Tokyo, February 6, 2018
Japan Tobacco Inc.

Japan Tobacco International (JTI)
2017 Results

JTI ends 2017 with top-line momentum

(billions of units, millions of US$)	Oct-Dec 2017	Oct-Dec 2016	Change vs. prior year	Jan-Dec 2017	Jan-Dec 2016	Change vs. prior year
Total shipment volume[1]	100.5	94.5	6.3%	398.5	398.7	-0.1%
GFB shipment volume[1]	69.1	67.4	2.5%	285.9	283.7	0.8%
Core revenue[2]	2,603	2,429	7.2%	10,498	10,490	0.1%
Core revenue at constant FX	2,516	2,429	3.6%	10,457	10,490	-0.3%
Adjusted operating profit	391	468	-16.4%	3,138	3,095	1.4%
Adjusted operating profit at constant FX	352	468	-24.9%	3,219	3,095	4.0%

Highlights

2017 fourth quarter results (October-December)

- Total shipment volume grew 6.3%, and grew 0.5% when excluding acquisitions in Indonesia and the Philippines as well as unfavorable inventory movements.
- GFB shipment volume increased 2.5% driven mainly by Winston, Camel and LD.
- Core revenue at constant FX grew 3.6% driven by acquisitions together with pricing and market share gains in several key markets. On a reported basis, core revenue increased 7.2%.
- Adjusted operating profit decreased 24.9% at constant FX, and 16.4% on a reported basis, due to the impact of a non-recurring loss related to a key UK distributor going into administration. Excluding this, adjusted operating profit at constant FX increased 10.7% and 21.8% on a reported basis driven by cost optimization and price/mix gains.
- Our tobacco infused vapor product[3] Ploom TECH was introduced in Canada in December.

2017 full year results (January-December)

- Excluding the impact of a non-recurring loss, adjusted operating profit at constant FX increased 9.9% and 7.7% on a reported basis, driven by cost optimization and price/mix gains. Otherwise adjusted operating profit grew 4.0% at constant FX and 1.4% on a reported basis.
- GFB shipment volume grew 0.8% led by the strong performance of Winston, up 3.5%, and continued market share gains in both mature and emerging markets.
- Total shipment volume was stable, down 0.1%, whereas, excluding acquisitions in Indonesia and the Philippines, it declined 2.1%.
- Core revenue was resilient, declining 0.3% at constant FX, driven by acquisitions and continued market share gains. Favorable currency movements drove reported core revenue up 0.1%.

- Year-on-year market share[4] increased in the key markets of France, Spain, Russia and Taiwan.
- Logic and Ploom, our brands in Reduced-Risk products[5], are now present in 11 markets ex-Japan.

Performance review

Core revenue and adjusted operating profit

2017 full year results (January-December)

Core revenue at constant FX declined 0.3% or US$33 million to US$10,457 million, despite a positive price/mix contribution of US$90 million.

Adjusted operating profit at constant FX increased 4.0% or US$125 million to US$3,219 million. Profit growth was impacted by US$182 million due to the impact of a non-recurring loss. Excluding this and after investing in emerging markets and Reduced-Risk Products for future sustainable growth, adjusted operating profit at constant FX grew 9.9% or US$306 million to US$3,401 million, driven by cost optimization and positive price/mix variance.

On a reported basis, core revenue increased 0.1%. Adjusted operating profit grew 1.4%, whereas excluding the impact of a non-recurring loss, the profit increased 7.7%.

2017 fourth quarter results (October-December)

Core revenue at constant FX increased 3.6% or US$88 million to US$2,516 million, driven by volume growth and US$50 million in price/mix contribution.

Adjusted operating profit at constant FX declined 24.9% or US$117 million to US$352 million, due to the impact of a non-recurring loss. Excluding this and after ongoing investments, adjusted operating profit at constant FX grew 10.7% driven by positive price/mix and cost optimization.

On a reported basis, core revenue grew 7.2% while adjusted operating profit declined 16.4% due to the impact of a non-recurring loss. Excluding this, adjusted operating profit increased 21.8%.

Total shipment volume

(billions of units)	Oct-Dec		Change vs. prior	Jan-Dec		Change vs. prior
Cluster	**2017**	**2016**	**year**	**2017**	**2016**	**year**
South & West Europe	13.8	14.0	-0.9%	64.2	65.2	-1.6%
North & Central Europe	12.7	12.9	-1.3%	51.8	54.2	-4.5%
CIS+	32.9	33.3	-1.1%	133.0	141.4	-5.9%
Rest-of-the-World	41.1	34.4	19.3%	149.5	137.9	8.4%
Total JTI	**100.5**	**94.5**	**6.3%**	**398.5**	**398.7**	**-0.1%**

2017 full year results (January-December)

Total shipment volume was stable, declining 0.1% to 398.5 billion cigarette equivalent units. Industry volume contraction, notably in Russia and Ukraine, and unfavorable inventory movements were offset by acquisitions in Indonesia and the Philippines, strong organic volume growth in Brazil, Egypt, Iran, the Philippines, Tunisia as well as continued market share gains in the key markets of France, Russia, Spain and Taiwan. Excluding acquisitions and unfavorable inventory movements, total shipment volume declined 1.6%. Fine cut shipment volume decreased 3.0%, mainly due to market share loss in Germany and the UK, as well as industry volume contraction in most European markets.

2017 fourth quarter results (October-December)

Total shipment volume increased 6.3% to 100.5 billion cigarette equivalent units driven by acquisitions. Excluding acquisitions and unfavorable inventory adjustements, shipment volume grew 0.5% driven by market share gains. In fine cut, shipment volume decreased 0.7%, mainly due to the intense price competition in the UK.

GFB shipment volume

(billions of units)	Oct-Dec		Change vs. prior	Jan-Dec		Change vs. prior
Cluster	**2017**	**2016**	**year**	**2017**	**2016**	**year**
South & West Europe	12.4	12.5	-0.5%	57.9	58.6	-1.1%
North & Central Europe	8.1	7.9	2.5%	32.7	33.6	-2.9%
CIS+	26.2	25.4	3.2%	104.3	107.1	-2.7%
Rest-of-the-World	22.5	21.7	3.6%	91.0	84.4	7.9%
Total JTI	**69.1**	**67.4**	**2.5%**	**285.9**	**283.7**	**0.8%**

2017 full year results (January-December)

GFB shipment volume increased 0.8% to 285.9 billion cigarette equivalent units. Growth came from Azerbaijan, Brazil, Canada, Egypt, Iran, the Philippines, Romania, Spain, Taiwan, Tunisia and the USA. GFB fine cut shipment volume decreased 1.5%, primarily due to the Benelux, Czech Republic and Germany.

GFBs represented 71.8% of total shipment volume, up 0.6ppt from last year.

Winston: Shipment volume grew 3.5% to a record 144.3 billion cigarette equivalent units, primarily driven by Azerbaijan, Brazil, Czech Republic, Egypt, Iran, the Philippines, Taiwan and Ukraine. Fine cut shipment volume was stable. Winston grew share in more than 30 markets and achieved record high market shares in more than 20 of these.

Camel: Shipment volume grew 1.1% to a historical level of 52.7 billion cigarette equivalent units, increasing notably in Belarus, the Philippines, Spain, Thailand, Tunisia and Turkey. Fine cut shipment volume increased 1.6%, led by Italy and Spain.

Mevius: Shipment volume decreased 0.9% to 17.8 billion cigarette equivalent units. Positive performance in Cambodia, Myanmar and South Korea could not fully offset the decline in Taiwan following the excise tax increase.

LD: Despite growth in Azerbaijan, Canada, Jordan, Russia, Taiwan and the USA, shipment volume declined 4.2% to 45.6 billion cigarette equivalent units, primarily due to industry volume decline in Ukraine. Fine cut shipment volume decreased 14.7% due to Hungary. LD achieved record market share in 9 markets, including Canada, Kazakhstan, Russia, Singapore and Taiwan.

2017 fourth quarter results (October-December)

GFB shipment volume grew 2.5% to 69.1 billion cigarette equivalent units, driven by Azerbaijan, Cambodia, Iran, the Philippines, Russia and Turkey. In fine cut, GFB shipment volume increased 1.0%, driven by Italy and Spain.

Cluster review

2017 full year results (January-December)

South and West Europe

(billions of units, millions of US$)	Jan-Dec 2017	2016	Change vs. prior year
Total shipment volume	64.2	65.2	-1.6%
GFB shipment volume	57.9	58.6	-1.1%
Core revenue at constant FX	1,932	1,980	-2.4%

Core revenue at constant FX decreased 2.4%, due to a volume decline of US$9 million and a negative price/mix of US$38 million, notably from France.

Total and GFB shipment volumes declined 1.6% and 1.1%, respectively, due to the Benelux, France, Greece and Italy. Market share increased in France, Luxembourg, the Netherlands, Spain and Switzerland.

In France, total and GFB shipment volumes declined 3.1% and 3.0%, respectively, due to industry volume contraction and unfavorable inventory movements. Fine cut shipment volume decreased 2.1% due to Camel and Fleur du Pays. Market share grew 0.1ppt to 22.0%, driven by Winston, Camel and Fleur du Pays.

In Italy, total and GFB shipment volumes decreased both 2.3%, respectively, due to industry volume contraction and market share loss. Fine cut shipment volume increased 19.0% driven by Winston, Camel and Natural American Spirit. Market share declined 0.2ppt to 23.1%.

In Spain, total and GFB shipment volumes grew 1.5% and 1.7%, respectively, primarily driven by Camel. Fine cut shipment volume increased 3.3% driven by Winston, Camel, Natural American Spirit and Amber Leaf. Market share reached a new record at 24.0%, growing 1.3ppt primarily driven by Winston and Camel.

North and Central Europe

(billions of units, millions of US$)	Jan-Dec 2017	2016	Change vs. prior year
Total shipment volume	51.8	54.2	-4.5%
GFB shipment volume	32.7	33.6	-2.9%
Core revenue at constant FX	1,986	2,254	-11.9%

Core revenue at constant FX decreased 11.9%, due to a volume decline of US$128 million and negative price/mix contribution of US$140 million, notably in the UK.

Total and GFB shipment volumes decreased 4.5% and 2.9%, respectively, mainly due to Germany, Hungary, Ireland, Sweden and the UK. Market share grew in Czech Republic.

In Austria, GFB shipment volume grew 1.6% driven by market share gains from Winston, Camel, Benson & Hedges and Natural American Spirit. Total shipment volume declined 2.0% due to the market share decline of non-GFBs. Overall market share decreased 0.3ppt to 31.1%.

In Germany, total and GFB shipment volumes both decreased 7.3%, due to industry volume contraction and market share decline, notably in fine cut. Market share declined 0.5ppt to 7.6% due to intense competition in fine cut impacting the performance of our GFBs, notably Winston and Camel.

In the UK, total and GFB shipment volumes declined 6.1% and 3.8%, respectively, due to market share loss and continued industry volume contraction. There was no performance impact from one of our key distributor going into administration. Fine cut shipment volume decreased 6.0%, due to intense price competition impacting Amber Leaf, the number one tobacco brand in the UK. Total tobacco market share declined 1.3ppt to 40.4% due to Amber Leaf.

CIS+

(billions of units, millions of US$)	Jan-Dec 2017	2016	Change vs. prior year
Total shipment volume	133.0	141.4	-5.9%
GFB shipment volume	104.3	107.1	-2.7%
Core revenue at constant FX	2,403	2,532	-5.1%

Core revenue at constant FX declined 5.1%, as price/mix gains of US$23 million were unable to offset a negative volume contribution of US$151 million.

Total and GFB shipment volumes declined 5.9% and 2.7%, respectively, mainly due to lower industry volume in Russia and Ukraine. Market share increased in Azerbaijan, Romania and Russia.

In Romania, total and GFB shipment volumes grew 0.2% and 3.4%, respectively, primarily driven by Winston and Sobranie. Market share increased 0.4ppt to 26.6%, led by Winston and Sobranie.

In Russia, total and GFB shipment volumes declined 5.0% and 2.1%, respectively, outperforming the industry volume contraction[6] estimated at 7.4% and despite unfavorable inventory movements. Our quarterly market share at the end of December reached 33.8%, an increase of 2.0ppt versus the fourth quarter 2016, growing our full year market share to 33.2%, up 0.4ppt. GFB market share grew strongly by 0.9ppt to 25.6%, driven notably by Winston, the leading tobacco brand, and LD both reaching new record high shares. Total share of value increased 0.3ppt to 34.5%.

Rest-of-the-World

(billions of units, millions of US$)	Jan-Dec 2017	2016	Change vs. prior year
Total shipment volume	149.5	137.9	8.4%
GFB shipment volume	91.0	84.4	7.9%
Core revenue at constant FX	4,136	3,724	11.1%

Core revenue at constant FX grew 11.1% including acquisitions, led by strong volume of US$166 million and price/mix contribution of US$246 million. Excluding acquisitions, core revenue at constant FX increased 8.7%.

Total shipment volume increased 8.4%, primarily driven by the acquisitions in Indonesia and the Philippines, or 2.6% organically. GFB shipment volume grew 7.9% driven by market share gains in

Brazil, Canada, Egypt, Iran, South Korea, Malaysia, Morocco, the Philippines, Taiwan, Tunisia and the USA.

In Iran, total and GFB shipment volumes grew 14.3% and 32.8%, respectively, driven by the strong performance of Winston, the fastest growing and largest tobacco brand in the market.

In Taiwan, GFB shipment volume grew 4.3% led by Winston and LD. Total shipment volume decreased 2.0% due to industry volume contraction following the June tax increase. Share of market and share of value increased 1.8ppt to 41.7% and 1.3ppt to 47.6%, respectively, driven by Winston and LD.

In Turkey, total and GFB shipment volumes declined 3.4% and 1.3%, respectively, due to unfavorable inventory movements and market share loss. Market share declined 0.6ppt to 28.8%, as the positive performance of Winston was more than offset by Camel and LD.

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Notes:

1 Including fine cut, cigars, pipe tobacco, snus and kretek, but excluding contract manufactured products, waterpipe tobacco and Reduced-Risk Products.
2 Including revenue from waterpipe tobacco and Reduced-Risk Products, but excluding revenue from distribution, contract manufacturing and other peripheral businesses.
3 Tobacco infused vapor products contain tobacco which is heated rather than combusted to produce an inhalable vapor.
4 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 December 2017. Germany and Kazakhstan are on a 12-month rolling average at the end of November 2017. 12-month share of market growth for November 2017 markets is calculated against a 12-month share of market at the end of December 2016.
5 Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as E-Vapor (E-cigarettes) and T-Vapor (Tobacco Vapor). E-Vapor products heat a liquid that usually contains nicotine, but no tobacco, creating a vapor that can be inhaled. T-Vapor products contain tobacco which is heated rather than combusted during use to produce an inhalable vapor. At the JT Group, we are committed to developing, testing and bringing to market such new and innovative products for sustainable growth.
6 Source: JTI estimates based on January-December 2017 data versus the same period last year.

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

Contacts: Masahito Shirasu, General Manager
Media and Investor Relations Division
Japan Tobacco Inc. Tokyo: +81-3-5572-4292
E-mail: jt.media.relations@jt.com