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**JT Reports 2017 Third Quarter Results and revised forecasts
The results demonstrate solid profit growth at constant FX**

Japan Tobacco Inc. (JT) (TSE: 2914) today reports its consolidated financial results for 2017 third quarter (January 1 – September 30, 2017) and its revised consolidated forecasts for 2017.

Highlights

- **2017 results for nine months (January – September):** Adjusted operating profit at constant FX increased 2.8% driven by the international tobacco and pharmaceutical businesses.
- **2017 revised forecast:** Adjusted operating profit at constant FX is forecast to grow from the previous fiscal year despite a challenging operating environment.

Mitsuomi Koizumi, President and Chief Executive Officer of JT, commented:

“We continue to generate strong earnings growth in the international tobacco business, led by our cost optimization initiatives. This, along with higher royalty revenues in the pharmaceutical business, drove the Group’s adjusted operating profit growth at constant FX.

“The continuing cigarette industry volume decline puts further pressure on our Japanese tobacco business, resulting in adjustments to our forecast. In the meantime, our tobacco vapor product, Ploom TECH, continues to be well received by consumers. We are increasing the production capacity as we prepare to expand our sales areas nationwide in the first half of 2018.

“In the international tobacco business, we are delivering our strategic initiatives with the acquisitions in Indonesia and the Philippines which expand our geographic reach. At the same time, we’ve also been investing in emerging products.

“In a challenging industry environment, we commit to achieving sustainable profit growth by executing these on-going initiatives.”

Summary of 2017 results for nine months (January – September)

Consolidated Financial Results

- Adjusted operating profit at constant FX increased 2.8% driven by the international tobacco and pharmaceutical businesses.
- Operating profit and profit attributable to owners of the parent declined respectively mainly due to a decrease in gains from the sale of real estate assets.

Results by Business Segment

- **International Tobacco Business:** Adjusted operating profit grew 9.2% in US Dollars at constant FX mainly led by cost optimization.
- **Japanese Domestic Tobacco Business:** Adjusted operating profit decreased due to the impact of JT cigarette sales volume decline, partially offset by the benefits of the retail price amendment in 2016 and cost decreases.
- **Pharmaceutical Business:** Adjusted operating profit increased mainly driven by higher royalty revenues.
- **Processed Food Business:** Adjusted operating profit declined due to a decrease in revenue.

Consolidated Financial Results

(billions of Yen)	Jan. – Sep. 2017	vs. prior year	
		Difference	Change
Revenue	1,592.9	-25.6	-1.6%
Adjusted operating profit	486.1	9.5	2.0%
Operating profit	469.7	-24.9	-5.0%
Profit attributable to owners of the parent	333.7	-16.3	-4.7%

At constant FX:

Adjusted operating profit	489.7	13.1	2.8%
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- **Revenue**
Revenue decreased 1.6% as growth in the international tobacco and pharmaceutical businesses was unable to offset the decline in the Japanese domestic tobacco business.
- **Adjusted Operating Profit**
Adjusted operating profit at constant FX increased 2.8% driven by the international tobacco and pharmaceutical businesses.
On a reported basis, adjusted operating profit increased 2.0% due to currency fluctuations in the international tobacco business.
- **Operating Profit**
Operating profit declined 5.0% mainly due to a decrease in gains from the sale of real estate assets.
- **Profit Attributable to Owners of the Parent**
Profit attributable to owners of the parent declined 4.7% primarily due to lower operating profit.

Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	Jan. – Sep. 2017	vs. prior year	
		Difference	Change
Total shipment volume¹	298.0	-6.2	-2.0%
GFB shipment volume	216.8	0.5	0.2%
Revenue	927.5	8.3	0.9%
Core revenue²	882.9	9.8	1.1%
Adjusted operating profit	307.1	22.1	7.8%

At constant FX in US Dollars (millions of US Dollars)

Core revenue	7,941	-120	-1.5%
Adjusted operating profit	2,868	241	9.2%

Total shipment volume declined 2.0% or 2.6% excluding the acquisition in the Philippines. Volume increase primarily in Iran, Taiwan and emerging markets was unable to offset the impact of industry volume contraction mainly in CIS+ countries. GFB shipment volume grew 0.2%, mainly driven by market share gains in several key and emerging markets.

In US Dollars declining volumes caused core revenue to decrease 1.5% at constant FX, and 2.1% on a reported basis due to currency fluctuations. Adjusted operating profit increased 9.2% at constant FX led by cost optimization while we continued to invest in emerging markets and emerging products. On a reported basis, adjusted operating profit grew 4.6% due to currency fluctuations.

In Japanese Yen, core revenue and adjusted operating profit increased 1.1% and 7.8%, respectively, due to the appreciation of the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	Jan. – Sep. 2017	vs. prior year	
		Difference	Change
Cigarette industry volume	115.3	-15.5	-11.8%
JT cigarette sales volume³	70.3	-9.4	-11.8%
Revenue	468.4	-43.1	-8.4%
Core revenue⁴	443.1	-42.4	-8.7%
Adjusted operating profit	178.0	-21.0	-10.6%

JT cigarette sales volume decreased 11.8%. This is mainly due to cigarette industry volume contraction resulting from the expansion of the tobacco vapor⁵ category and a continued diminishing market trend. JT's cigarette market share was 61.0%, at parity level to last year.

Core revenue declined 8.7%, impacted by sales volume decline, partially offset by the benefit of the retail price amendment of MEVIUS last year and increasing sales of Ploom TECH. Adjusted operating profit declined 10.6% due to lower core revenue, despite benefits from cost decreases.

Pharmaceutical Business

(billions of Yen)	Jan. – Sep. 2017	vs. prior year	
		Difference	Change
Revenue	74.2	13.5	22.2%
Adjusted operating profit	15.8	11.6	274.4%

Revenue increased 22.2% driven by higher royalty revenues from increased sales of original JT compounds and sales growth of Torii Pharmaceutical. Adjusted operating profit grew 274.4% as a result of the revenue increase.

Processed Food Business

(billions of Yen)	Jan. – Sep. 2017	vs. prior year	
		Difference	Change
Revenue	117.3	-2.8	-2.3%
Adjusted operating profit	3.0	-0.8	-20.4%

The processed food business continued to focus mainly on its staple foods and seasonings category, as well as striving for cost reduction initiatives, in order to strengthen the earnings capacity in the business.

Although sales of seasonings increased, revenue decreased 2.3% due to lower sales of other products. Adjusted operating profit decreased 20.4% mainly as a result of the revenue decline.

Summary of 2017 revised forecasts

Consolidated Forecasts

- Adjusted operating profit at constant FX is forecast to grow 0.9% versus the previous fiscal year, a revision from the previous forecast due to lower profits in the Japanese domestic tobacco business partially offset by higher profits in the pharmaceutical business.

Forecasts by Business Segment

- **International Tobacco Business:** The forecast for adjusted operating profit in US Dollars at constant FX remains unchanged at 9.1% growth versus the previous fiscal year.
- **Japanese Domestic Tobacco Business:** The forecast for adjusted operating profit is revised downwards due to the impact of JT cigarette sales volume decline.
- **Pharmaceutical Business:** The forecast for adjusted operating profit is revised upwards by ¥1.0 billion driven by higher royalty revenues.
- **Processed Food Business:** Adjusted operating profit is forecast to grow versus the previous fiscal year but is revised downwards as a result of the updates of the sales plan.

Consolidated Forecasts

(billions of Yen)	2017 Revised Forecast	Difference from 2017 Previous Forecast	vs. prior year	
			Difference	Change
Revenue	2,130.0	5.0	-13.3	-0.6%
Adjusted operating profit	591.0	2.0	4.2	0.7%
Operating profit	565.0	-	-28.3	-4.8%
Profit attributable to owners of the parent	402.0	-	-19.7	-4.7%

At constant FX:

Adjusted operating profit	592.0	-5.0	5.2	0.9%
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- **Revenue**
The revenue forecast is revised upwards by ¥5.0 billion as a result of favorably revised exchange rate assumptions in the international tobacco business and higher revenues in the pharmaceutical business despite lower revenues in the Japanese domestic tobacco business.
- **Adjusted Operating Profit**
The forecast for adjusted operating profit at constant FX grows versus the previous fiscal year but is revised downwards by ¥5.0 billion from the previous forecast due to lower profits in the Japanese domestic tobacco business partially offset by higher profits in the pharmaceutical business.
On a reported basis, adjusted operating profit forecast is revised upwards by ¥2.0 billion due to higher profits in the international tobacco business as a result of favorably revised exchange rate assumptions.
- **Operating Profit and Profit Attributable to Owners of the Parent**
The forecasts for operating profit and for profit attributable to owners of the parent remain unchanged mainly due to an increase in M&A related expenses in the international tobacco business.

Forecasts by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	2017 Revised Forecast	Difference from 2017 Previous Forecast	vs. prior year	
			Difference	Change
Total shipment volume	398.0	7.0	-0.7	-0.2%
GFB shipment volume	286.0	-2.0	2.3	0.8%
Revenue	1,230.0	20.0	30.8	2.6%
Core revenue	1,170.0	18.0	31.2	2.7%
Adjusted operating profit	365.0	6.0	28.8	8.6%

At constant FX in US Dollars (millions of US Dollars)

Core revenue	10,440	-	-50	-0.5%
Adjusted operating profit	3,375	-	280	9.1%

Reflecting the acquisition in the Philippines, the forecast for total shipment volume is revised upwards by 7.0 billion units. The forecast for GFB shipment volume is revised downwards by 2.0 billion units as a result of revised assumptions of industry volumes and competitive environments in several markets.

In US Dollars, the forecast for adjusted operating profit at constant FX remains unchanged at 9.1% growth versus the previous fiscal year, mainly led by continuous cost optimization. On a reported basis, the profit forecast is increased by US\$50 million as a result of favorably revised exchange rate assumptions.

In Japanese Yen, the forecast for adjusted operating profit is revised upwards by ¥6.0 billion primarily as a result of revised exchange rate assumptions reflecting the recent trend of US Dollar appreciation.

(Reference) Exchange rate assumptions for US\$1.00

	2017 Revised Forecast	Effects to the adjusted operating profit forecast
Russian Ruble	58.00	Positive
UK Sterling	0.78	Positive
Euro	0.90	-
Japanese Yen	111.42	Positive

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	2017 Revised Forecast	Difference from 2017 Previous Forecast	vs. prior year	
			Difference	Change
JT cigarette sales volume	92.0	-1.0	-14.2	-13.4%
Revenue	626.0	-16.0	-58.2	-8.5%
Core revenue	591.0	-11.0	-58.7	-9.0%
Adjusted operating profit	225.0	-5.0	-35.2	-13.5%

The forecast for JT cigarette sales volume is revised downwards by 1.0 billion units. This reflects cigarette industry contraction due to further diminishing market trend, as well as intensifying competition in the low price segment.

As a result of the revised sales volume, the forecasts for core revenue and adjusted operating profit are revised downwards by ¥11.0 billion and ¥5.0 billion, respectively.

Pharmaceutical Business

(billions of Yen)	2017 Revised Forecast	Difference from 2017 Previous Forecast	vs. prior year	
			Difference	Change
Revenue	103.0	1.0	15.8	18.1%
Adjusted operating profit	24.0	1.0	14.3	147.0%

The forecasts for revenue and adjusted operating profit are both revised upwards by ¥1.0 billion, driven by higher royalty revenues from the increased sales of original JT compounds.

Processed Food Business

(billions of Yen)	2017 Revised Forecast	Difference from 2017 Previous Forecast	vs. prior year	
			Difference	Change
Revenue	163.0	-2.0	-1.1	-0.7%
Adjusted operating profit	5.5	-0.5	0.5	10.1%

As a result of the updates of the sales plan, the forecasts for revenue and adjusted operating profit are revised downwards by ¥2.0 billion and ¥0.5 billion, respectively.

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Japan Tobacco Inc. is a leading international tobacco company. Its products are sold in over 120 countries and its globally recognized brands include Winston, Camel, Mevius, LD and Natural American Spirit. With diversified operations, JT is also actively present in pharmaceuticals and processed foods. The company's revenue was ¥2.143 trillion (US\$19,703 million()) in the fiscal year ended December 31, 2016.*

**Translated at the rate of ¥108.78 per \$1*

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 revenues from distribution, contract manufacturing and other peripheral businesses.
- ³ Excluding sales volume of domestic duty free, the China business and emerging products.
- ⁴ Excluding revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others, including revenues from domestic duty free, the China business and emerging products such as Ploom TECH devices and capsules.
- ⁵ JT refers to the mist like substance that contains ingredients delivered from tobacco leaves as "tobacco vapor".

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

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) 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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