



Tokyo, May 1, 2018

2018 First Quarter Results

Highlights

- Adjusted operating profit at constant FX increased year on year.
- Strong performance in the international tobacco and pharmaceutical businesses more than offset headwinds in the Japanese domestic tobacco business.

Main Topic by business segment:

- **International tobacco business**
 - Adjusted operating profit grew driven by pricing gains mainly in Iran, Russia and Taiwan.
 - Total shipment volume grew driven by acquisitions in Ethiopia, Indonesia and the Philippines.
 - Updates for key markets:
 - Russia: GFB market share reached a record high against a solid pricing environment in the quarter.
 - UK: Quarterly market share reached 41% following six consecutive months of growth, and a price increase in March.
- **Japanese domestic tobacco business**
 - Adjusted operating profit declined due to a decrease in JT cigarette sales volume despite an increase of RRP related revenue.
 - JT's cigarette market share increased driven by a solid performance of MEVIUS.
 - Updates for RRP:
 - Ploom TECH sales volume increased led by the sales area expansion.
 - Ploom TECH nationwide roll-out in June and expansion to convenience stores as of July, as efforts to increase the output of our production equipment of the tobacco capsules resulted in stable operations.

Masamichi Terabatake, President and Chief Executive Officer of the JT Group, commented:

"Our first quarter results illustrate a solid start for achieving our full year profit target in a business environment which remains challenging.

"Our traditional tobacco products, the platform of the Group's profitability, delivered robust top-line growth led by pricing in the international tobacco business. We also increased our market share in the Japanese domestic tobacco business driven by MEVIUS. M&A activities last year contributed to our top-line growth following our strategic geographical expansion. Our recent decision to acquire Donskoy Tabak companies will reinforce our No.1 position in Russia after the closing.

"We continue to invest in Reduced-Risk Products on a global basis, as these will contribute to our future growth and ensure a wide choice of products for consumers. In Japan, we will increase our presence both geographically and through product diversification. Since our operation of production equipment for the tobacco capsules is being stabilized with our effort to increase its output, we will start a nationwide roll-out of Ploom TECH in June and expand to convenience stores as of July. We also are aiming to launch a new heated tobacco product as early as the year-end or early 2019."

Conference Call

A conference call with members of the investor community will be held at 4:00 pm, Tokyo Time, on May 2, 2018. For detailed information on the consolidated financial results, please visit the Company's website. (<https://www.jt.com/investors/>).

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FY2018 Q1 Financial Results

Consolidated Results

(billions of JPY)	2017 Q1	2018 Q1	Variance
Revenue*	506.1	515.0	+1.8%
Adjusted operating profit	150.3	148.1	-1.5%
Operating profit	149.0	146.8	-1.5%
Profit	105.5	104.0	-1.4%
Adjusted operating profit at constant FX	150.3	151.0	+0.5%

2018 Q1

- **Revenue**

Revenue grew 1.8% to JPY 515.0 billion driven by acquisitions and pricing benefits in the international tobacco business as well as increased RRP contribution in the Japanese domestic tobacco business. An increase in royalty revenue in the pharmaceutical business also added to revenue growth. This positive performance was partially offset by the impact of cigarette sales volume contraction in the Japanese domestic tobacco business, weaker sales in the processed food business and a negative impact of the yen versus the US dollar.

- **Adjusted Operating Profit**

Adjusted operating profit at constant FX increased 0.5% to JPY 151.0 billion driven by growth in the international tobacco and pharmaceutical businesses, despite a decrease in the Japanese domestic tobacco and processed food businesses.

On a reported basis, adjusted operating profit decreased 1.5% to JPY 148.1 billion, mainly due to impacted by the negative effect of the yen appreciation versus the US dollar.

- **Operating Profit**

Operating profit declined 1.5% to JPY 146.8 billion due to the decrease of adjusted operating profit.

- **Profit Attributable to Owners of the Parent**

Profit attributable to owners of the parent declined 1.4% to JPY 104.0 billion due to lower operating profit.

*As a result, compared to the application of the former accounting standard, "Revenue" and "Selling, general and administrative expenses" decreased by JPY 1,973 million and JPY 17,042 million respectively, and "Cost of sales" increased by JPY 15,069 million on the condensed interim consolidated statement of income for the three months ended March 31, 2018. These changes have no effect on Adjusted operating profit.

Results by Business Segment

International Tobacco Business

(billions of Units, billions of JPY)	2017 Q1	2018 Q1	Variance
Total shipment volume	91.7	98.4	+7.3%
GFB shipment volume	60.2	62.0	+3.1%
Core revenue	276.0	294.8	+6.8%
Adjusted operating profit	92.0	96.3	+4.7%

Reference (millions of USD)

Core revenue	2,429	2,724	+12.1% (+7.5%)*
Adjusted operating profit	810	890	+9.9% (+7.9%)*

*at constant FX

2018 Q1

- **Volume and Market share¹**

Total shipment volume grew 7.3% driven by acquisitions in Ethiopia, Indonesia and the Philippines, and favorable inventory movements. Excluding these, total shipment volume declined 2.2%. Volume increases across Iran, Romania, Spain, Turkey and emerging markets were unable to offset the impact of the industry volume contraction, notably in France, Russia and Taiwan. GFB shipment volume increased 3.1% growing across all clusters, mainly driven by the growth of Winston, Camel and LD.

Total and GFB market share grew in the key markets of France, Russia, Spain and Taiwan.

- **Core revenue and Adjusted operating profit**

Core revenue increased 6.8% driven by a solid price/mix and volume contribution from acquisitions. Adjusted operating profit grew 4.7% including continued investments behind emerging markets and Reduced-Risk Products. Both core revenue and adjusted operating profit were impacted by a stronger JPY versus USD.

On a USD basis, core revenue grew 12.1% driven by a positive price/mix variance of USD109 million, notably in Iran, Spain, Russia and Taiwan, combined with a USD72 million volume contribution including acquisitions and inventory adjustments, as well as favorable currency movements of USD113 million. Adjusted operating profit increased 9.9%, or 7.9% when excluding currency movements, mainly driven by a favorable price/mix variance of USD102 million.

International Tobacco Business (Quarterly) Performance review by Cluster

South and West Europe

(billions of Units, millions of USD)	2017 Q1	2018 Q1	Variance
Total shipment volume	15.9	16.0	+0.7%
GFB shipment volume	12.7	12.9	+1.8%
Core revenue	460	519	+13.0% (-1.0%)*

*at constant FX

- **Volume and market share**

Total shipment volume increased 0.7%, primarily driven by favorable inventory movements in France, Italy and Spain. Excluding inventory adjustments, total shipment volume declined 3.8%. GFB shipment volumes grew 1.8%, driven by Winston and Camel. Market share increased or was stable in Belgium, France, Greece, Luxemburg, the Netherlands, Spain and Switzerland.

- **Core revenue**

Core revenue increased 13.0%, driven by a positive volume contribution of USD11 million and favorable currency movements of USD64 million, offsetting an unfavorable price/mix variance of USD15 million. Excluding the currency movements, core revenue decreased 1.0%.

- **By markets**

In France, total shipment volume declined 5.2%, following recent excise tax increases and despite favorable inventory movements. Excluding favorable inventory movements, total shipment volume declined 11.6%, slightly more than the industry volume contraction. GFB and fine cut shipment volumes declined 4.4% and 3.9%, respectively. Year-on-year market share increased 0.1ppt to 22.1%, and it grew 0.7ppt to 22.6% on a quarterly basis versus the fourth quarter of 2017, driven by Winston.

In Italy, total shipment volume grew 4.5% driven by favorable inventory adjustments. Excluding these movements, total shipment volume declined 0.3%, outperforming the industry volume contraction. GFB and fine cut shipment volumes grew 2.5% and 25.8%, respectively, driven mainly by Camel. Year-on-year market share declined 0.3ppt to 23.2% but grew 0.4ppt to 23.4% on a quarterly basis versus the fourth quarter of 2017.

In Spain, total, GFB and fine cut shipment volumes increased 11.8%, 16.4% and 15.4%, respectively, mainly driven by growth from Winston and Camel and favorable inventory adjustments. Excluding these movements, total shipment volume grew 3.3% outperforming the decline in industry volume. Market share increased 1.2ppt to 24.2%, primarily led by Winston and Camel.

North and Central Europe

(billions of Units, millions of USD)	2017 Q1	2018 Q1	Variance
Total shipment volume	12.5	12.3	-1.8%
GFB shipment volume	5.2	5.2	+0.5%
Core revenue	470	490	+4.3% (-8.4%)*

*at constant FX

- **Volume and market share**

Total shipment volume decreased 1.8%, mainly due to Austria, Germany and the UK. GFB shipment volume grew 0.5% driven notably by Czech Republic, Hungary and Poland. Market share grew in Czech Republic and Hungary.

- **Core revenue**

Core revenue grew 4.3% driven by favorable currency movements of USD60 million offsetting an unfavorable volume contribution of USD8 million and an unfavorable price/mix variance of USD32 million. Excluding the currency movements, core revenue decreased 8.4%.

- **By markets**

In Germany, total, GFB and fine cut shipment volumes declined 6.7%, 7.8% and 10.1%, respectively, due to industry volume contraction and price competition in fine cut. Year-on-year market share declined 0.6ppt to 7.5% while it grew 0.2ppt to 7.7% on a quarterly basis versus the fourth quarter of 2017.

In the UK, total and fine cut shipment volumes declined 1.4% and 0.8%, respectively, due to industry volume contraction partially offset by increased shipments ahead of the March price increase. Year-on-year market share was down 1.0ppt to 40.5% while the quarterly market share improved by 0.5ppt to 41.1% versus the fourth quarter of 2017 driven by Benson & Hedges in cigarettes and Sterling in fine cut.

CIS+

(billions of Units, millions of USD)	2017 Q1	2018 Q1	Variance
Total shipment volume	29.0	28.0	-3.3%
GFB shipment volume	20.7	21.1	+2.0%
Core revenue	554	631	+13.9% (+9.7%)*

*at constant FX

- **Volume and market share**

Total shipment volume declined 3.3%, mainly due to industry volume contraction in Russia and Ukraine partially offset by favorable inventory movements. Excluding inventory adjustments, total shipment volume declined 5.1%. GFB shipment volume increased 2.0% fueled by the strong performance of Winston and LD. Market share grew in Kazakhstan, Romania and Russia.

- **Core revenue**

Core revenue increased 13.9% driven by favorable price/mix variance of USD75 million and currency movements of USD23 million, offsetting an unfavorable volume contribution of USD22 million. Excluding the currency movements, core revenue increased 9.7%.

- **By markets**

In Romania, total and GFB shipment volumes grew 1.0% and 4.4%, respectively, led by Winston and Sobranie which drove market share to 27.0%, an increase of 0.6ppt.

In Russia, market share gains continued, reaching 33.5%, an increase of 1.1ppt, and share of value increased 1.0ppt to 35.0%. GFB market share grew 1.5ppt to a new record high of 24.4% with both Winston, the number one tobacco brand, and LD setting new market share records in the quarter. GFB shipment volume increased 4.1% driven by the strong growth of LD. Total shipment volume was down 4.4% due to quarterly industry volume contraction² estimated at 8.8% partially offset by favorable inventory movements. Excluding inventory adjustments, total shipment volume declined 7.2%.

Rest-of-the-World

(billions of Units, millions of USD)	2017 Q1	2018 Q1	Variance
Total shipment volume	34.3	42.1	+22.7%
GFB shipment volume	21.6	22.8	+5.4%
Core revenue	946	1,084	+14.6% (+18.2%)*

*at constant FX

- **Volume and market share**

Total shipment volume grew strongly by 22.7% bolstered by acquisitions in Ethiopia, Indonesia and the Philippines as well as favorable inventory movements. Excluding acquisitions and inventory adjustments, total shipment volume increased 0.7% driven notably by Iran, Morocco, the Philippines, Sudan, Thailand, Turkey and the USA. GFB shipment volume was up 5.4% driven by Winston, Camel and LD. Market share increased in several markets, notably Brazil, Iran, the Philippines and Taiwan.

- **Core revenue**

Core revenue increased 14.6%, driven by favorable price/mix variance of USD81 million and positive volume contribution of USD91 million, offsetting unfavorable currency movements of USD34 million. Excluding the currency movements, core revenue increased 18.2%.

- **By markets**

In Iran, total and GFB shipment volumes grew 8.6% and 15.6%, respectively, driven by the strong performance of Winston, the largest tobacco brand. Market share gains continued reaching 53.3%, up 7.7ppt.

In Taiwan, total shipment volume declined 18.7% due to a significant industry volume contraction following the June tax increase. GFB shipment volume declined 21.8% due to Winston and Mevius. Year-on-year share of market grew 1.3ppt to 41.7%, strengthening our number one position. Quarter-on-quarter, market share improved 1.4ppt. Share of value gained 0.6ppt to 47.2%.

In Turkey, total shipment volume grew 5.4% driven by a larger industry size. GFB shipment volume was up 8.4% driven by Winston and Camel. Market share declined 0.9ppt to 28.2%.

¹ 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 2018. Belgium, Brazil, Czech Republic, Greece, Kazakhstan are on a 12-month rolling average at the end of February 2018. 12-month share of market growth for March 2018 markets is calculated against a 12-month share of market at the end of March 2017.

² Source: JTI estimates based on January- February 2018 data versus the same period last year.

Japanese Domestic Tobacco Business

(billions of units, billions of JPY)	2017 Q1	2018 Q1	Variance
Cigarette industry volume	37.7	31.8	-15.6%
Cigarette sales volume	23.0	19.5	-15.0%
Core revenue	143.9	129.3	-10.1%
Adjusted operating profit	57.2	48.9	-14.4%

2018 Q1

- **Cigarette sales volume**

Cigarette industry volume decreased 15.6% impacted by the expansion of the RRP category and the underlying natural decline trend. Cigarette sales volume decreased 15.0% mainly due to cigarette industry volume contraction. JT's cigarette market share increased 0.5ppt to 61.4% led by a solid performance of MEVIUS.

- **Reduced-Risk Products (RRP) performance**

JT estimates the overall RRP market size in Japan in the quarter was approximately 20% of the total tobacco industry volume. In the quarter, JT RRP sales volume was 0.3 billion cigarette equivalent units with Ploom TECH market share* estimated between 3% and 4% in the areas where it is available. Accumulated total sales volume of Ploom TECH devices since launch exceeded two million units in April.

*Convenience store share

- **Core revenue and Adjusted operating profit**

Core revenue declined 10.1% mainly due to an unfavorable cigarette volume contribution of JPY 20.7 billion, partially offset by an increase in RRP related revenue. RRP related revenue in the quarter was JPY 8.3 billion. Adjusted operating profit declined 14.4% due to negative cigarette volume contribution of JPY 17.0 billion, partially offset by an increase in RRP related profit, lower marketing investments and other combined factors of JPY 8.7 billion.

Pharmaceutical Business

(billions of JPY)	2017 Q1	2018 Q1	Variance
Revenue	23.2	26.7	+14.9%
Adjusted operating profit	5.1	7.7	+52.1%

2018 Q1

- **Revenue and Adjusted operating profit**

Revenue increased 14.9% driven by higher royalty revenues from increased sales of original JT compounds and sales growth of Torii Pharmaceutical.

Adjusted operating profit grew 52.1% due to the revenue increase.

Processed Food Business

(billions of JPY)	2017 Q1	2018 Q1	Variance
Revenue	38.3	37.7	-1.5%
Adjusted operating profit	1.2	0.7	-39.8%

2018 Q1

- **Revenue and Adjusted operating profit**

Despite solid performance of staple food products and seasonings products, revenue decreased 1.5% due to lower sales of other products. Adjusted operating profit declined 39.8% mainly as a result of the revenue decline and higher raw material costs.

Data Sheets

Results for 2018 First Quarter

1. Summary of Consolidated results

(Unit: JPY billion)

	2017 Q1	2018 Q1	Variance (abs)	Variance (%)
Revenue	506.1	515.0	+8.9	+1.8%
Operating profit	149.0	146.8	-2.2	-1.5%
Adjusted operating profit	150.3	148.1	-2.3	-1.5%
Profit before income tax	142.5	139.9	-2.6	-1.8%
Profit	106.0	104.5	-1.5	-1.4%
Profit (attributable to owners of the parent company)	105.5	104.0	-1.5	-1.4%
Basic EPS*(JPY)	58.90	58.07	-0.83	-1.4%

*Based on profit attributable to owners of the parent company

[Reference] Consolidated results

(Unit: JPY billion)

	2017 Q1	2018 Q1	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	150.3	151.0	+0.7	+0.5%

2. Results by business segment

(Unit: JPY billion)

	2017 Q1	2018 Q1	Variance (abs)	Variance (%)
Revenue	506.1	515.0	+8.9	+1.8%
Japanese domestic tobacco	151.8	138.8	-13.0	-8.6%
Core revenue	143.9	129.3	-14.6	-10.1%
International tobacco	290.8	310.1	+19.3	+6.6%
Core revenue	276.0	294.8	+18.8	+6.8%
Pharmaceutical	23.2	26.7	+3.5	+14.9%
Processed food	38.3	37.7	-0.6	-1.5%
Others	2.1	1.8	-0.3	-15.5%
Consolidated: operating profit	149.0	146.8	-2.2	-1.5%
Japanese domestic tobacco	53.1	44.6	-8.5	-16.1%
International tobacco	84.1	87.0	+2.9	+3.5%
Pharmaceutical	5.1	7.7	+2.6	+52.1%
Processed food	1.2	0.7	-0.4	-38.2%
Others/Elimination	5.5	6.7	+1.2	+22.6%
Adjustments, total	-1.4	-1.3	+0.1	-
Japanese domestic tobacco	-4.1	-4.3	-0.3	-
International tobacco	-7.9	-9.3	-1.4	-
Pharmaceutical	-	-	-	-
Processed food	-	0.0	+0.0	-
Others/Elimination	10.6	12.3	+1.7	+16.4%
Consolidated: adjusted operating profit	150.3	148.1	-2.3	-1.5%
Japanese domestic tobacco	57.2	48.9	-8.3	-14.4%
International tobacco	92.0	96.3	+4.3	+4.7%
Pharmaceutical	5.1	7.7	+2.6	+52.1%
Processed food	1.2	0.7	-0.5	-39.8%
Others/Elimination	-5.1	-5.6	-0.5	-

[Reference] International tobacco business

(Unit: USD million)

	2017 Q1	2018 Q1	Variance (abs)	Variance (%)
Core revenue	2,429	2,724	+295	+12.1%
Core revenue at constant FX	2,429	2,611	+182	+7.5%
Adjusted operating profit	810	890	+80	+9.9%
Adjusted operating profit at constant FX	810	874	+64	+7.9%

Results for 2018 First Quarter

3. Depreciation and amortization

(Unit: JPY billion)

	2017 Q1	2018 Q1	Variance (abs)
Consolidated	35.2	38.5	+3.2
Japanese domestic tobacco	14.2	13.6	-0.6
International tobacco	17.7	21.4	+3.7
Pharmaceutical	1.3	1.3	+0.0
Processed food	1.5	1.5	+0.0
Others/Elimination	0.5	0.7	+0.1

4. Consolidated financial position

(Unit: JPY billion)

	2017 Dec. end	2018 Mar. end	Variance (abs)
Total assets	5,221.5	4,940.1	-281.4
Total equity	2,842.0	2,704.1	-138.0
Equity attributable to owners of the parent	2,761.7	2,625.0	-136.7
BPS (attributable to owners of the parent) (JPY)	1,541.94	1,465.57	-76.37

5. Liquidity and interest-bearing debt

(Unit: JPY billion)

	2017 Dec. end	2018 Mar. end	Variance (abs)
Liquidity	291.8	194.8	-97.0
Interest-bearing debt	755.8	693.9	-61.9

6. Consolidated cash flow

(Unit: JPY billion)

	2017 Q1	2018 Q1	Variance (abs)
Cash flows from operating activities	-70.5	80.2	+150.7
Cash flows from investing activities	-22.4	-21.3	+1.1
Cash flows from financing activities	-53.7	-152.3	-98.6
Cash and cash equivalents, beginning of the year	294.2	285.5	-8.7
Foreign currency translation adj. on cash & cash equivalents	0.4	-9.5	-9.8
Cash and cash equivalents, end of the year	147.9	182.6	+34.8
FCF	-92.4	65.0	+157.4

7. Capital expenditures

(Unit: JPY billion)

	2017 Q1	2018 Q1	Variance (abs)
Consolidated	23.4	30.6	+7.2
Japanese domestic tobacco	7.4	10.8	+3.4
International tobacco	12.6	11.4	-1.2
Pharmaceutical	1.4	2.8	+1.4
Processed food	1.4	4.8	+3.4
Others/Elimination	0.7	0.8	+0.1

8. FX actual (Reference information)

	2017 Q1	2018 Q1	Variance (abs)	Variance (%)	
JPY/USD	113.60	108.22	-5.38	-4.7%	JPY
RUB/USD	58.82	56.88	-1.94	+3.4%	RUB
GBP/USD	0.81	0.72	-0.09	+12.3%	GBP
EUR/USD	0.94	0.81	-0.12	+15.4%	EUR
CHF/USD	1.00	0.95	-0.06	+5.9%	CHF
TWD/USD	31.12	29.30	-1.82	+6.2%	TWD
TRY/USD	3.69	3.81	+0.12	-3.1%	TRY
IRR/USD	38,283	46,583	+8,299	-17.8%	IRR

FY2018 Forecasts (as of 6th February, 2018)

1. Summary of consolidated forecasts

(Unit: JPY billion)

	FY2017 Results	FY2018 Forecast	Variance (abs)	Variance (%)
Revenue	2,139.7	2,220.0	+80.3	+3.8%
Operating profit	561.1	561.0	-0.1	-0.0%
Adjusted operating profit	585.3	600.0	+14.7	+2.5%
Profit (attributable to owners of the parent company)	392.4	394.0	+1.6	+0.4%

[Reference] Consolidated forecast

(Unit: JPY billion)

	FY2017 Results	FY2018 Forecast	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	585.3	607.0	+21.7	+3.7%

2. EPS, DPS, ROE

(Unit: JPY)

	FY2017 Results	FY2018 Forecast	Variance (abs)	Variance (%)
Basic EPS	219.10	219.98	+0.88	+0.4%
DPS	140.00	150.00	+10.00	+7.1%
ROE (attributable to owner of the parent company)	15.0%	14.0%	-1.1%pt	

3. Forecasts by business segment

(Unit: JPY billion)

	FY2017 Results	FY2018 Forecast	Variance (abs)	Variance (%)
Revenue	2,139.7	2,220.0	+80.3	+3.8%
Japanese domestic tobacco	626.8	608.0	-18.8	-3.0%
Core revenue	590.6	573.0	-17.6	-3.0%
International tobacco	1,237.6	1,320.0	+82.4	+6.7%
Core revenue	1,177.0	1,265.0	+88.0	+7.5%
Pharmaceutical	104.7	109.0	+4.3	+4.1%
Processed food	163.1	165.0	+1.9	+1.1%
Others	7.5	6.5	-1.0	-12.9%
Consolidated: operating profit	561.1	561.0	-0.1	-0.0%
Japanese domestic tobacco	215.8	186.0	-29.8	-13.8%
International tobacco	325.6	356.0	+30.4	+9.3%
Pharmaceutical	24.1	25.0	+0.9	+3.8%
Processed food	5.4	5.5	+0.1	+2.3%
Others/Elimination	-9.8	-13.0	-3.2	-
Adjusted operating profit	585.3	600.0	+14.7	+2.5%
Japanese domestic tobacco	232.3	202.0	-30.3	-13.0%
International tobacco	351.3	396.0	+44.7	+12.7%
Pharmaceutical	24.1	25.0	+0.9	+3.8%
Processed food	5.4	5.5	+0.1	+1.9%
Others/Elimination	-27.8	-29.0	-1.2	-

[Reference] International tobacco business

(Unit: USD million)

	FY2017 Results	FY2018 Forecast	Variance (abs)	Variance (%)
Core revenue	10,498	11,500	+1,002	+9.5%
Core revenue at constant FX	10,498	11,350	+852	+8.1%
Adjusted operating profit	3,138	3,600	+462	+14.7%
Adjusted operating profit at constant FX	3,138	3,600	+462	+14.7%

FY2018 Forecasts (as of 6th February, 2018)

4. Free cash flow

(Unit: JPY billion)

	FY2017 Results	FY2018 Forecast	Variance (abs)
FCF	72.6	300.0	+227.4

5. Capital expenditures

(Unit: JPY billion)

	FY2017 Results	FY2018 Forecast	Variance (abs)
Consolidated	140.9	199.0	+58.1
Japanese domestic tobacco	51.5	76.0	+24.5
International tobacco	68.4	90.0	+21.6
Pharmaceutical	6.2	12.0	+5.8
Processed food	10.4	15.0	+4.6
Others/Elimination	4.3	5.5	+1.2

6. Assumptions of 2018 Forecast

2018 Japanese domestic tobacco business

- Industry volume : a decline of over 4.5% (vs. 2017: 172.0 BnU)
- Cigarette industry volume : a decline of c. 17.5% (vs. 2017: 151.4 BnU)
- JT cigarette sales volume : a decrease of over 16.5% (vs. 2017: 92.9 BnU)
- Reduced-Risk Products market share in tobacco industry (JT estimate) : about 23% (2017: 12%)

2018 International tobacco business

- Total shipment volume : an increase of c. 4% (vs. 2017: 398.5 BnU)
- GFB* shipment volume : an increase of c. 2% (vs. 2017: 260.4 BnU)

* From 2018 we changed GFB from 9 brands to 4 brands (Winston, Camel, MEVIUS, LD)

Above volume is based on 4 brands.

<FX assumptions>

	FY2017 Results	FY2018 Forecast	Variance (abs)	Variance (%)	
JPY/USD	112.16	110.00	-2.16	-1.9%	JPY
RUB/USD	58.35	58.00	-0.35	+0.6%	RUB
GBP/USD	0.78	0.74	-0.04	+5.0%	GBP
EUR/USD	0.89	0.83	-0.06	+6.9%	EUR
CHF/USD	0.98	0.98	-0.00	+0.5%	CHF
TWD/USD	30.44	29.50	-0.94	+3.2%	TWD
TRY/USD	3.64	3.80	+0.16	-4.1%	TRY
IRR/USD	38,811	43,600	+4,789	-11.0%	IRR

[Reference information] FX sensitivity

FX Sensitivity Guidance for FX impact on 2018 adjusted operating profit of US\$ 3,600 MM based on the current assumptions:

Local currency vs. US\$

1% deviation from the assumed rates against US\$ by all the currencies in the same direction (excluding Yen) leads to slightly below US\$ 50MM impacting on US\$ based adjusted operating profit

US\$ 50MM composed of: RUB 30%+, GBP 15%, TWD 15%, EUR 10%, TRY 5%, IRR 10%, CHF -10%+

US\$ vs. Yen

Yen/\$ move of 1 yen from the assumption leads to approx. 3.6 billion yen impact on Yen-based adjusted operating profit

Tobacco Business Data

International Tobacco Business

1. Summary

	2017 Q1	2018 Q1	Variance	Variance (%)	
Total shipment volume	91.7	98.4	+6.7	+7.3%	BNU
GFB shipment volume	60.2	62.0	+1.8	+3.1%	BNU
Core Revenue	276.0	294.8	+18.8	+6.8%	JPY BN
Adjusted operating profit	92.0	96.3	+4.3	+4.7%	JPY BN

[USD Reference information]

Core Revenue	2,429	2,724	+295	+12.1%	\$MM
Adjusted operating profit	810	890	+80	+9.9%	\$MM
at constant FX basis					
Core Revenue	2,429	2,611	+182	+7.5%	\$MM
Adjusted operating profit	810	874	+64	+7.9%	\$MM

• Contribution by cluster (BNU/\$MM)

2018Q1	Total Shipment Volume		GFB Shipment Volume		Core Revenue	
SWE	16.0	16%	12.9	21%	519	19%
NCE	12.3	12%	5.2	8%	490	18%
CIS+	28.0	28%	21.1	34%	631	23%
RoW	42.1	43%	22.8	37%	1,084	40%
Total	98.4		62.0		2,724	

2. Total shipment volume by cluster / markets (vs. PY)

2018	Q1	Q2	Q3	Q4	YTD
SWE	0.7%				0.7%
France	-5.2%				-5.2%
Italy	4.5%				4.5%
Spain	11.8%				11.8%
NCE	-1.8%				-1.8%
Germany	-6.7%				-6.7%
UK	-1.4%				-1.4%
CIS+	-3.3%				-3.3%
Romania	1.0%				1.0%
Russia	-4.4%				-4.4%
RoW	22.7%				22.7%
Iran	8.6%				8.6%
Taiwan	-18.7%				-18.7%
Turkey	5.4%				5.4%
Total	7.3%				7.3%

3. GFB shipment volume by brand (vs. PY) (BNU)

2018	Q1	Q2	Q3	Q4	YTD
Winston	34.9				34.9
	5.3%				5.3%
Camel	13.1				13.1
	3.7%				3.7%
MEVIUS	3.7				3.7
	-17.3%				-17.3%
LD	10.3				10.3
	3.8%				3.8%

Tobacco Business Data

International Tobacco Business

4. GFB shipment volume by cluster / markets (vs. PY)

2018	Q1	Q2	Q3	Q4	YTD
SWE	1.8%				1.8%
France	-4.4%				-4.4%
Italy	2.5%				2.5%
Spain	16.4%				16.4%
NCE	0.5%				0.5%
Germany	-7.8%				-7.8%
UK	-24.0%				-24.0%
CIS+	2.0%				2.0%
Romania	4.4%				4.4%
Russia	4.1%				4.1%
RoW	5.4%				5.4%
Iran	15.6%				15.6%
Taiwan	-21.8%				-21.8%
Turkey	8.4%				8.4%
Total	3.1%				3.1%

5. Share of market by key markets

	12 month moving average			3 month average				
	2017 March	2018 March	Change	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
France	22.0%	22.1%	+0.1%pt	22.1%	21.9%	22.0%	21.9%	22.6%
Italy	23.4%	23.2%	-0.3%pt	23.2%	23.2%	23.0%	23.1%	23.4%
Russia	32.5%	33.5%	+1.1%pt	32.1%	33.1%	33.8%	33.8%	33.5%
Spain	23.1%	24.2%	+1.2%pt	23.6%	24.2%	24.3%	24.0%	24.5%
Taiwan	40.4%	41.7%	+1.3%pt	41.5%	42.1%	42.7%	40.2%	41.6%
Turkey	29.1%	28.2%	-0.9%pt	29.1%	28.7%	28.6%	28.0%	27.6%
UK	41.6%	40.5%	-1.0%pt	41.1%	40.3%	40.2%	40.6%	41.1%

Source: IRI, Nielsen, Logista

6. Core Revenue at constant FX by cluster (vs. PY)

(\$MM)

2018	Q1	Q2	Q3	Q4	YTD
SWE	455				
	-1.0%				
NCE	431				
	-8.4%				
CIS+	607				
	9.7%				
RoW	1,118				
	18.2%				
Total	2,611				
	7.5%				

Tobacco Business Data

International Tobacco Business

7. Breakdown of Core Revenue

• USD basis						(\$MM)
	Q1	Q2	Q3	Q4	YTD	
2017	2,429				2,429	
Volume	+72				+72	
Price/Mix	+109				+109	
2018 at constant	2,611				2,611	
FX	+113				+113	
2018	2,724				2,724	

• Yen basis						(JPY BN)
	Q1	Q2	Q3	Q4	YTD	
2017	276.0				276.0	
Operations	+20.6				+20.6	
Local currencies vs. USD	+12.9				+12.9	
USD vs. JPY	-14.7				-14.7	
2018	294.8				294.8	

8. Breakdown of Adjusted Operating Profit

• USD basis						(\$MM)
	Q1	Q2	Q3	Q4	YTD	
2017	810				810	
Volume	-7				-7	
Price/Mix	+102				+102	
Others	-31				-31	
2018 at constant	874				874	
FX	+16				+16	
2018	890				890	

• Yen basis						(JPY BN)
	Q1	Q2	Q3	Q4	YTD	
2017	92.0				92.0	
Operations	+7.3				+7.3	
Local currencies vs. USD	+1.8				+1.8	
USD vs. JPY	-4.8				-4.8	
2018	96.3				96.3	

9. FX actual vs. PY

	<u>2017Q1</u>	<u>2018Q1</u>	<u>Change (%)</u>
RUB/\$	58.82	56.88	+3.4%
GBP/\$	0.81	0.72	+12.3%
EUR/\$	0.94	0.81	+15.4%
CHF/\$	1.00	0.95	+5.9%
TWD/\$	31.12	29.30	+6.2%
TRY/\$	3.69	3.81	-3.1%
IRR/\$	38,283	46,583	-17.8%
JPY/\$	113.60	108.22	-4.7%

*JPY vs USD change rates: (Local currency exchange rates of current period / Local currency exchange rates of same period in previous year) -1

Local currency vs USD change rates: (Local currency exchange rates of same period in previous year / Local currency exchange rates of current period) -1

Tobacco Business Data

Japanese Domestic Tobacco Business

1. Summary

	2017 Q1	2018 Q1	Variance	Variance (%)	
Cigarette industry volume	37.7	31.8	-5.9	-15.6%	BNU
Cigarette sales volume	23.0	19.5	-3.5	-15.0%	BNU
Excludes volumes of duty-free in Japan, China business (1.0BNU in 2017Q1 and 1.0BNU in 2018Q1, respectively) and RRP sales volume					
Core revenue	143.9	129.3	-14.6	-10.1%	JPY BN
Adjusted operating profit	57.2	48.9	-8.3	-14.4%	JPY BN
From FY2018, in accordance with the application of IFRS 15, certain items formerly treated as selling, general and administrative expenses are accounted for as reductions of revenue. There is no impact on adjusted operating profit.					

2. Cigarette sales volume

	Q1	Q2	Q3	Q4	(BNU) YTD
2017	23.0	23.8	23.5	22.6	92.9
2018	19.5				
vs. PY	-15.0%				

3. Revenue per thousand cigarettes

	Q1	Q2	Q3	Q4	(JPY) YTD
2017	5,931	5,987	5,922	5,944	5,946
2018	5,895				

Revenue per thousand cigarettes = (retail price sales-retailer margins-consumption tax-excise taxes)/sales volume×1,000
From FY2018, figures include the effects of IFRS15 application

4. Results of Reduced-Risk Products

	Q1	Q2	Q3	Q4	(BNU / JPY BN) YTD
2018					
RRP sales volume	0.3				0.3
RRP related revenue	8.3				8.3

5. Breakdown of financial results

	Q1	Q2	Q3	Q4	(JPY BN) YTD
Core revenue					
2017	143.9				143.9
Volume	-20.7				-20.7
Price/Mix*	-0.7				-0.7
RRP/Others	+6.8				+6.8
2018	129.3				129.3
Adjusted OP					
2017	57.2				57.2
Volume	-17.0				-17.0
Price/Mix*	-0.7				-0.7
RRP/Others	+9.4				+9.4
2018	48.9				48.9

*From FY2018, figures include the effects of IFRS15 application

6. Market share in cigarettes category

	Q1	Q2	Q3	Q4	(%) YTD
JT Total					
2017	61.0	61.0	61.1	62.4	61.3
2018	61.4				
MEVIUS					
2017	30.5	31.6	31.3	32.1	31.4
2018	31.0				
Winston					
2017	8.1	8.1	8.1	8.1	8.1
2018	8.0				
Seven Stars					
2017	7.5	7.6	7.6	7.8	7.6
2018	7.8				
Natural American Spirit					
2017	1.8	1.8	1.8	2.0	1.8
2018	2.0				

Pharmaceutical Business

Clinical Development as of May 1, 2018

<In-house development>

Code (Generic Name)	Potential Indication/Dosage form	Mechanism		Phase	Note
JTZ-951 (enarodustat)	Anemia associated with chronic kidney disease /Oral	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis- stimulating hormone, via inhibition of HIF-PHD.	Phase3(Japan) Phase1(Overseas)	In-house Co-development with Torii
JTE-052 (delgocitinib)	Autoimmune/allergic diseases /Oral, Topical *Atopic dermatitis/Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase3(Japan)	In-house *Co-development with Torii
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase2(Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1(Overseas)	In-house
JTK-351	HIV infection /Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV.	Phase1(Japan)	In-house
JTE-451	Autoimmune/allergic diseases /Oral	ROR γ antagonist	Suppresses overactive immune response via inhibition of ROR γ related to Th 17 activation.	Phase1(Overseas)	In-house
JTS-661 (serlopitant)	Pruritus/Oral	NK-1receptor antagonist	Suppresses pruritus involving the neurokinin (NK-1) receptor antagonist signalling pathway.	Phase2(Japan)	In-license (Menlo Therapeutics) Co-development with Torii *Phase2 study discontinued
JTT-751 (ferric citrate)	Iron-deficiency anemia/Oral	Oral iron replacement	Corrects iron-deficiency anemia by using absorbed iron for synthesis of hemoglobin.	Phase2(Japan)	In-license (Keryx Biopharmaceuticals) Co-development with Torii Additional indication

Clinical trial phase presented above is based on the first dose.

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK pathway.	Marketing application submitted (trametinib+dabrafenib) for melanoma(adjuvant) with BRAF V600E/K mutation in US and BRAF V600 mutation in EU
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
JTE-052	LEO Pharma ROHTO Pharmaceutical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	
JTZ-951	JW Pharmaceutical	HIF-PH inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis- stimulating hormone, via inhibition of HIF-PHD.	

Updates since the previous announcement on February 6, 2018:

<In-house development>

- JTS-661: Phase2 study discontinued, examining the future development policy.

<Licensed compounds>

- JTE-052: Licensed exclusive rights to ROHTO Pharmaceutical for further development and marketing JTE-052 in Japan for the treatment of the specific disease(es) in ophthalmology. (March 15, 2018)
- trametinib: Novartis Pharma K.K. announced that Mekinist® (trametinib) has approved in Japan, in combination with Tafinlar® (dabrafenib), for the treatment of BRAF mutant non-small cell lung cancer (NSCLC). (March 23, 2018) *additional indication

Definitions

Terms	Definitions
Adjusted Operating Profit (AOP)	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
Consolidated Adjusted Operating Profit at Constant FX	For International Tobacco Business, the same foreign exchange rates between local currencies vs USD and JPY vs USD as same period in previous fiscal year are applied
Reduced-Risk Products (RRP)	Products with potential to reduce the risks associated with smoking
GFB (Global Flagship Brands)	4 Brands (Winston, Camel, MEVIUS and LD)
Total Shipment volume: (International tobacco business)	Including fine cut, cigars, pipe tobacco, snus and kretek, but excluding contract manufactured products, waterpipe tobacco and RRP.
Core Revenue (International Tobacco Business)	Revenue including waterpipe tobacco and RRP, but excluding revenue from distribution, contract manufacturing and other peripheral businesses.
Core Revenue / Adjusted Operating Profit at Constant FX (International Tobacco Business)	The same foreign exchange rates between local currencies vs USD as same period in previous fiscal year are applied
Industry Volume (Japanese Domestic Tobacco Business)	Industry volume of tobacco products in Japan market (including RRP, etc.)
Cigarette Industry Volume (Japanese Domestic Tobacco Business)	Industry volume of cigarettes in Japan market (excluding RRP, etc.)
Cigarette Sales Volume (Japanese Domestic Tobacco Business)	Not including sales volume from domestic duty free, the China business and RRP.
RRP Sales Volume (Japanese Domestic Tobacco Business)	1 pack corresponds to 20 cigarettes (excluding RRP devices, RRP related accessories, etc.)
Core Revenue (Japanese Domestic Tobacco Business)	Excluding revenue from distribution of imported tobacco in the Japanese Domestic Tobacco Business, among others, but including revenue from domestic duty free and the China business, as well as RRP Related Revenue.
RRP Related Revenue (Japanese Domestic Tobacco Business)	RRP related revenue, as a part of core revenue, represents the sale of RRP including principally the device and the related accessories.
Liquidity	Cash and deposits + marketable securities + securities purchased under repurchase agreements
Interest-bearing debt	Short-term bank loans + CP + bonds + long-term borrowings + lease obligations
FCF	FCF is sum of cash flows from operating activities and investing activities, but excludes the following items; - From operating CF: interest received, dividends received, interest paid and income taxes related to these items - From investing CF: purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

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

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Japan Tobacco Inc. is a leading international tobacco company with operations in more than 130 countries. With close to 60,000 employees, it manufactures and sells some of the world's best-known brands including Winston, Camel, MEVIUS, LD and Natural American Spirit. The JT Group is committed to investing in Reduced-Risk Products (RRP) and currently markets Ploom TECH, its tobacco vapor product, and various e-cigarette products under the Logic brand. The Group is also present in the pharmaceutical and processed food businesses. For more information, visit <https://www.jt.com/>.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements appear in a number of places in this document 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) increase in awareness of health concerns related to smoking;
- (2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
- (3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (4) our ability to further diversify our business beyond the traditional tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition and changing consumer preferences;
- (7) our ability to manage impacts derived from business diversification or business expansion;
- (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.

Contacts:

Media and Investor Relations Division
Japan Tobacco Inc.

Investors:

Koji Tanaka, General Manager
Tokyo: +81-3-5572-4316
E-mail: jt.ir@jt.com

Tatsuya Tsukuura, General Manager
Geneva: +41-22-367-5664
E-mail: jt.ir@jt.com

Media:

Masahito Shirasu, General Manager
Tokyo: +81-3-5572-4292
E-mail: jt.media.relations@jt.com