Tokyo, November 1, 2017
Japan Tobacco Inc.

Japan Tobacco International (JTI)
2017 Third Quarter Results

Earnings growth remains on track for full year

(billions of units, millions of US$)	Jul-Sep		Change vs. prior year	Jan-Sep		Change vs. prior year
	2017	2016		2017	2016	
Total shipment volume[1]	104.8	104.5	0.3%	298.0	304.2	-2.0%
GFB shipment volume[1]	76.0	75.5	0.5%	216.8	216.3	0.2%
Core revenue[2]	2,754	2,823	-2.4%	7,895	8,062	-2.1%
Core revenue at constant FX	2,717	2,823	-3.7%	7,941	8,062	-1.5%
Adjusted operating profit	1,009	897	12.4%	2,747	2,626	4.6%
Adjusted operating profit at constant FX	982	897	9.4%	2,868	2,626	9.2%

Highlights

2017 third quarter results (July-September)

- Adjusted operating profit at constant FX grew 9.4%, driven by cost optimization. On a reported basis, adjusted operating profit increased 12.4% supported by positive currency impacts.
- Core revenue decreased 3.7% at constant FX due to negative volume and price/mix variance. Favorable currency movements resulted in reported core revenue decreasing 2.4%.
- Total shipment volume grew 0.3% driven by the acquisition in the Philippines. Excluding this acquisition, total shipment volume declined 1.2% mainly due to industry volume contraction.
- GFB shipment volume increased 0.5% driven by strong performance of Winston and Camel.
- Investment continued in emerging products. Logic, our e-cigarette brand, was launched in Russia. Our tobacco vapor product[3] Ploom TECH was introduced in Switzerland in July and was expanded to four US states in September under the brand name Vapeleaf by Logic[4].

2017 nine months year-to-date results (January-September)

- Adjusted operating profit increased 9.2% at constant FX led by cost optimization while investment was maintained in emerging markets and emerging products. On a reported basis, adjusted operating profit grew 4.6%.
- Core revenue decreased 1.5% at constant FX and 2.1% on a reported basis, due to total shipment volume declining 2.0% reflecting industry volume contraction in several key markets.
- GFB shipment volume grew 0.2% driven by share gains in several key and emerging markets.
- Year-on-year market share[5] increased in the key markets of France, Italy, Spain and Taiwan. In Russia, GFB market share achieved a new record level driven by Winston, reinforcing our number one position in the market.
- At the end of September, we operated our vapor business in 11 countries, outside of Japan.

Performance review

Core revenue and adjusted operating profit

2017 third quarter results (July-September)

Core revenue at constant FX decreased 3.7% or US$106 million to US$2,717 million, due to volume decline and a negative price/mix variance of US$53 million.

Adjusted operating profit at constant FX increased 9.4% or US$84 million to US$982 million, driven by cost optimization.

On a reported basis, positive currency movements resulted in a core revenue decline of only 2.4% and adjusted operating profit growth of 12.4%.

2017 nine months year-to-date results (January-September)

Core revenue at constant FX decreased 1.5% or US$120 million to US$7,941 million, due to volume decline offsetting a positive price/mix variance of US$40 million.

Adjusted operating profit at constant FX increased 9.2% or US$241 million to US$2,868 million, driven by cost optimization and a positive price/mix of US$48 million. Investments continued in emerging markets and emerging products.

On a reported basis, core revenue decreased 2.1% and adjusted operating profit grew 4.6% due to currency movements.

Total shipment volume

(billions of units)	Jul-Sep		Change vs. prior	Jan-Sep		Change vs. prior
Cluster	**2017**	**2016**	**year**	**2017**	**2016**	**year**
South & West Europe	16.8	16.8	0.1%	50.4	51.3	-1.8%
North & Central Europe	13.5	14.4	-6.4%	39.1	41.4	-5.5%
CIS+	36.2	37.8	-4.3%	100.1	108.1	-7.4%
Rest-of-the-World	38.3	35.5	8.0%	108.4	103.4	4.8%
Total JTI	**104.8**	**104.5**	**0.3%**	**298.0**	**304.2**	**-2.0%**

2017 third quarter results (July-September)

Total shipment volume grew 0.3% to 104.8 billion cigarette equivalent units with the acquisition in the Philippines. Excluding this acquisition, total shipment volume declined 1.2% due to industry volume contraction in Russia, the UK and Ukraine more than offsetting the strong growth in Iran, Jordan, Morocco, the Philippines, Sudan and Tunisia. In fine cut, shipment volume declined 3.9% primarily in Belgium, Germany and the UK.

2017 nine month year-to-date results (January-September)

Total shipment volume declined 2.0% or 2.6% excluding the acquisition in the Philippines. Organic volume growth in Brazil, Egypt, Iran, Morocco, the Philippines, Taiwan and Tunisia was unable to offset the impact from industry volume contraction in Russia, Turkey, the UK and Ukraine. In fine cut, shipment volume decreased 3.7% mainly in Belgium, Germany, Greece and the UK.

GFB shipment volume

(billions of units)	Jul-Sep		Change vs. prior	Jan-Sep		Change vs. prior
Cluster	**2017**	**2016**	**year**	**2017**	**2016**	**year**
South & West Europe	15.2	15.0	0.8%	45.5	46.1	-1.3%
North & Central Europe	8.6	9.1	-5.6%	24.6	25.8	-4.5%
CIS+	28.7	29.0	-1.0%	78.1	81.8	-4.5%
Rest-of-the-World	23.5	22.5	4.8%	68.5	62.6	9.4%
Total JTI	**76.0**	**75.5**	**0.5%**	**216.8**	**216.3**	**0.2%**

2017 third quarter results (July-September)

GFB shipment volume grew 0.5% to 76.0 billion cigarette equivalent units, mainly driven by Iran, Italy, Jordan, Morocco, the Philippines and Spain. GFB fine cut shipment volume decreased 3.8% primarily in Germany.

Winston: Shipment volume grew 1.3% to 37.9 billion cigarette equivalent units, mainly driven by Azerbaijan, Czech Republic, Iran, Morocco, the Philippines, Spain and Ukraine.

Camel: Shipment volume increased 3.1% to 14.3 billion cigarette equivalent units, reflecting growth in Italy, the Philippines, Spain and Turkey.

Mevius: Shipment volume declined 1.4% to 4.5 billion cigarette equivalent units following the second quarter trade inventory accumulation in Taiwan ahead of the June tax increase.

LD: Despite growth in Russia, shipment volume declined 1.2% to 12.5 billion cigarette equivalent units, primarily due to industry volume contraction in Czech Republic and Ukraine.

2017 nine months year-to-date results (January-September)

GFB shipment volume grew 0.2% driven notably by Azerbaijan, Brazil, Egypt, Iran, Kazakhstan, Korea, Morocco, Myanmar, the Philippines, Spain, Taiwan and Tunisia. In fine cut, GFB shipment volume decreased 2.2% mainly in Germany.

GFBs represented 72.7% of total shipment volume, up 1.6ppt from the same period last year.

Cluster review

2017 third quarter results (July-September)

South and West Europe

(billions of units, millions of US$)	Jul-Sep 2017	2016	Change vs. prior year
Total shipment volume	16.8	16.8	0.1%
GFB shipment volume	15.2	15.0	0.8%
Core revenue at constant FX	506	521	-2.9%

Core revenue at constant FX decreased 2.9%, due to an unfavorable price/mix variance of US$19 million, mainly in France and Italy.

Total and GFB shipment volumes grew 0.1% and 0.8%, respectively, primarily driven by Italy and Spain. Market share increased in France, Italy, Luxemburg, the Netherlands, Spain and Switzerland.

In France, total, GFB and fine cut shipment volumes declined 7.8%, 7.6% and 5.3%, respectively, due to industry volume contraction. Market share grew 0.2ppt to 22.0%, driven by Winston, Camel and Fleur du Pays.

In Italy, total, GFB and fine cut shipment volumes grew 4.5%, 4.2% and 58.2%, respectively, driven by favorable inventory adjustments. Market share increased 0.3ppt to 23.2%, driven by Winston, Benson & Hedges and Natural American Spirit.

In Spain, despite industry volume contraction, total and GFB shipment volumes increased 8.7% and 11.1%, respectively, mainly driven by favorable inventory adjustments and growth from Winston and Camel. Fine cut shipment volume was down 0.6% due to non-GFBs. Market share increased 1.1ppt to 23.8%, primarily led by Winston and Camel.

North and Central Europe

(billions of units, millions of US$)	Jul-Sep 2017	2016	Change vs. prior year
Total shipment volume	13.5	14.4	-6.4%
GFB shipment volume	8.6	9.1	-5.6%
Core revenue at constant FX	492	592	-17.0%

Core revenue at constant FX decreased 17.0%, due to lower volume and an unfavorable price/mix variance of US$54 million mainly in the UK.

Total and GFB shipment volumes decreased 6.4% and 5.6%, respectively, mainly due to industry volume contraction in Austria, Germany, Ireland and the UK. Market share grew in Czech Republic.

In Austria, GFB shipment volume grew 1.8% driven by Benson & Hedges and total shipment volume declined 2.6% due to industry volume contraction and market share loss. GFB market share was up 0.6ppt to 18.7% while total market share decreased 0.5ppt to 31.1%.

In Germany, total and GFB shipment volumes declined 14.5% and 14.6%, respectively, due to industry volume contraction and intense price competition in fine cut. Year-on-year market share was stable at 7.8% driven by Natural American Spirit, but decreased 0.9ppt in the third quarter to 7.4%.

In the UK, total and GFB shipment volumes declined 7.4% and 6.7%, respectively, due to industry volume contraction and market share loss. Fine cut shipment volume decreased 5.7% due to price competition impacting Amber Leaf. Despite gains by Benson & Hedges in cigarettes, market share was down 1.5ppt to 40.5% mainly due to fine cut.

CIS+

(billions of units, millions of US$)	Jul-Sep		Change
	2017	2016	vs. prior year
Total shipment volume	36.2	37.8	-4.3%
GFB shipment volume	28.7	29.0	-1.0%
Core revenue at constant FX	668	720	-7.3%

Core revenue at constant FX declined 7.3% due to lower volume and an unfavorable price/mix variance of US$13 million as pricing investments in Russia offset gains in Romania and Ukraine.

Total and GFB shipment volumes declined 4.3% and 1.0%, respectively, mainly due to industry volume contraction in Romania, Russia and Ukraine. Market share grew in Kazakhstan and Romania.

In Romania, GFB shipment volume grew 0.7% driven by Winston and Sobranie. Total shipment volume declined 2.6% due to industry volume contraction. Market share increased 0.1ppt to 26.2% driven by Winston and Sobranie.

In Russia, total and GFB shipment volumes declined 4.4% and 1.2%, respectively. This was mainly due to quarterly industry volume contraction[6] estimated at 8.7%, partly offset by market share gains. Over the last three quarters, market share has increased sequentially, reaching 33.8% this quarter. In the third quarter, GFB market share grew 1.2ppt to a new record high of 26.1% with both Winston, the number one tobacco brand, and LD setting new market share records in the quarter. On a 12-month rolling average basis, share of value and share of market declined 0.5ppt to 34.0% and 0.5ppt to 32.7%, respectively.

Rest-of-the-World

(billions of units, millions of US$)	Jul-Sep		Change
	2017	2016	vs. prior year
Total shipment volume	38.3	35.5	8.0%
GFB shipment volume	23.5	22.5	4.8%
Core revenue at constant FX	1,051	989	6.4%

Core revenue at constant FX increased 6.4%, led by volume increase and a positive price/mix variance of US$32 million, mainly from Egypt and Iran. Excluding the acquisition in the Philippines, core revenue at constant FX grew 5.2%.

Total shipment volume grew strongly by 8.0% bolstered by the acquisition in the Philippines, or 3.6% organically. GFB shipment volume was up 4.8%. The organic performance was mainly driven by volume and market share gains in Egypt, Iran, Korea and the Philippines.

In Iran, total and GFB shipment volumes grew 6.1% and 14.9%, respectively, driven by the strong performance of Winston, the fastest growing tobacco brand.

In Taiwan, total and GFB shipment volumes declined 7.3% and 9.2%, respectively, following the second quarter trade inventory accumulation ahead of the June tax increase. Share of market grew 2.3ppt to 41.8% driven by Winston and LD, strengthening our number one position. Share of value grew 1.9ppt to 47.7%.

In Turkey, total and GFB shipment volumes decreased 4.2% and 1.3%, respectively, due to market share loss. Market share declined 0.7ppt to 29.0% despite growth from Winston.

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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] Including revenue from waterpipe tobacco and emerging products, but excluding revenue from distribution, contract manufacturing and other peripheral businesses.
[3] Tobacco vapor products contain tobacco which is heated rather than combusted during use to produce an inhalable vapor.
[4] In the USA, Ploom TECH is sold by Logic Technology Development LLC, a member of Japan Tobacco Group, under the name "Logic Vapeleaf".
[5] 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 2017. Kazakhstan are on a 12-month rolling average at the end of August 2017. 12-month share of market growth for August 2017 markets is calculated against a 12-month share of market at the end of September 2016.
[6] Source: JTI estimates based on July-August 2017 data versus the same period last year.

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

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