

Japan Tobacco International (JTI)
2017 Second Quarter Results

Strong earnings growth driven by cost optimization

| (billions of units, millions of US\$) | Apr-Jun | | Change vs. prior year | Jan-Jun | | Change vs. prior year |
|---|---------|-------|-----------------------------|---------|-------|-----------------------------|
| | 2017 | 2016 | | 2017 | 2016 | |
| Total shipment volume¹ | 101.5 | 105.3 | -3.6% | 193.2 | 199.7 | -3.3% |
| GFB shipment volume¹ | 74.8 | 74.4 | 0.5% | 140.8 | 140.7 | 0.0% |
| Core revenue² | 2,712 | 2,771 | -2.1% | 5,141 | 5,239 | -1.9% |
| Core revenue at constant FX | 2,755 | 2,771 | -0.6% | 5,224 | 5,239 | -0.3% |
| Adjusted operating profit | 929 | 866 | 7.2% | 1,738 | 1,729 | 0.5% |
| Adjusted operating profit at constant FX | 1,011 | 866 | 16.7% | 1,886 | 1,729 | 9.1% |

Highlights

2017 second quarter results (April-June)

- Adjusted operating profit at constant FX grew 16.7%, driven by cost optimization. On a reported basis, adjusted operating profit increased 7.2% due to currency fluctuations.
- Core revenue decreased 0.6% at constant FX due to volume decline partially offset by price/mix gains. Reported core revenue decreased 2.1% due to currency fluctuations.
- Total shipment volume declined 3.6% primarily due to industry volume contraction in the CIS+ cluster and several markets in the Rest-of-the-World cluster.
- GFB shipment volume increased 0.5% driven by the strong performance of Winston, Mevius and Camel.
- Year-on-year market share³ increased in the key markets of France, Italy, Spain and Taiwan. In Russia, GFB market share continued to grow driven by Winston.

2017 six months year-to-date results (January-June)

- Adjusted operating profit grew 9.1% at constant FX led by cost optimization while maintaining investment in emerging markets and emerging products. On a reported basis, adjusted operating profit grew 0.5% due to currency fluctuations.
- Core revenue decreased 0.3% at constant FX due to volume decline and 1.9% on a reported basis due to currency fluctuations.
- GFB shipment volume remained stable driven by market share gains while total shipment volume declined 3.3% following industry volume contraction in several key markets and unfavorable inventory comparisons in the first quarter.

Performance review

Core revenue and adjusted operating profit

2017 second quarter results (April-June)

Core revenue at constant FX decreased 0.6% or US\$16 million to US\$2,755 million, due to volume decline offsetting a favorable US\$35 million price/mix contribution.

Adjusted operating profit at constant FX increased 16.7% or US\$144 million to US\$1,011 million, driven by cost optimization and a positive price/mix of US\$26 million.

On a reported basis, core revenue and adjusted operating profit were negatively impacted by currency fluctuations, with core revenue declining 2.1% and adjusted operating profit growing 7.2%.

2017 six months year-to-date results (January-June)

Core revenue at constant FX decreased 0.3% or US\$15 million to US\$5,224 million, due to volume decline offsetting a positive US\$93 million price/mix contribution.

Adjusted operating profit at constant FX increased 9.1% or US\$157 million to US\$1,886 million, driven by cost optimization and a positive price/mix of US\$76 million. Investments continued in emerging markets and emerging products.

On a reported basis, core revenue and adjusted operating profit were negatively impacted by currency fluctuations, with core revenue declining 1.9% and adjusted operating profit increasing 0.5%.

Total shipment volume

| (billions of units) | Apr-Jun | | Change vs. prior year | Jan-Jun | | Change vs. prior year |
|------------------------|--------------|--------------|-----------------------------|--------------|--------------|-----------------------------|
| Cluster | 2017 | 2016 | | 2017 | 2016 | |
| South & West Europe | 17.7 | 17.5 | 0.9% | 33.6 | 34.5 | -2.7% |
| North & Central Europe | 13.1 | 13.8 | -5.0% | 25.6 | 27.0 | -5.0% |
| CIS+ | 35.0 | 39.2 | -10.8% | 64.0 | 70.3 | -9.0% |
| Rest-of-the-World | 35.8 | 34.7 | 2.9% | 70.1 | 67.9 | 3.1% |
| Total JTI | 101.5 | 105.3 | -3.6% | 193.2 | 199.7 | -3.3% |

2017 second quarter results (April-June)

Total shipment volume decreased 3.6% to 101.5 billion cigarette equivalent units. Industry volume contraction in the Caucasus markets, Russia, Turkey and Ukraine offset the strong shipment volume growth in Iran, Taiwan and several emerging markets. In fine cut, shipment volume declined 2.0% due to Germany and the UK despite growth in France, Italy and Spain.

2017 six month year-to-date results (January-June)

Total shipment volume declined 3.3% mainly due to industry volume contraction in the Caucasus markets, Russia, Turkey, the UK and Ukraine, as well as unfavorable inventory comparisons in the first quarter. In fine cut, shipment volume decreased 3.6% due to market share loss in the UK and industry volume contraction in the Benelux.

GFB shipment volume

(billions of units)

| Cluster | Apr-Jun | | Change vs. prior year | Jan-Jun | | Change vs. prior year |
|------------------------|-------------|-------------|-----------------------|--------------|--------------|-----------------------|
| | 2017 | 2016 | | 2017 | 2016 | |
| South & West Europe | 16.0 | 15.8 | 1.3% | 30.3 | 31.0 | -2.2% |
| North & Central Europe | 8.4 | 8.7 | -3.8% | 16.1 | 16.7 | -3.9% |
| CIS+ | 27.1 | 29.1 | -6.7% | 49.4 | 52.8 | -6.5% |
| Rest-of-the-World | 23.2 | 20.8 | 11.9% | 45.0 | 40.2 | 12.0% |
| Total JTI | 74.8 | 74.4 | 0.5% | 140.8 | 140.7 | 0.0% |

2017 second quarter results (April-June)

GFB shipment volume grew 0.5% to 74.8 billion cigarette equivalent units, mainly driven by the Benelux, Egypt, France, Iran, North Africa markets, the Philippines, Romania, Spain and Taiwan. GFB fine cut shipment volume increased 1.8% primarily driven by Winston and Camel in the South & West Europe cluster.

Winston: Shipment volume grew 3.9% to 37.2 billion cigarette equivalent units, mainly driven by Brazil, Egypt, France, Iran, North Africa markets, the Philippines, Romania, Spain, Taiwan and Ukraine.

Camel: Shipment volume increased 0.2% to 13.7 billion cigarette equivalent units, reflecting growth in Belarus, the Benelux, Iran, North Africa markets, the Philippines and Spain.

Mevius: Shipment volume grew 6.8% to 5.0 billion cigarette equivalent units driven by growth in Korea, Myanmar and Taiwan.

LD: Despite growth in Taiwan, shipment volume declined 7.3% to 12.1 billion cigarette equivalent units, primarily due to industry volume contraction in Russia and Ukraine.

2017 six months year-to-date results (January-June)

GFB shipment volume remained stable, as growth notably in Brazil, Egypt, Iran, Kazakhstan, Korea, Myanmar, the Philippines and Taiwan offset the impact of unfavorable inventory comparisons in the first quarter. In fine cut, GFB shipment volume decreased 1.5% primarily due to industry volume contraction in the North & Central Europe cluster, notably the Czech Republic, Germany and Hungary.

GFBs represented 72.9% of total shipment volume, up 2.4ppt from the same period last year.

Cluster review

2017 second quarter results (April-June)

South and West Europe

(billions of units, millions of US\$)

| | Apr-Jun | | Change |
|------------------------------------|---------|------|----------------|
| | 2017 | 2016 | vs. prior year |
| Total shipment volume | 17.7 | 17.5 | 0.9% |
| GFB shipment volume | 16.0 | 15.8 | 1.3% |
| Core revenue at constant FX | 547 | 543 | 0.7% |

Core revenue at constant FX increased 0.7%, driven by positive volume offsetting an unfavorable price/mix of US\$9 million mainly from France.

Total and GFB shipment volumes grew 0.9% and 1.3%, respectively, primarily driven by positive performance in the Benelux, France, Spain and Switzerland. Market share increased in the Benelux, France, Greece, Italy, Spain and Switzerland.

In France, total and GFB shipment volumes grew 5.4% and 6.3%, respectively, driven by Winston. Fine cut shipment volume increased 6.6% led by Winston and Camel. Market share grew 0.5ppt to 22.1%, driven by Winston, Camel and Fleur du Pays.

In Italy, total and GFB shipment volumes declined 4.7% and 4.8%, respectively, mainly due to industry volume contraction. Fine cut shipment volume grew 10.9% mainly driven by Winston and Camel. Market share increased 1.1ppt to 23.4%, driven by Winston, Camel and Benson & Hedges.

In Spain, despite industry volume contraction, total and GFB shipment volumes grew 8.3% and 7.8%, respectively, mainly driven by Winston and Camel. Fine cut shipment volume was up 18.1% driven by Winston and Camel. Market share increased 0.9ppt to 23.4%, primarily led by Winston and Camel.

North and Central Europe

(billions of units, millions of US\$)

| | Apr-Jun | | Change |
|------------------------------------|---------|------|----------------|
| | 2017 | 2016 | vs. prior year |
| Total shipment volume | 13.1 | 13.8 | -5.0% |
| GFB shipment volume | 8.4 | 8.7 | -3.8% |
| Core revenue at constant FX | 516 | 583 | -11.4% |

Core revenue at constant FX decreased 11.4%, due to lower volume and an unfavorable price/mix contribution of US\$34 million mainly from the UK.

Total and GFB shipment volumes decreased 5.0% and 3.8%, respectively, mainly due to industry volume contraction in Austria, Germany, Ireland and the UK. Market share grew in Germany and Hungary.

In Austria, total and GFB shipment volumes declined 9.7% and 7.1%, respectively, due to industry volume contraction and market share loss. Market share decreased 0.8ppt to 31.0%, due to non-GFBs while Winston and Camel grew share.

In Germany, total and GFB shipment volumes declined 6.4% and 7.1%, respectively, due to industry volume contraction impacting Winston, Camel and Benson & Hedges. Market share increased 0.8ppt to 8.3% driven by Winston, Camel and Natural American Spirit.

In the UK, total and GFB shipment volumes declined 5.4% and 0.6%, respectively, due to industry volume contraction and market share loss. Fine cut shipment volume decreased 8.1% due to fierce price competition impacting Amber Leaf. Market share was down 1.2ppt to 40.9% despite strong gains by Benson & Hedges.

CIS+

(billions of units, millions of US\$)

| | Apr-Jun 2017 | 2016 | Change vs. prior year |
|------------------------------------|-------------------------|-------------|----------------------------------|
| Total shipment volume | 35.0 | 39.2 | -10.8% |
| GFB shipment volume | 27.1 | 29.1 | -6.7% |
| Core revenue at constant FX | 607 | 688 | -11.7% |

Core revenue at constant FX declined 11.7% due to lower volume and a slightly unfavorable price/mix contribution of US\$3 million as pricing initiatives in Russia offset gains from Romania and Ukraine.

Total and GFB shipment volumes declined 10.8% and 6.7%, respectively, mainly due to industry volume contraction in the Caucasus markets, Russia and Ukraine. Market share grew in Kazakhstan and Romania.

In Romania, despite industry volume contraction, total and GFB shipment volumes increased 5.3% and 8.6%, respectively, driven by Winston and Sobranie. Market share increased 0.3ppt to 26.2%.

In Russia, total and GFB shipment volumes declined 9.9% and 7.4%, respectively. This was mainly due to quarterly industry volume contraction⁴ estimated at 7.7%, as well as competitive pressure at the low-end of the market affecting non-GFBs. Share of value and share of market declined 0.7ppt to 33.9% and 1.1ppt to 32.4%, respectively, on a 12-month rolling average basis. Over the last two quarters, market share has increased sequentially, reaching 33.0% driven by Winston, LD, Peter I and Saint George. GFB market share grew 0.2ppt to a new record high of 24.6%.

Rest-of-the-World

(billions of units, millions of US\$)

| | Apr-Jun 2017 | 2016 | Change vs. prior year |
|------------------------------------|-------------------------|-------------|----------------------------------|
| Total shipment volume | 35.8 | 34.7 | 2.9% |
| GFB shipment volume | 23.2 | 20.8 | 11.9% |
| Core revenue at constant FX | 1,085 | 958 | 13.3% |

Core revenue at constant FX increased 13.3%, led by positive volume and price/mix of US\$81 million, mainly from Canada, Egypt, Iran, the Philippines and Turkey.

Despite industry volume contraction in the Middle East and Africa, total and GFB shipment volumes increased 2.9% and 11.9%, respectively, mainly driven by Brazil, Egypt, Iran, Korea, Myanmar, North Africa markets, the Philippines and Taiwan. Market share grew in several

markets including Brazil, Canada, Egypt, Malaysia, Myanmar, the Philippines and Taiwan.

In Iran, total and GFB shipment volumes grew 20.9% and 53.2%, respectively, driven by the strong performance of Winston.

In Taiwan, Winston drove total and GFB shipment volumes growth of 15.7% and 33.5%, respectively, outpacing the estimated quarterly industry volume increase of 6.4%, ahead of the June tax rise. Share of market grew 1.7ppt to 41.0% driven by Winston and LD. Share of value grew 1.5ppt to 47.2%.

In Turkey, total and GFB shipment volumes decreased 9.8% and 7.4%, respectively, due to industry volume contraction and market share loss. Market share declined 0.8ppt to 29.1% despite growth from Winston and LD.

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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 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 June 2017. Canada, Germany, Greece, Kazakhstan and Switzerland are on a 12-month rolling average at the end of May 2017. 12-month share of market growth for May 2017 markets is calculated against a 12-month share of market at the end of June 2016.

⁴ Source: JTI estimates based on April-May 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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