

Tokyo, May 10, 2017
Japan Tobacco Inc.

Japan Tobacco International (JTI)
2017 First Quarter Results

Pricing and cost optimization maintain profit growth

(billions of units, millions of US\$)

	Jan-Mar 2017	2016	Change vs. prior year
Total shipment volume¹	91.7	94.4	-2.9%
GFB shipment volume¹	66.0	66.4	-0.5%
Core revenue²	2,429	2,468	-1.6%
Core revenue at constant FX	2,469	2,468	0.0%
Adjusted operating profit	810	863	-6.1%
Adjusted operating profit at constant FX	875	863	1.5%

Highlights

2017 first quarter results (January-March)

- Core revenue at constant currency was stable as price/mix gains in several key markets offset the volume decline impact.
- Adjusted operating profit at constant currency grew 1.5% driven by price/mix gains and cost optimization, while investments in emerging markets and emerging products continued.
- On a reported basis, core revenue and adjusted operating profit declined 1.6% and 6.1%, respectively, due to currency fluctuations.
- Total shipment volume declined 2.9% primarily due to industry volume contraction in three out of four clusters, market share loss due to competitor driven price discounting in CIS+ and unfavorable trade inventory adjustments versus the same period last year.
- GFB shipment volume was stable but grew excluding inventory adjustments, driven by a strong performance momentum from Winston and Mevius. GFB mix in total shipment volume grew 1.7ppt to 72.0%.
- Year-on-year market share³ increased in the key markets of France, Italy, Spain and Taiwan. GFB market share grew in most key markets, including Russia and the UK.

Performance review

Core revenue and adjusted operating profit

2017 first quarter results (January-March)

Core revenue at constant currency was stable at US\$2,469 million, supported by a positive price/mix contribution of US\$58 million offsetting the volume decline impact.

Adjusted operating profit at constant currency increased 1.5% or US\$13 million to US\$875 million driven by a positive price/mix of US\$50 million and cost optimization, while investments in emerging markets and emerging products continued.

On a reported basis, core revenue and adjusted operating profit declined 1.6% and 6.1%, respectively, due to currency fluctuations.

Total shipment volume

(billions of units)			
Cluster	Jan-Mar		Change vs. prior year
	2017	2016	
South & West Europe	15.9	17.0	-6.4%
North & Central Europe	12.5	13.2	-5.0%
CIS+	29.0	31.1	-6.7%
Rest-of-the-World	34.3	33.2	3.4%
Total JTI	91.7	94.4	-2.9%

2017 first quarter results (January-March)

Total shipment volume decreased 2.9% to 91.7 billion cigarette equivalent units. The positive volume momentum in the Rest-of-the-World cluster was insufficient to offset the industry volume contraction in other clusters, notably in the key markets of Italy, Russia, Spain and the UK, and trade inventory adjustments versus the same period last year. Fine cut shipment volume declined 5.1%, due to industry volume contraction in Benelux, Spain and the UK. Market share grew, notably in the key markets of France, Italy, Spain and Taiwan.

GFB shipment volume

(billions of units)			
Cluster	Jan-Mar		Change vs. prior year
	2017	2016	
South & West Europe	14.3	15.2	-5.9%
North & Central Europe	7.7	8.0	-4.0%
CIS+	22.3	23.7	-6.2%
Rest-of-the-World	21.8	19.4	12.1%
Total JTI	66.0	66.4	-0.5%

2017 first quarter results (January-March)

Rest-of-the-World grew GFB shipment volume 12.1%, driven by Iran, Korea and Taiwan. Despite this growth, GFB shipment volume declined 0.5% to 66.0 billion cigarette equivalent units due to industry volume contraction in a number of key markets, notably Italy, Russia, Spain and the UK. Excluding trade inventory adjustments, GFB shipment volume increased. Winston, Mevius and

Natural American Spirit delivered solid volume and share performance across several markets. GFB fine cut shipment volume declined 4.9%, primarily due to industry volume contraction in Benelux and Spain. GFBs represented 72.0% of total shipment volume, up 1.7ppt from last year.

Winston: Shipment volume grew 4.7% to 33.1 billion cigarette equivalent units, primarily driven by Brazil, Egypt, Iran, Kazakhstan, Russia, Taiwan and Ukraine.

Camel: Shipment volume declined 1.5% to 12.6 billion cigarette equivalent units, mainly due to industry volume contraction and unfavorable inventory movements in Italy offsetting growth in Brazil, Iran and the Philippines.

Mevius: Shipment volume increased 4.8% to 4.5 billion cigarette equivalent units driven by growth in Korea, Malaysia, Myanmar, Russia, South East Asia markets and Taiwan.

LD: Shipment volume decreased 11.9% to 9.9 billion cigarette equivalent units, primarily due to industry volume contraction and intense price competition in Russia and Ukraine offsetting growth in Kazakhstan, Poland and Taiwan.

Cluster review

2017 first quarter results (January-March)

South and West Europe

(billions of units, millions of US\$)

	Jan-Mar		Change
	2017	2016	vs. prior year
Total shipment volume	15.9	17.0	-6.4%
GFB shipment volume	14.3	15.2	-5.9%
Core revenue at constant FX	476	506	-5.9%

Core revenue at constant currency decreased 5.9% to US\$476 million, due to volume decline and a negative US\$2 million price/mix contribution.

Total and GFB shipment volumes declined 6.4% and 5.9%, respectively, primarily due to industry volume contraction in Italy and Spain as well as unfavorable inventory movements in key markets following the implementation of the revised European Tobacco Products Directive. Market share increased in Benelux, France, Italy, Greece, Spain and Switzerland.

In France, total and GFB shipment volumes were down 5.1% and 6.9%, respectively, mainly due to unfavorable inventory movements versus the same period last year. Market share grew 0.5ppt to 22.0%, driven by Winston, Camel and Fleur du Pays.

In Italy, industry volume contraction and unfavorable inventory movements led to a decline of total and GFB shipment volumes of 7.6% and 7.4%, respectively. Market share momentum continued, reaching 23.4% up 1.7ppt, driven by Camel, Winston and Benson & Hedges.

In Spain, industry volume contraction following the excise tax increase in December 2016 and unfavorable inventory movements drove total and GFB shipment volumes down 10.1% and 10.7%, respectively. Market share gains continued, reaching 23.0% up 0.6ppt, primarily led by Camel.

North and Central Europe

(billions of units, millions of US\$)

	Jan-Mar		Change
	2017	2016	vs. prior year
Total shipment volume	12.5	13.2	-5.0%
GFB shipment volume	7.7	8.0	-4.0%
Core revenue at constant currency	519	570	-8.9%

Core revenue at constant currency declined 8.9% to US\$519 million, due to volume decline and a negative US\$13 million price/mix contribution.

Total and GFB shipment volumes declined 5.0% and 4.0%, respectively, mainly due to industry volume contraction in Germany, Ireland and the UK. Market share grew in Germany, Hungary and Sweden.

In Austria, total and GFB shipment volumes grew 2.2% and 6.3%, respectively, driven by Benson & Hedges, Winston and Camel. Market share declined 0.2ppt to 31.3% despite gains from Winston, Camel and Benson & Hedges.

In Germany, Winston and Natural American Spirit volume momentum was unable to offset industry volume contraction, leading total and GFB shipment volumes to decline 2.2% and 1.3%, respectively. Market share continued to grow reaching 8.3%, an increase of 1.4ppt driven by Winston and Camel.

In the UK, industry volume contraction drove total and GFB shipment volumes down 7.2% and 13.6%, respectively. Market share declined 0.6ppt to 41.4% while quarterly market share⁴ was stable at 41.0% versus the fourth quarter 2016.

CIS+

(billions of units, millions of US\$)

	Jan-Mar		Change
	2017	2016	vs. prior year
Total shipment volume	29.0	31.1	-6.7%
GFB shipment volume	22.3	23.7	-6.2%
Core revenue at constant currency	480	511	-6.2%

Core revenue at constant currency declined 6.2% to US\$480 million despite a positive US\$5 million price/mix contribution.

Total and GFB shipment volumes declined 6.7% and 6.2%, respectively, due to industry volume contraction in Russia and Ukraine. Market share grew in Kazakhstan and Romania.

In Romania, total and GFB shipment volumes declined 7.0% and 3.6%, respectively, due to industry volume contraction. Market share increased 0.4ppt to 26.3% driven by Winston, LD and Sobranie.

In Russia, total and GFB shipment volumes declined 6.5% and 5.8%, respectively, versus an industry volume contraction estimated at 5.5%⁵ for the quarter. Share of market and share of value declined 1.2ppt to 32.5% and 0.7ppt to 33.9%, respectively, while GFB market share grew 0.3ppt to 24.6%, led by Winston. Versus the fourth quarter 2016, quarterly market share increased 0.3ppt to 32.0% driven by recent product initiatives.

Rest-of-the-World

(billions of units, millions of US\$)

	Jan-Mar 2017	2016	Change vs. prior year
Total shipment volume	34.3	33.2	3.4%
GFB shipment volume	21.8	19.4	12.1%
Core revenue at constant currency	994	881	12.9%

Core revenue at constant currency increased 12.9% to US\$994 million, driven by volume and a positive price/mix contribution of US\$68 million.

Total and GFB shipment volumes increased 3.4% and 12.1%, respectively, mainly driven by Brazil, Egypt, Iran, Korea, Myanmar, the Philippines and Taiwan. Market share grew in several markets including Canada, Malaysia and Taiwan.

In Iran, total and GFB shipment volumes grew significantly by 23.1% and 49.2%, respectively, driven by the strong momentum of Winston and the launch of Camel.

In Taiwan, total and GFB shipment volumes grew 8.6% and 25.1%, respectively, driven by the strong performance of Winston and supported by growth from Mevius, LD and Camel as well as favorable inventory movements. Share of market and share of value increased 1.1ppt to 40.4% and 1.1ppt to 46.6%, respectively, driven by Winston, LD and Camel.

In Turkey, industry volume contracted in the quarter following the December '16 excise tax driven price increase. Despite the resilient performance from Winston and LD, total and GFB shipment volumes declined 1.3% and 0.2%, respectively. Market share declined 0.7ppt to 29.3% while quarterly market share increased 0.5ppt to 29.4% versus the fourth quarter 2016, driven by Winston and 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 Including revenues from 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 March 2017. Canada, Germany, Hungary, Kazakhstan, Spain and Switzerland are on a 12-month rolling average at the end of February 2017. 12-month share of market growth for February 2017 markets is calculated against a 12-month share of market at the end of March 2016.

⁴ Source: JTI estimates on a 3-month rolling average for cigarettes at the end of March 2017.

⁵ Source: JTI estimates based on Jan-Mar 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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