



FOR IMMEDIATE RELEASE

Tokyo, October 31, 2016

JT's Consolidated Financial Results for FY2016 Third Quarter

Double-digit profit growth at constant currency driven by all businesses

Results for January 1 – September 30, 2016

- All businesses in the group delivered solid performance leading to 11.8% growth in adjusted operating profit at constant currency.
- Revenue and adjusted operating profit declined 4.1% and 6.6% respectively due to unfavorable currency movements in the International tobacco business. Operating profit grew 8.5% as a result of higher gains from the sale of real estate assets in the first quarter. Profit attributable to owners of the parent grew 10.4%.
- International Tobacco Business: Total and GFB shipment volumes increased 2.9% and 5.3% respectively, driven by market share gains, contributions from seeding markets and acquisitions, as well as favorable trade inventory adjustments mainly in the first quarter. In US Dollars, adjusted operating profit at constant currency grew 15.4%, reflecting positive volume, robust pricing and accelerated investments. On a reported basis, adjusted operating profit declined 3.3%, due to adverse currency movements against the US Dollar. Adjusted operating profit in Japanese Yen decreased 13.2% due to appreciation of the currency against the US Dollar.
- Japanese Domestic Tobacco Business: Adjusted operating profit grew 0.7% mainly driven by the retail price amendment of Mevius and the contribution of Natural American Spirit, partly offset by increased sales promotions. The profit growth was also supported by the effects of the measures to strengthen the competitiveness of the Japanese domestic tobacco business.

Forecast for FY2016

- The forecast for adjusted operating profit at constant currency is revised upwards by ¥10.0 billion from the previous forecast, a 10.1% growth from the FY2015, due to upward revisions in the International tobacco business and the Pharmaceutical business.
- On a reported basis, the revenue forecast remains unchanged, and the forecast for adjusted operating profit is revised upwards by ¥7.0 billion, reflecting underlying solid business performance of the Pharmaceutical business and revised exchange rate assumptions.
- The forecast for profit attributable to owners of the parent is revised upwards by ¥5.0 billion mainly due to the upward revisions of adjusted operating profit.

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

“Our International tobacco business continues to deliver strong results, led by market share gains, volume growth and robust pricing. This solid performance has allowed us to further revise our profit forecast upwards. Looking ahead, we will further accelerate investments, notably in GFBs, seeding markets and emerging products, with the aim of strengthening our business to continue achieving sustainable mid- to long-term profit growth. Domestically, our business performance remains stable and is underpinned by initiatives to strengthen our product portfolio and brand equity, leading to steady profit growth. Against the backdrop of an increasingly challenging environment surrounding the JT Group, we are confident that our solid ongoing business will deliver robust profit growth at constant currency.”



Consolidated Financial Results for January 1 – September 30, 2016

(billions of Yen)	January – September		Difference	Net Change
	2015	2016		
Revenue	1,688.5	1,618.5	-69.9	-4.1%
Adjusted operating profit	510.3	476.5	-33.8	-6.6%
Operating profit	455.9	494.6	38.7	8.5%
Profit attributable to owners of the parent¹	317.1	350.0	32.9	10.4%

At constant currency:

Adjusted operating profit	510.3	570.6	60.3	11.8%
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- Revenue**
 Revenue declined 4.1% due to unfavorable currency movements in the International tobacco business despite growth in both the Japanese domestic tobacco business and the Pharmaceutical business.
- Adjusted Operating Profit**
 Adjusted operating profit at constant currency increased 11.8% mainly driven by the robust price/mix effect in the International tobacco business. Adjusted operating profit on a reported basis declined 6.6%, affected by unfavorable currency movements against the US Dollar in the International tobacco business.
- Operating Profit**
 Operating profit grew 8.5% as a result of higher gains from the sale of real estate assets in the first quarter.
- Profit Attributable to Owners of the Parent**
 Profit attributable to owners of the parent grew 10.4% due to increased operating profit.



Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	January - September		Net Change
	2015	2016	
Total shipment volume²	295.6	304.2	2.9%
GFB shipment volume	205.4	216.3	5.3%
Core revenue³	946.9	873.1	-7.8%
Adjusted operating profit	328.5	285.0	-13.2%

Total shipment volume grew 2.9%, mainly driven by Brazil, France, Germany, Iran, Italy, Kazakhstan, Korea, Middle East markets, the Philippines, South East Asia markets and Turkey, as well as acquisitions and inventory adjustments in the first quarter. GFB shipment volume grew 5.3%, led by brand building initiatives, market share⁴ gains and the addition of Natural American Spirit. Market share continued to grow in the key markets of France, Italy, Spain, Taiwan and the UK.

In US Dollars, core revenue and adjusted operating profit grew 10.9% and 15.4% at constant currency, respectively, driven by positive volume and robust pricing. Business investments also increased, particularly in seeding markets and emerging products. On a reported basis, core revenue increased 3.1%, as strong business momentum offset the impact of currency fluctuations. Reported adjusted operating profit declined 3.3%, due to unfavorable currency movements. In Japanese Yen, core revenue and adjusted operating profit decreased 7.8% and 13.2% respectively affected by the appreciation of the currency against US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	January – September		Net Change
	2015	2016	
Total sales volume⁵	81.3	79.7	-1.9%
Core revenue⁶	478.2	485.5	1.5%
Adjusted operating profit	197.6	199.0	0.7%

Total sales volume decreased 1.9% due to lower industry volume and the negative impact of the retail price amendment of certain products including Mevius, partly offset by the acquisition of Natural American Spirit. Despite the sales volume decline, core revenue grew 1.5% driven by the retail price amendment and the positive impact of the acquisition of Natural American Spirit. Adjusted operating profit grew 0.7% due to higher core revenue and the effects of the measures to strengthen the competitiveness of the Japanese domestic tobacco business, which was partly offset by increased sales promotions.



Pharmaceutical Business

(billions of Yen)	January – September		Difference
	2015	2016	
Revenue	53.4	60.7	7.3
Adjusted operating profit	-3.3	4.2	7.5

Revenue increased ¥7.3 billion to ¥60.7 billion driven by royalty revenue growth from anti-HIV drugs, Stribild and Genvoya, and a one-off milestone revenue contribution in the first quarter related to the progress of an original JT compound that has been out-licensed. This revenue growth drove an adjusted operating profit improvement of ¥7.5 billion to ¥4.2 billion.

Processed Food Business

(billions of Yen)	January – September		Difference
	2015	2016	
Revenue	120.5	120.1	-0.4
Adjusted operating profit	1.3	3.7	2.4

The processed food business continued to mainly focus on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread. Although sales of staple food and seasoning steadily increased, revenue slightly decreased ¥0.4 billion to ¥120.1 billion mainly due to a decrease in sales of other processed food products. Adjusted operating profit increased ¥2.4 billion to ¥3.7 billion as a result of product mix improvement and lower material cost from the appreciation of the Japanese Yen.



Consolidated Forecast for FY2016

(billions of Yen)	FY2015 Actual	FY2016 Previous Forecast	FY2016 Revised Forecast	Change from FY2016 Previous Forecast	Change from FY2015 Actual
Revenue	2252.9	2,120.0	2120.0	-	-132.9 (-5.9%)
Adjusted operating profit	626.7	569.0	576.0	7.0	-50.7 (-8.1%)
Operating profit	565.2	572.0	580.0	8.0	14.8 (2.6%)
Profit attributable to owners of the parent	398.5	409.0	414.0	5.0	15.5 (3.9%)

At constant currency:

Adjusted operating profit	626.7	680.0	690.0	10.0	63.3 (10.1%)
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- At constant currency, the forecast for adjusted operating profit is revised upwards by ¥10.0 billion from the previous forecast, a 10.1% growth from the FY2015, due to the upward revisions of the International tobacco business and the Pharmaceutical business.
- On a reported basis, the revenue forecast has not been changed from the previous forecast.
- The forecast for the reported adjusted operating profit is revised upwards by ¥7.0 billion as the negative impact of unfavorable local currency movements against the US Dollar is more than offset by the solid performance of the Pharmaceutical business and the positive impact of the depreciation of the Japanese Yen against the US Dollar.
- Forecasts for operating profit and profit attributable to owners of the parent are revised upwards by ¥8.0 billion and ¥5.0 billion respectively. The revisions are mainly due to stronger adjusted operating profit growth.

Forecasts by Business Segment

- **International Tobacco Business⁷:** Strong business momentum enables an improved price/mix contribution in a number of markets. As a result, the forecast for adjusted operating profit in US Dollars at constant currency is revised upwards by US\$30 million, representing an increase of 12.4% from the previous year despite accelerated business investments. The reported adjusted operating profit forecast is revised downwards by US\$20 million, mainly due to revised exchange rate assumptions for the UK Sterling. In Japanese Yen, the forecast for adjusted operating profit remains unchanged due to a change in the exchange rate assumption for the Japanese Yen against the US Dollar.
- **Japanese Domestic Tobacco Business:** Total sales volume forecast has been revised downwards by 1.0 billion. This reflects the underlying business performance including lower cigarette demand affected by the T-vapor category. Core revenue forecast is also revised downwards by ¥6.0 billion. The forecast for adjusted operating profit remains unchanged at 2.7% growth from the previous year, by pursuing cost efficiencies while not compromising steady sales promotion activities.



- **Pharmaceutical Business:** The forecasts for revenue and adjusted operating profit are revised upwards by ¥4.0 billion to ¥ 86.0 billion and ¥4.5 billion to ¥8.5 billion respectively, due to stronger performance of anti-HIV drugs, Stribild and Genvoya.
- **Processed Food Business:** The revenue forecast is revised downwards by ¥3.0 billion as a result of the updates of the sales plan. The forecast for adjusted operating profit remains unchanged supported by product mix improvement and cost reduction effect.
- **Dividend:** The forecast for the fiscal year-end dividend per share remains unchanged. Accordingly, a total annual dividend per share is to be ¥128, including the interim dividend of ¥64.

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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 ¥2.253 trillion (US\$18,679 million()) in the fiscal year ended December 31, 2015.*

**Translated at the rate of ¥120.61 per \$1, as of December 31, 2015*

Notes:

- ¹ Profit in 2015 is from continuing operations.
- ² Including fine cut, cigars, pipe tobacco and snus, but excluding contract manufactured products, waterpipe tobacco and emerging products.
- ³ Revenue including waterpipe tobacco and emerging products, but excluding revenue from distribution, contract manufacturing and other peripheral businesses.
- ⁴ 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 September 2016. Spain is on a 12-month rolling average at the end of August 2016. 12-month share of market growth for August 2016 markets is calculated against a 12-month share of market at the end of August 2015.
- ⁵ Total sales volume excluding domestic duty free, the China business and emerging products.
- ⁶ Core revenue including domestic duty free, the China business and emerging products.
- ⁷ The exchange rate assumptions for US \$1.00 have been revised as follows; Russian Ruble 67.00 from 67.50, UK Sterling 0.74 from 0.72, Swiss Franc remains unchanged at 0.98, Taiwan Dollar 32.30 from 32.50, Turkish Lira 2.95 from 2.90 and Japanese Yen 106.45 from 105.80. The assumption for Euro remains unchanged at 0.90. Appreciation of the Japanese Yen and the Swiss Franc against the US Dollar negatively affects the consolidated financial result numbers. Conversely, appreciation of the other currencies against the US Dollar has a positive effect. Additional definitions are provided at <https://www.jt.com/media/definitions/index.html>.

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