

Supplementary Document

Tokyo, February 6, 2017
Japan Tobacco Inc.

Japan Tobacco International (JTI)
Results for the 12-month period ended December 31, 2016

Robust pricing delivers double-digit profit growth

(billions of units, millions of US\$)	Oct-Dec		Change vs. prior year	Jan-Dec		Change vs. prior year
	2016	2015		2016	2015	
Total shipment volume¹	94.5	98.4	-3.9%	398.7	393.9	1.2%
GFB shipment volume¹	67.4	68.2	-1.1%	283.7	273.6	3.7%
Core revenue²	2,429	2,516	-3.5%	10,490	10,338	1.5%
Core revenue at constant FX	2,539	2,516	0.9%	11,215	10,338	8.5%
Adjusted operating profit	468	543	-13.7%	3,095	3,257	-5.0%
Adjusted operating profit at constant FX	559	543	3.0%	3,693	3,257	13.4%

Highlights

Full year 2016 (January-December)

- Core revenue and adjusted operating profit at constant currency grew 8.5% and 13.4%, respectively, driven primarily by robust price/mix.
- On a reported basis, core revenue grew 1.5% while adjusted operating profit declined 5.0%, due to unfavorable currency movements.
- Total and GFB shipment volumes increased by 1.2% and 3.7%, respectively, fueled by continued market share gains, growth in seeding markets, acquisitions and favorable trade inventory adjustments mainly in the first quarter. In fine cut, total and GFB shipment volumes increased 8.1% and 17.7%, respectively.
- Year-on-year market share³ increased in key markets including France, Italy, Spain and Taiwan. In Russia and the UK, GFB market share continued to grow.

3 months quarter-to-date 2016 (October-December)

- Core revenue and adjusted operating profit at constant currency increased 0.9% and 3.0%, respectively, driven by pricing gains.
- Reported core revenue and adjusted operating profit declined 3.5% and 13.7%, respectively, due to unfavorable currency movements.
- Total and GFB shipment volumes declined 3.9% and 1.1%, respectively, mainly due to lower performance in CIS+. GFB fine cut shipment volume grew 5.9% resulting in total fine cut shipment volume growth of 1.2%.

Performance review

Core revenue and adjusted operating profit

Full year 2016 (January-December)

Core revenue at constant currency grew 8.5% or US\$877 million to US\$11,215 million, driven by US\$721 million in price/mix contribution and volume growth.

Adjusted operating profit at constant currency increased 13.4% or US\$435 million to US\$3,693 million, driven by positive price/mix of US\$690 million and after investing in seeding markets and emerging products for future sustainable growth.

On a reported basis, core revenue was up 1.5% as positive price/mix and total shipment volume growth offset currency downsides, while adjusted operating profit declined 5.0% due to unfavorable currency movements.

3 months quarter-to-date 2016 (October-December)

Core revenue at constant currency increased 0.9% or US\$24 million to US\$2,539 million, driven by US\$110 million in price/mix contribution.

Adjusted operating profit at constant currency grew 3.0% or US\$16 million to US\$559 million, combining positive price/mix of US\$94 million and ongoing investments.

On a reported basis, core revenue and adjusted operating profit declined 3.5% and 13.7% due to currency downsides.

Total shipment volume

(billions of units)	Oct-Dec		Change vs. prior year	Jan-Dec		Change vs. prior year
Cluster	2016	2015		2016	2015	
South & West Europe	14.0	14.4	-3.3%	65.2	63.2	3.2%
North & Central Europe	12.9	12.9	-0.6%	54.2	53.0	2.3%
CIS+	33.3	37.6	-11.6%	141.4	152.5	-7.3%
Rest-of-the-World	34.4	33.4	3.1%	137.9	125.2	10.1%
Total JTI	94.5	98.4	-3.9%	398.7	393.9	1.2%

Full year 2016 (January-December)

Total shipment volume grew 1.2% to 398.7 billion cigarette equivalent units. This positive volume performance driven by Brazil, Egypt, France, Germany, Iran, Italy, Kazakhstan, South Korea, Myanmar, the Philippines, Spain, Taiwan and Turkey was supported by acquisitions and favorable trade inventory adjustments mainly in the first quarter. Fine cut shipment volume increased 8.1%, led by France, Germany, Hungary, Italy, Spain, Switzerland and the UK.

3 months quarter-to-date 2016 (October-December)

Total shipment volume decreased 3.9% to 94.5 billion cigarette equivalent units due to lower performance in Russia and Ukraine. In fine cut, shipment volume increased 1.2%, mainly in North & Central Europe.

GFB shipment volume

Cluster	Oct-Dec		Change vs. prior year	Jan-Dec		Change vs. prior year
	2016	2015		2016	2015	
South & West Europe	12.5	12.8	-2.1%	58.6	55.8	5.0%
North & Central Europe	7.9	7.6	3.5%	33.6	30.5	10.4%
CIS+	25.4	28.4	-10.6%	107.1	113.3	-5.4%
Rest-of-the-World	21.7	19.5	11.5%	84.4	74.0	14.0%
Total JTI	67.4	68.2	-1.1%	283.7	273.6	3.7%

Full year 2016 (January-December)

GFB shipment volume increased 3.7% to 283.7 billion cigarette equivalent units, including the addition of two billion cigarette equivalent units from Natural American Spirit. Growth came from Canada, France, Germany, Iran, Italy, Kazakhstan, Romania, Spain, Taiwan and the UK, as well as from seeding markets such as Brazil, Egypt, South Korea, Myanmar and the Philippines. GFB fine cut shipment volume increased 17.7%, primarily led by the Benelux, France, Germany, Hungary, Italy, Spain, Switzerland, the UK and the addition of Natural American Spirit.

GFBs represented 71.2% of total shipment volume, up 1.7ppt from last year.

Winston: Shipment volume grew 5.5% to 139.3 billion cigarette equivalent units, primarily driven by Brazil, Egypt, France, Germany, Iran, Italy, North Africa markets, the Philippines, Taiwan and Turkey. Fine cut shipment volume increased 11.2%, led by the Benelux, France, Germany, Hungary and Italy. Winston achieved record high market shares in 20 markets.

Camel: Shipment volume grew 2.5% to a historical level of 52.2 billion cigarette equivalent units, increasing notably in the Benelux, Brazil, the Caucasus markets, France, Iran, Italy, the Philippines, South Africa and Spain. Fine cut shipment volume increased 8.2%, led by the Benelux, Czech Republic, France, Italy and Poland.

Mevius: Shipment volume increased 4.7% to 17.9 billion cigarette equivalent units driven by positive performance in South Korea, Myanmar and South East Asia markets.

LD: Despite continued growth in Canada, Kazakhstan, Romania and Turkey, shipment volume declined 3.9% to 47.6 billion cigarette equivalent units, primarily due to industry volume decline in Russia and lower performance in the Caucasus markets and Ukraine. Fine cut shipment volume grew 2.1%, mainly led by Hungary. LD achieved record market share levels in 12 markets, including Canada, Kazakhstan, Romania, Russia, and Taiwan.

3 months quarter-to-date 2016 (October-December)

GFB shipment volume declined 1.1% to 67.4 billion cigarette equivalent units, due to lower performance in Russia and Ukraine. In fine cut, GFB shipment volume increased 5.9%, driven by both European clusters.

Cluster review

Full year 2016 (January-December)

South and West Europe

(billions of units, millions of US\$)

	Jan-Dec		Change
	2016	2015	vs. prior year
Total shipment volume	65.2	63.2	3.2%
GFB shipment volume	58.6	55.8	5.0%
Core revenue at constant FX	1,982	1,870	6.0%

Core revenue at constant currency increased 6.0%, driven by volume contribution of US\$68 million and positive price/mix of US\$45 million.

Total and GFB shipment volumes grew 3.2% and 5.0%, respectively, driven by positive share performance across most markets and the addition of Natural American Spirit in the Benelux, France, Greece, Italy, Spain and Switzerland. Market share increased in the Benelux, France, Greece, Italy, Spain and Switzerland.

In France, total and GFB shipment volumes outperformed the industry and grew 2.4% and 3.5%, respectively, driven by Winston and Camel. Fine cut shipment volume increased 6.9%, led by Winston, Camel and Fleur du Pays. Market share grew 0.6ppt to 22.0%, driven by Winston, Camel and Fleur du Pays.

In Italy, Winston, Camel and Benson & Hedges led an increase in total and GFB shipment volumes of 7.6% and 7.9%, respectively. Fine cut shipment volume increased 34.3% driven by Winston, Camel and Natural American Spirit. Market share increased 1.6ppt to 22.7%.

In Spain, total and GFB shipment volumes grew 2.2% and 2.5%, respectively, mainly driven by Camel and Benson & Hedges. Fine cut shipment volume increased 4.3% driven by Camel, Natural American Spirit and Amber Leaf. Market share grew 0.5ppt to 22.8%, primarily driven by Camel and Benson & Hedges.

North and Central Europe

(billions of units, millions of US\$)

	Jan-Dec		Change
	2016	2015	vs. prior year
Total shipment volume	54.2	53.0	2.3%
GFB shipment volume	33.6	30.5	10.4%
Core revenue at constant FX	2,427	2,306	5.3%

Core revenue at constant currency grew 5.3%, led by US\$77 million in price/mix contribution and volume growth.

Total and GFB shipment volumes increased 2.3% and 10.4%, respectively, mainly driven by Germany and the addition of Natural American Spirit in Austria, Germany, Ireland and the UK. Market share grew in Austria, Czech Republic, Germany, Hungary, Ireland and Sweden.

In Austria, GFB shipment volume grew 9.2%, mainly driven by Winston, Camel and Benson & Hedges. Total shipment volume declined 0.4% due to industry contraction. Market share increased 0.2ppt to 31.4%, led by Winston, Camel and Benson & Hedges.

In Poland, total and GFB shipment volumes declined 3.3% and 2.7%, respectively, due to market share decline. Market share decreased 0.4ppt to 16.0%, as the positive performance of Winston and Camel was offset by intense competition impacting LD.

In the UK, GFB shipment volume grew 24.3%, driven by Benson & Hedges and the addition of Natural American Spirit. Total shipment volume declined 2.7%, mainly due to industry contraction. Fine cut shipment volume increased 3.9%, led by Sterling, Amber Leaf and Natural American Spirit. Market share declined 0.2ppt to 41.7% despite continued growth from Benson & Hedges and Amber Leaf, the number one tobacco brand in the market.

CIS+

(billions of units, millions of US\$)

	Jan-Dec		Change
	2016	2015	vs. prior year
Total shipment volume	141.4	152.5	-7.3%
GFB shipment volume	107.1	113.3	-5.4%
Core revenue at constant FX	2,882	2,799	3.0%

Core revenue at constant currency grew 3.0%, led by price/mix gains of US\$289 million partly offset by negative volume contribution.

Total and GFB shipment volumes declined 7.3% and 5.4%, respectively, mainly due to lower industry volume in Russia and lower market share in Russia and Ukraine. GFB market share increased in Kazakhstan, Romania and Russia.

In Romania, total and GFB shipment volumes grew 2.7% and 13.8%, respectively, primarily driven by Winston, LD and Sobranie. Market share increased 0.5ppt to 26.1%, led by Winston, Sobranie and LD, the latter benefiting from the successful migration from More.

In Russia, total and GFB shipment volumes declined 8.6% and 3.2%, respectively. This was mainly due to industry contraction⁴ estimated at 5.1%, as well as competitive pressure at the low-end of the market impacting market share. Share of market and share of value declined 1.0ppt to 32.8% and 0.6ppt to 34.2%, respectively. GFB market share grew 0.5ppt to 24.7%, driven by Winston, the leading tobacco brand, and LD.

Rest-of-the-World

(billions of units, millions of US\$)

	Jan-Dec		Change
	2016	2015	vs. prior year
Total shipment volume	137.9	125.2	10.1%
GFB shipment volume	84.4	74.0	14.0%
Core revenue at constant FX	3,924	3,363	16.7%

Core revenue at constant currency grew 16.7%, led by strong volume, acquisitions and price/mix contribution of US\$310 million.

Total and GFB shipment volumes increased 10.1% and 14.0%, respectively, primarily driven by Iran (including the acquisition of Arian Tobacco Industry), North Africa markets, Taiwan and Turkey, as well as positive contribution from seeding initiatives in Brazil, Egypt, South Korea, Myanmar and the Philippines. Market share grew in several markets, including Brazil, Canada, Malaysia, the Philippines and Taiwan.

In Taiwan, total and GFB shipment volumes grew 1.3% and 11.0%, respectively, led by Winston, which was supported by the migration of More, and LD. Share of market and share of value increased 0.7ppt to 39.9% and 0.9ppt to 46.2%, respectively, driven by Winston and LD.

In Turkey, total and GFB shipment volumes increased 1.1% and 0.6%, respectively, driven by improved industry trends benefiting Winston and LD. Market share declined 0.9ppt to 29.4%, as the positive performance of Winston and LD was more than offset by Camel.

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Notes:

- ¹ Including fine cut, cigars, pipe tobacco and snus, but excluding contract manufactured products, waterpipe tobacco and emerging products.
- ² Revenue including 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 December 2016. Brazil, Germany, Kazakhstan, the Philippines and Singapore are on a 12-month rolling average at the end of November 2016. 12-month share of market growth for November 2016 markets is calculated against a 12-month share of market at the end of December 2015.
- ⁴ Source: JTI estimates based on January-December 2016 data versus the same period last year.

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

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