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FOR IMMEDIATE RELEASE

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JT Group Signs Agreement to Acquire Indonesian Kretek Cigarette Company and its Distributor

Japan Tobacco Inc. (JT) (TSE: 2914) announced today that the JT Group has signed an agreement to purchase 100% of the outstanding shares of PT. Karyadibya Mahardhika (“KDM”), a kretek cigarette company, and its distributor, PT. Surya Mustika Nusantara (“SMN”), for USD 677 million.

The transaction is expected to be completed in the fourth quarter of the fiscal year 2017 following regulatory clearance.

1. Purpose for the Acquisition

Indonesia is the world second largest tobacco market mainly composed of kretek cigarettes, which are made of tobacco and cloves and are either machine-made or hand-rolled.

The JT Group is mainly involved in the conventional cigarette business in Indonesia. This deal will give the JT Group immediate scale and presence on a nationwide level in the Indonesian kretek market.

“We are excited to enter the Indonesian kretek market nationwide by leveraging KDM’s supply chain, including procurement and production, as well as SMN’s broad-scale distribution network,” said Mutsuo Iwai, Executive Vice President and President of the Tobacco Business. *“This will be an important expansion of our geographic footprint in emerging markets for our future sustainable growth. Notably, this is our first significant acquisition in South-East Asia and an excellent opportunity for us to further develop our business in a thriving region.”*

KDM operates through nine production facilities of kretek cigarettes in Java and sells its products across Indonesia through SMN. The two entities employ around 7,500 people.

“I am confident that KDM’s excellent kretek products and local expertise and SMN’s strong distribution platform, together with JTI’s international know-how, will further strengthen our growth in Indonesia,” said Eddy Pirard, JTI’s President and CEO. *“We look forward to welcoming all employees into our organization.”*

2. Overview of newly acquired companies

Overview of KDM

(1) Address	Tawang Rejo, Pandaan Pasuruan 67156 Indonesia	
(2) Representative	Mr. Daniel Widjaja, Director	
(3) Business description	A manufacturing company of kretek cigarettes	
(4) Paid in capital	Approximately IDR 3,437.7 billion	
(5) Year of foundation	2000	
(6) Major shareholder and holding ratio	PT. Hari Mahardhika Usaha (99.99%)	
(7) Relationship with JT	Capital	None
	Personnel	None
	Business	None
(8) Net sales for 2016	Approximately IDR 6,828.7 billion (including excise tax and VAT)	
(9) Number of employees	Approximately 1,000	

Overview of SMN

(1) Address	Kembangan Utara, Jakarta Barat 11610 Indonesia	
(2) Representative	Mr. Iwan Budy Wiratmana, Director	
(3) Business description	A distribution company for tobacco products servicing exclusively KDM	
(4) Paid in capital	IDR 114.5 billion	
(5) Year of foundation	2008	
(6) Major shareholder and holding ratio	PT. Hari Mahardhika Usaha (99.99%)	
(7) Relationship with JT	Capital	None
	Personnel	None
	Business	None
(8) Net sales for 2016	Approximately IDR 5,808.4 billion (including excise tax and VAT)	
(9) Number of employees	Approximately 6,500	

3. Overview of the counterparties to this acquisition

The JT Group will acquire almost all the outstanding shares of KDM and SMN from the following company and the rest from individuals who do not have any relationships with JT.

(1) Name	PT. Hari Mahardhika Usaha	
(2) Address	Jalan Mataram no. 1, Kediri, East Java, Indonesia	
(3) Representative	Daniel Widjaja, Director	
(4) Business description	An asset management company	
(5) Year of foundation	1992	
(6) Major shareholder and holding ratio	An Individual (99.99%) and another	
(7) Relationship with JT	Capital	None
	Personnel	None
	Business	None
	Related party status	None

Note: Due to confidentiality, names of individuals are not disclosed.

4. Acquired number of shares, acquisition costs and the status of the number of shares

(1) Holding number of shares (before acquisition)	None
(2) Acquired number of shares	100% of the outstanding shares of KDM and SMN
(3) Acquisition costs	The outstanding shares: USD 677 million Net debt(after deduction of cash and cash equivalent from interest-bearing debt): USD 323 million Total: USD 1,000 million
(4) Holding number of shares (after acquisition)	100% of the outstanding shares of KDM and SMN

Note: The breakdown of the acquisition costs might change at Closing following the net debt adjustment.

5. Schedule

(1) Resolution of the Board of Directors("BOD")	August 2, 2017
(2) Agreement date	August 4, 2017
(3) Transfer date(planned)	In the fourth quarter of the fiscal year 2017

Note: On August 2, JT BOD resolved to authorize JT International (JTI) to make a final decision for signing the agreement, which in turn decided and signed the agreement on August 4.

6. Impact on Financial Performance

The transaction will be funded by the JT Group's existing cash and loan facilities, and will not have any material impact on the JT Group's consolidated performance for the fiscal year 2017.

(Reference)

JT Group's Consolidated Financial Outlook for FY2017 (published on August 2, 2017) and Results for the FY2016

Units: Billions of Yen except where otherwise stated

	Revenue	Operating Profit	Profit attributable to owners of the parent	Basic Earnings per share (Unit: Yen)
FY2017 Forecast	2,125.0	565.0	402.0	224.46
FY2016 Results	2,143.3	593.3	421.7	235.47

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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*

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Outline of Indonesia*

- Population:
 - Approximately 261 million in 2016
 - Annualized growth rate of approximately 1.2% between 2012 - 16

- Real GDP Growth:
 - Approximately 5.3% (annualized growth rate between 2012 - 16)

** Source : World Bank*

Tobacco market in Indonesia (2016)*

- Market size: Approximately 285 billion sticks (Duty Paid).
 - The kretek cigarette market accounts for approximately 94%.

- Share of market: KDM 2.2%, JTI 0.1%

** Source: Nielsen*