**	**-1.3%**
Core Revenue at constant FX	-5.9%	0.7%	**-2.9%**	**-2.7%**
North & Central Europe				
Total Shipment Volume	-5.0%	-5.0%	**-6.4%**	**-5.5%**
GFB Shipment Volume	-4.0%	-3.8%	**-5.6%**	**-4.5%**
Core Revenue at constant FX	-8.9%	-11.4%	**-17.0%**	**-12.5%**

Keynote in Jul-Sep 2017

South & West Europe

- Share gains driven by solid GFB momentum
- Favorable inventory adjustments

North & Central Europe

- Industry volume contraction and down-trading continued
- Intensified competition in fine cut category

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International Tobacco Business

Year-on-year variance by cluster

	Jan-Mar 2017	Apr-Jun 2017	Jul-Sep 2017	Jan-Sep 2017
			Change vs. PY	
CIS+				
Total Shipment Volume	-6.7%	-10.8%	**-4.3%**	**-7.4%**
GFB Shipment Volume	-6.2%	-6.7%	**-1.0%**	**-4.5%**
Core Revenue at constant FX	-6.2%	-11.7%	**-7.3%**	**-8.6%**
Rest-of-the-World				
Total Shipment Volume	3.4%	2.9%	**8.0%**	**4.8%**
GFB Shipment Volume	12.1%	11.9%	**4.8%**	**9.4%**
Core Revenue at constant FX	12.9%	13.3%	**6.4%**	**10.7%**

Keynote in Jul-Sep 2017

CIS+

- Industry volume contraction and intense competition in value segment continued
- Russia: market share recovery continued

Rest-of-the-world

- Acquisition in the Philippines*
- GFB momentum remained strong
- Price/mix contribution from various markets

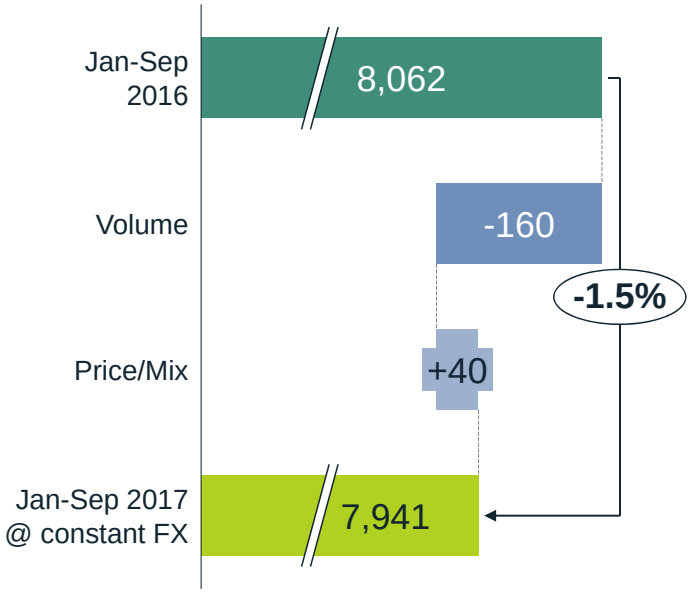
*completed on September 7th, 2017

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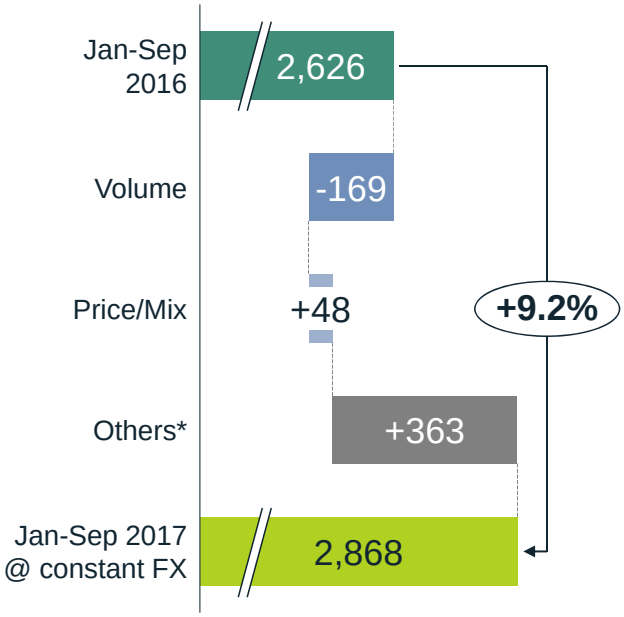
Profit increased led by cost optimization while continuing to invest for sustainable growth

(US$MM, at constant FX)

Core Revenue



Adjusted OP

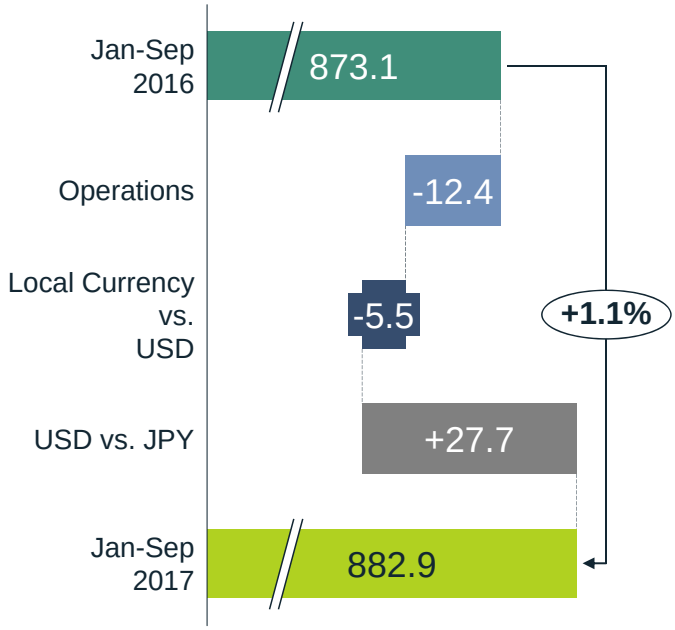


*Include product cost, marketing investment and SG&A

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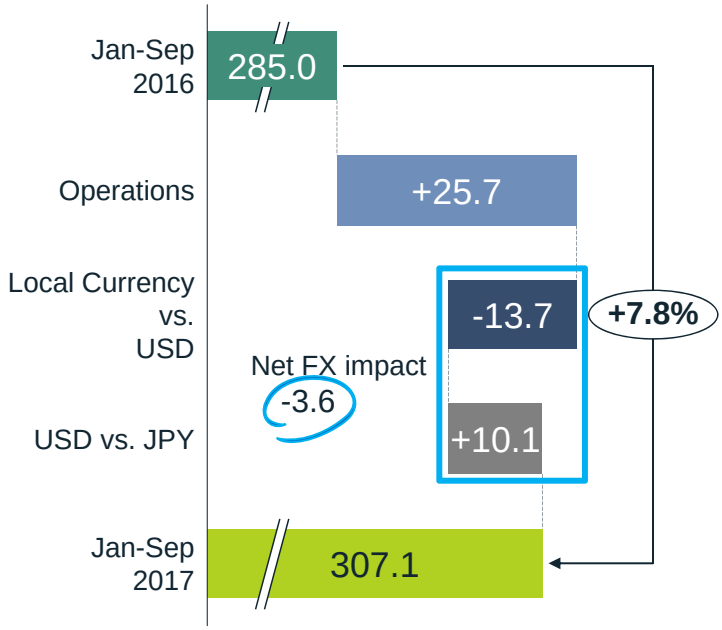
Currency fluctuations impact was limited on profit

Core Revenue



Adjusted OP

(JPY BN)



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Cigarette sales volume was weak and operating environment continues to be challenging

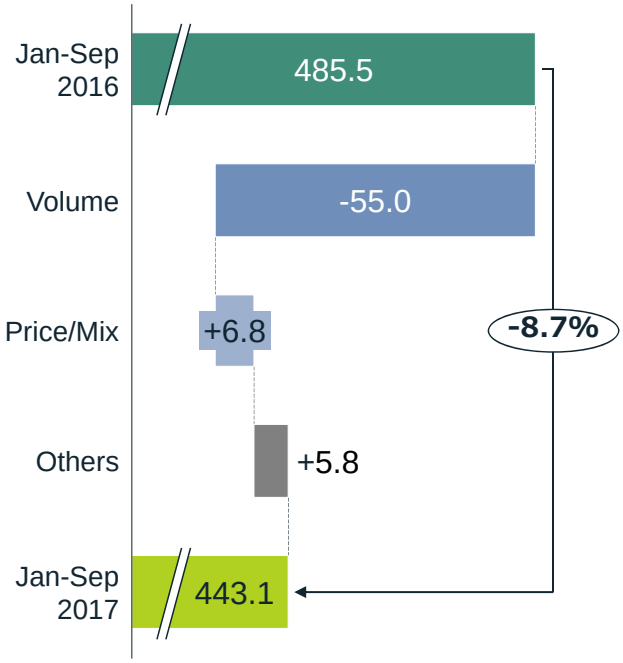
(BNU, JPY BN)

	Jan-Sep 2016	Jan-Sep 2017	Change vs. PY
Cigarette industry volume	130.8	**115.3**	**-11.8%**
Cigarette sales volume	79.7	**70.3**	**-11.8%**
SoM of JT	61.0%	**61.0%**	**+0.0%pt**
Core Revenue	485.5	**443.1**	**-8.7%**
Adjusted Operating Profit	199.0	**178.0**	**-10.6%**

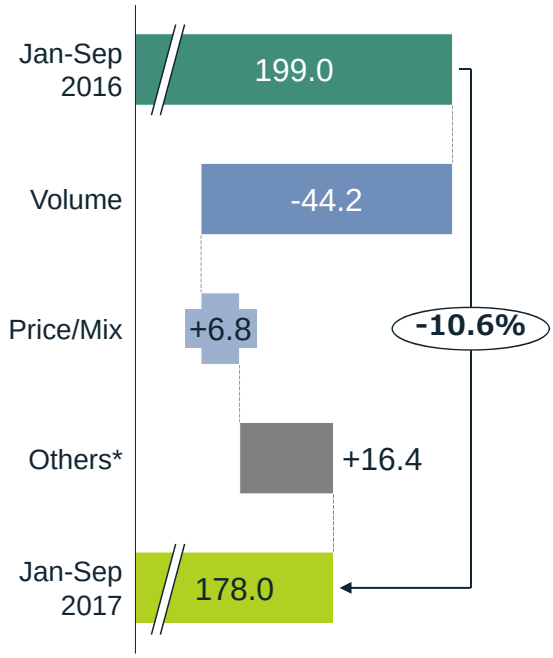
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Profit decreased impacted by lower cigarette volume despite pricing effect and optimization of investments

Core Revenue



Adjusted OP (JPY BN)



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*Include product cost, marketing investment and SG&A

Ploom TECH: Expanding sales area in Tokyo

Expanding sales area in Tokyo

June 29th "Ploom Shops" launched
July 10th around 100 tobacco stores in the Tokyo metropolitan area

▽

October 30th further expansion to total around 500 tobacco stores in Tokyo
November 1st tobacco capsules being available at convenience stores across Tokyo



4 Ploom Shops opened in Tokyo as of October 31, 2017

Launching two new flavors of tobacco capsules on November 1st



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Pharmaceutical: Significant profit growth mainly driven by royalty revenue increase
Processed food: Lower profit due to weaker topline

(JPY BN)

	Jan-Sep 2016	**Jan-Sep 2017**	**Change (abs.)**	**Change vs. PY**
Pharmaceutical Business				
Revenue	60.7	**74.2**	**+13.5**	**+22.2%**
Adjusted OP	4.2	**15.8**	**+11.6**	**+274.4%**
Processed Food Business				
Revenue	120.1	**117.3**	**-2.8**	**-2.3%**
Adjusted OP	3.7	**3.0**	**-0.8**	**-20.4%**

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2017 Revised Forecast

Consolidated Financial Forecast

Adjusted operating profit at constant FX to grow despite a challenging competitive environment

(JPY BN)

	Previous Forecast	**Revised Forecast**	**Change vs. Previous Forecast**	**Change vs. PY**
At constant FX				
Adjusted Operating Profit	597.0	**592.0**	**-5.0**	**+0.9%**
Reported				
Revenue	2,125.0	**2,130.0**	**+5.0**	**-0.6%**
Adjusted Operating Profit	589.0	**591.0**	**+2.0**	**+0.7%**
Operating Profit	565.0	**565.0**	**-**	**-4.8%**
Profit	402.0	**402.0**	**-**	**-4.7%**

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No change to 9% profit growth target from updated assumptions

(BNU, US$MM)

	Previous Forecast	Revised Forecast	Change vs. Previous Forecast	Change vs. PY
Total Shipment Volume	391.0	**398.0**	**+7.0**	**-0.2%**
GFB Shipment Volume	288.0	**286.0**	**-2.0**	**+0.8%**
At Constant FX				
Core Revenue	10,440	**10,440**	**-**	**-0.5%**
Adjusted Operating Profit	3,375	**3,375**	**-**	**+9.1%**
Reported				
Core Revenue	10,370	**10,510**	**+140**	**+0.2%**
Adjusted Operating Profit	3,230	**3,280**	**+50**	**+6.0%**
JPY Basis (JPY BN)				
Core Revenue	1,152.0	**1,170.0**	**+18.0**	**+2.7%**
Adjusted Operating Profit	359.0	**365.0**	**+6.0**	**+8.6%**

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Downward revision mainly due to lower cigarette sales volume

(BNU, JPY BN)

	Previous Forecast	Revised Forecast	Change vs. Previous Forecast	Change vs. PY
Cigarette Sales Volume	93.0	**92.0**	**-1.0**	**-13.4%**
Core Revenue	602.0	**591.0**	**-11.0**	**-9.0%**
Adjusted Operating Profit	230.0	**225.0**	**-5.0**	**-13.5%**

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Pharmaceutical: Strong royalty revenue leading to upward revision
Processed food: Aiming to achieve profit growth

(JPY BN)

	Previous Forecast	**Revised Forecast**	**Change vs. Previous Forecast**	**Change vs. PY**
Pharmaceutical Business				
Revenue	102.0	**103.0**	**+1.0**	**+15.8**
Adjusted OP	23.0	**24.0**	**+1.0**	**+14.3**
Processed Food Business				
Revenue	165.0	**163.0**	**-2.0**	**-1.1**
Adjusted OP	6.0	**5.5**	**-0.5**	**+0.5**

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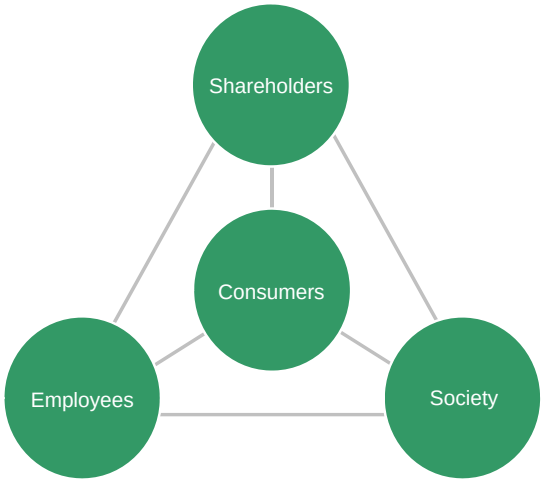
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Closing

Closing Remarks

Consistently invest in business toward mid- to long-term profit growth

- Aim to achieve 2017 profit growth target at constant FX basis
- Continue to invest in emerging products and expand our geographic reach
- Annual dividend per share of JPY 140, same as initially planned



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