JAPAN TOBACCO INC.
2-1, Toranomon 2-chome, Minato-ku
Tokyo 105-8422 JAPAN
Phone:03-3582-3111

FOR IMMEDIATE RELEASE

Tokyo, February 6, 2018

JT Reports 2017 Financial Results and 2018 Consolidated Forecasts

Highlights

- **2017 results for January 1 to December 31:** Despite growth in the international tobacco and pharmaceutical businesses, adjusted operating profit at constant FX was almost flat due to the declining sales volume in the Japanese domestic tobacco business.

- **2018 consolidated forecast:** Adjusted operating profit at constant FX is forecast to grow 3.7% versus the previous year despite a challenging operating environment.

- The Company's Board is recommending a total dividend per share of ¥140, including a first half-year dividend per share of ¥70. For 2018, the Company intends to increase the total dividend per share to ¥150.

Business Plan 2018

The tobacco business remains our profit growth engine and we expect contribution from the pharmaceutical and processed food businesses to complement the JT Group's profit growth.

In the tobacco business, we are

- Accelerating investment in Reduced-Risk Products[1] as future growth drivers of the tobacco business.
- Enhancing business foundations in traditional tobacco products, such as cigarettes, by investing in brand equity and geographical expansion.

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

"Our 2017 results demonstrate our ability to deliver solid profit in an ever-challenging business environment.

"In my first year as CEO, I will focus on ensuring success in the domestic tobacco business, an essential driver for our future growth. We will also continue to actively invest in both traditional tobacco and Reduced-Risk Products with the ambition to hold the No.1 market share position in Reduced-Risk Products in Japan by the end of 2020.

"I believe our management principle is well suited to achieve this sustainable profit growth in the mid to long-term. We need to enhance our organization's ability to face the competition by being faster and bolder across all our operations.

"We are confident that we can deliver mid to high single-digit annual average growth rate in adjusted operating profit at constant FX in the mid to long-term with our planned investments. Moreover, we are committed to growing the dividend per share year-on-year in line with mid-term profit guidance."

Summary of 2017 financial results for January 1 – December 31

Consolidated Financial Results

- Despite growth in the international tobacco and pharmaceutical businesses, adjusted operating profit at constant FX was virtually flat due to the Japanese domestic tobacco business and an impact of a non-recurring loss associated with a key UK distributor going into administration. Excluding the impact, the profit increased 2.8%.

- Operating profit and profit attributable to owners of the parent declined 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 4.0% in US Dollars at constant FX mainly led by cost optimization and despite the impact for non-recurring loss.

- **Japanese Domestic Tobacco Business:** Adjusted operating profit decreased due to the impact of JT cigarette sales volume decline, offsetting 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 was up mainly led by cost reduction.

Consolidated Financial Results

(billions of Yen)	Jan. – Dec. 2017	vs. prior year Difference	vs. prior year Change
Revenue	2,139.7	-3.6	-0.2%
Adjusted operating profit	585.3	-1.5	-0.3%
Operating profit	561.1	-32.2	-5.4%
Profit attributable to owners of the parent	392.4	-29.3	-6.9%
At constant FX:			
Adjusted operating profit	583.2	-3.6	-0.6%

- **Revenue**
  Despite growth in the international tobacco and pharmaceutical businesses, revenue was stable due to the decline in the Japanese domestic tobacco business.

- **Adjusted Operating Profit**
  Adjusted operating profit at constant FX was virtually flat led by an increase in the international tobacco and pharmaceutical businesses despite a decrease in the Japanese domestic tobacco business and the impact of a non-recurring loss associated with a key UK distributor going into administration. Excluding the impact, the profit increased 2.8%.
  On a reported basis, adjusted operating profit was stable with limited impacts from currency fluctuations in the international tobacco business.

- **Operating Profit**
  Operating profit declined 5.4% 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 6.9% primarily due to lower operating profit.

Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	Jan. – Dec. 2017	vs. prior year Difference	vs. prior year Change
Total shipment volume[2]	398.5	-0.2	-0.1%
GFB shipment volume	285.9	2.2	0.8%
Revenue	1,237.6	38.4	3.2%
Core revenue[3]	1,177.0	38.2	3.4%
Adjusted operating profit	351.3	15.1	4.5%
At constant FX in US Dollars (millions of US Dollars)			
Core revenue	10,457	-33	-0.3%
Adjusted operating profit	3,219	125	4.0%

Total shipment volume was stable. Industry volume contraction, mainly in CIS+ countries, was almost offset by volume increases primarily in Iran and emerging markets, market share gains and acquisitions in Indonesia and the Philippines. Excluding acquisitions, the volume declined 2.1%. GFB shipment volume grew 0.8%, mainly driven by market share gains in several key and emerging markets.

In US Dollars core revenue at constant FX was almost flat. On a reported basis the revenue was stable including limited currency fluctuations impact. Adjusted operating profit increased 4.0% at constant FX primarily led by cost optimization despite an impact of a non-recurring loss of US$182 million associated with a key UK distributor going into administration. Excluding the impact, the profit increased 9.9%. On a reported basis, adjusted operating profit grew 1.4% despite currency fluctuations.

In Japanese Yen, core revenue and adjusted operating profit increased 3.4% and 4.5%, respectively, including the appreciation of the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	Jan. – Dec. 2017	vs. prior year Difference	vs. prior year Change
Cigarette industry volume	151.4	-22.4	-12.9%
JT cigarette sales volume[4]	92.9	-13.3	-12.5%
Revenue	626.8	-57.5	-8.4%
Core revenue[5]	590.6	-59.1	-9.1%
Adjusted operating profit	232.3	-27.9	-10.7%

JT cigarette sales volume decreased 12.5%. This was mainly due to cigarette industry volume contraction as result of the expansion of the Reduced-Risk Products category and a continued diminishing market trend. JT's cigarette market share increased 0.3ppt to 61.3%.

Core revenue declined 9.1%, impacted by cigarette sales volume decline offsetting the benefit of the retail price amendment of MEVIUS last year and increased sales of Ploom TECH above 10 billion yen. Despite cost decreases, adjusted operating profit declined 10.7% due to lower core revenue.

Pharmaceutical Business

(billions of Yen)	**Jan. – Dec. 2017**	**vs. prior year Difference**	**Change**
Revenue	104.7	17.5	20.1%
Adjusted operating profit	24.1	14.4	148.0%

Revenue increased 20.1% driven by higher royalty revenues and sales growth of Torii Pharmaceutical. Adjusted operating profit grew 148.0% as a result of the revenue increase.

Processed Food Business

(billions of Yen)	**Jan. – Dec. 2017**	**vs. prior year Difference**	**Change**
Revenue	163.1	-0.9	-0.6%
Adjusted operating profit	5.4	0.4	8.0%

Although sales of seasonings increased, revenue decreased 0.6% due to lower sales of other products. Adjusted operating profit increased 8.0% as a result of our focus on high-margin products and cost reduction.

Summary of 2018 consolidated forecasts

Consolidated Forecasts

- Adjusted operating profit at constant FX is forecast to grow 3.7% versus the previous year in a challenging business environment.

Forecasts by Business Segment

- **International Tobacco Business:** The forecast for adjusted operating profit in US Dollars at constant FX is 14.7% growth versus the previous year primarily led by top-line growth with pricing and a favorable comparison associated with the previous year's impact of a non-recurring loss.

- **Japanese Domestic Tobacco Business:** Adjusted operating profit is expected to decrease 13.0% due to the impact of JT cigarette sales volume decline offsetting increasing sales of Ploom TECH.

- **Pharmaceutical Business:** Adjusted operating profit is expected to increase 3.8% driven by higher royalty revenues.

- **Processed Food Business:** The forecast for adjusted operating profit is 1.9% growth led by growing sales of frozen and ambient processed food products and seasonings.

Consolidated Forecasts

(billions of Yen)	2018 Consolidated Forecast	Jan-Dec 2017 Actual	vs. prior year performance	
			Difference	Change
Revenue	**2,220.0**	2,139.7	80.3	3.8%
Adjusted operating profit	**600.0**	585.3	14.7	2.5%
Operating profit	**561.0**	561.1	-0.1	-0.0%
Profit attributable to owners of the parent	**394.0**	392.4	1.6	0.4%
At constant FX:				
Adjusted operating profit	**607.0**	585.3	21.7	3.7%

- **Revenue**
  The revenue is expected to increase 3.8% versus the previous year driven by growth in the international tobacco, pharmaceutical and processed food businesses more than offsetting lower revenue in the Japanese domestic tobacco business.

- **Adjusted Operating Profit**
  The forecast for adjusted operating profit at constant FX is 3.7% growth led by the international tobacco and pharmaceutical businesses.
  On a reported basis, adjusted operating profit is expected to increase 2.5% due to unfavorable 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 are virtually flat mainly due to an increase in amortization costs of acquired assets in the international tobacco business and an unfavorable comparison associated with the previous year's non-recurring positive items.

Forecasts by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	**2018 Consolidated Forecast**	Jan-Dec 2017 Actual	vs. prior year performance	
			Difference	Change
Revenue	**1,320.0**	1,237.6	82.4	6.7%
Core revenue	**1,265.0**	1,177.0	88.0	7.5%
Adjusted operating profit	**396.0**	351.3	44.7	12.7%
At constant FX in US Dollars (millions of US Dollars)				
Core revenue	**11,350**	10,498	852	8.1%
Adjusted operating profit	**3,600**	3,138	462	14.7%

Total shipment volume is expected to increase c.4% mainly driven by continued growth in emerging markets and the contribution from acquisitions. GFB shipment volume is expected to increase c.2%* primarily led by market share gains in key and emerging markets.

In US Dollars, adjusted operating profit at constant FX is expected to increase 14.7% mainly led by top-line growth with pricing and a favorable comparison associated with the previous year's impact of a non-recurring loss as a result of a key UK distributor going into administration. On a reported basis, the forecast for the profit is 14.7% growth, as impact from local currencies against the US dollars is expected to be neutral.
In Japanese Yen, the forecast for adjusted operating profit is expected to increase 12.7% due to slightly negative exchange rate assumptions against the US Dollar.

*From 2018, GFB is used to describe only four brands (Winston, Camel, MEVIUS and LD) instead of nine. 2017 GFB shipment volume result is restated for comparison.

(Reference) Exchange rate assumptions for US$1.00

	2018 Consolidated Forecast	Effects to the adjusted operating profit forecast
Russian Ruble	58.00	Positive
UK Sterling	0.74	Positive
Euro	0.83	Positive
Japanese Yen	110.00	Negative

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	**2018 Consolidated Forecast**	Jan-Dec 2017 Actual	vs. prior year performance	
			Difference	Change
Revenue	**608.0**	626.8	-18.8	-3.0%
Core revenue	**573.0**	590.6	-17.6	-3.0%
Adjusted operating profit	**202.0**	232.3	-30.3	-13.0%

JT cigarette sales volume is expected to decrease by over 16.5% due to the continued industry volume contraction caused by the expansion of Reduced-Risk Products category.

Core revenue is expected to decline 3.0% to ¥573.0 billion led by the cigarette sales volume decrease despite the expansion of Ploom TECH sales area. Adjusted operating profit is expected to decrease 13.0% due to the core revenue decline and an increase in marketing investment for Ploom TECH expansion.

Pharmaceutical Business

(billions of Yen)	**2018 Consolidated Forecast**	Jan-Dec 2017 Actual	vs. prior year performance	
			Difference	Change
Revenue	**109.0**	104.7	4.3	4.1%
Adjusted operating profit	**25.0**	24.1	0.9	3.8%

Both revenue and adjusted operating profit are forecast to increase 4.1% and 3.8%, respectively, driven by higher royalty revenues despite unfavorable impacts mainly from drug price revision.

Processed Food Business

(billions of Yen)	**2018 Consolidated Forecast**	Jan-Dec 2017 Actual	vs. prior year performance	
			Difference	Change
Revenue	**165.0**	163.1	1.9	1.1%
Adjusted operating profit	**5.5**	5.4	0.1	1.9%

Revenue and adjusted operating profits are forecast to increase 1.1% and 1.9%, respectively, led by the sales increase in frozen and ambient processed food products and seasonings.

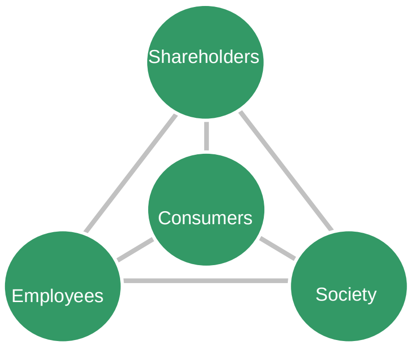
Management Principle

- **Basic Management Principle**

Under the 4S model, the JT Group strives to fulfill its responsibilities to its valued consumers, shareholders, employees and wider society, carefully considering the respective interests of these key stakeholder groups, and exceeding their expectations wherever possible. The 4S model has allowed us to achieve sustainable profit growth in the past years and we firmly believe that this model will continue to increase the Group's value in the mid- to long-term.

The Group will continue to prioritize business investments for sustainable profit growth in the mid- to long-term, and will continue to strike a balance between profit growth through business investments and shareholder returns.

4S Model



- **Mid- to Long-Term Target:** Achieve mid to high single-digit annual average growth rate in adjusted operating profit at constant currency.

- **Shareholder Return Policy:** Aim to enhance shareholder returns considering the Group's mid- to long-term profit growth trend, while maintaining a solid balance sheet*.
  - Deliver consistent dividend per share growth
  - Consider implementing a share buy-back program, taking into account the Group's mid-term operating environment and financial outlook
  - Continue to closely monitor shareholder returns of global FMCG companies**

* As its financial policy, we maintain a solid balance sheet. This provides the capacity to withstand any adversity arising out of a volatile environment, such as an economic crisis. It also allows for sufficient flexibility to capture attractive investment opportunities.

**We monitor global FMCG companies which have a stakeholder model similar to our 4S model, and have delivered strong business growth.

Notes

[1] 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.
[2] Including fine cut, cigars, pipe tobacco, snus and kretek, but excluding contract manufactured products, waterpipe tobacco and Reduced-Risk Products.
[3] Including revenues from waterpipe tobacco and Reduced-Risk Products, but excluding revenues from distribution, contract manufacturing and other peripheral businesses.
[4] Excluding sales volume of domestic duty free, the China business and Reduced-Risk Products.
[5] 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 Reduced-Risk Products such as Ploom TECH devices and capsules.

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

###

Japan Tobacco Inc. is a leading international tobacco company with operations in more than 120 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) 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.

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