



FOR IMMEDIATE RELEASE

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JT's Consolidated Financial Results for FY2016 Second Quarter

First Half results demonstrated solid business performance

Results for FY2016 Second Quarter : (January 1, 2016 – June 30, 2016)

- All businesses in the group delivered steady top line growth in the initial six-month period, leading to solid adjusted operating profit growth excluding currency effects.
- Revenue and adjusted operating profit declined 1.7% and 3.2% respectively due to unfavorable currency movements in the international tobacco business. Operating profit grew 15.5% as a result of gains from the sale of real estate assets in the first quarter. Profit attributable to owners of the parent increased 16.8%.
- Adjusted operating profit at constant currency grew 14.3% mainly led by strong results in the international tobacco business.
- International Tobacco Business: Total and GFB shipment volumes increased 4.4% and 6.7% respectively, driven by continued market share momentum and acquisitions. In US Dollars, adjusted operating profit at constant currency grew 17.7% driven by volume growth and robust pricing while investments were accelerated. On a reported basis, adjusted operating profit declined 2.3% due to adverse currency movements against the US Dollar. Adjusted operating profit in Japanese Yen declined 9.3% due to the appreciation of the currency against the US Dollar.
- Japanese Domestic Tobacco Business: Adjusted operating profit grew 3.0% mainly driven by the retail price amendment of certain products including Mevius and the contribution of Natural American Spirit. 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

- At constant currency, the forecast for adjusted operating profit is revised upwards by ¥7.0 billion reflecting strong first half performance in the international tobacco business. The profit is now forecast to grow 8.5% from the previous fiscal year.
- The revenue forecast is revised downwards by ¥80.0 billion due to a stronger than anticipated appreciation of the Japanese Yen against the US Dollar. The forecast for adjusted operating profit is increased by ¥7.0 billion, as the revision of exchange rate assumptions of local currencies against the US Dollar offsets the negative impact of Japanese Yen.
- The forecast for profit attributable to owners of the parent is revised upwards by ¥10.0 billion mainly due to the upward revision of adjusted operating profit and lower corporate income tax.

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

Our international tobacco business continues to deliver strong volume growth led by GFBs and market share gains. This solid business performance combined with robust pricing allows us to revise our profit forecast upwards by targeting another year of double digit profit growth at constant currency. We also continue to increase the level of investments in our business, notably in seeding markets and emerging products. Domestically, we delivered steady profit growth driven by the inclusion of Natural American Spirit and the retail price amendment of Mevius. Despite the increasingly uncertain operating environment, the strong first half performance provides a sound ground to make upward revisions to the overall group forecasts for this fiscal year.



Consolidated Financial Results for January 1 – June 30, 2016

(billions of Yen)	January – June		Difference	Net Change
	2015	2016		
Revenue	1,095.2	1,076.9	-18.3	-1.7%
Adjusted operating profit	328.9	318.3	-10.5	-3.2%
Operating profit	298.8	345.0	46.2	15.5%
Profit attributable to owners of the parent¹	211.6	247.1	35.5	16.8%

At constant FX:

Adjusted operating profit	328.9	375.8	46.9	14.3%
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- Revenue**
 Revenue declined 1.7% due to unfavorable currency movements in the international tobacco business despite steady top line growth across all businesses.
- Adjusted Operating Profit**
 Adjusted operating profit at constant currency increased 14.3% mainly driven by strong business momentum in the international tobacco business. On a reported basis, adjusted operating profit declined 3.2% due to unfavorable local currency movements against the US Dollar as well as the appreciation of the Japanese Yen against the US Dollar.
- Operating Profit**
 Operating profit grew 15.5% as a result of 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 16.8% due to higher operating profit.
- Dividend**
 As stated in the “Business Plan 2016”, the Company announces a first half-year dividend of ¥64 per share and forecasts a second half-year dividend of ¥64 per share, resulting in an annual forecast dividend of ¥128 per share this fiscal year.



Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	January - June		Net Change
	2015	2016	
Total shipment volume²	191.2	199.7	4.4%
GFB shipment volume	131.9	140.7	6.7%
Core revenue³	609.2	584.1	-4.1%
Adjusted operating profit	212.9	193.1	-9.3%

Total shipment volume increased 4.4% driven by solid performance in the Caucasus markets, France, Germany, Iran, Italy, Kazakhstan, Korea, the Philippines, Romania, South East Asian markets and Turkey, as well as contributions from acquisitions, and favorable comparisons in the first quarter due to trade inventory adjustments. GFB shipment volume grew 6.7% led by continued brand building initiatives, market share momentum and the inclusion of Natural American Spirit. Market share⁴ continued to grow in most key markets, including France, Italy, Spain, Taiwan and the UK.

In US Dollars, core revenue and adjusted operating profit at constant currency grew 12.6% and 17.7%, respectively, driven by a robust price/mix and volume growth. Investments also increased, particularly in seeding markets and emerging products. On a reported basis, core revenue increased 3.5% driven by strong business momentum offsetting currency fluctuations. Reported adjusted operating profit declined 2.3% due to currency fluctuations. In Japanese Yen, core revenue and adjusted operating profit decreased 4.1% and 9.3% respectively, due to the appreciation of the Japanese Yen against the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	January - June		Net Change
	2015	2016	
Total sales volume⁵	53.1	52.7	-0.7%
Core revenue⁶	312.2	318.6	2.1%
Adjusted operating profit	125.8	129.6	3.0%

Total sales volume slightly decreased mainly due to lower industry volume and the negative impact of the retail price amendment of certain products including Mevius, although this was partly offset by the acquisition of Natural American Spirit. Core revenue grew 2.1% driven by the retail price amendment of certain products including Mevius and the positive impact of the acquisition of Natural American Spirit. Adjusted operating profit grew 3.0% due to higher core revenue and the effects of the measures to strengthen the competitiveness of the Japanese domestic tobacco business. The profit growth was partly offset by the enhancement of sales promotions.



Pharmaceutical Business

(billions of Yen)	January - June		Difference
	2015	2016	
Revenue	34.8	40.3	5.5
Adjusted operating profit	-2.1	2.8	4.9

Revenue increased ¥5.5 billion to ¥40.3 billion driven by royalty revenue growth 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 ¥4.9 billion to ¥2.8 billion.

Processed Food Business

(billions of Yen)	January - June		Difference
	2015	2016	
Revenue	79.5	79.9	0.4
Adjusted operating profit	1.1	3.1	2.0

The processed food business continued to mainly focus on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread. Revenue increased ¥0.4 billion to ¥79.9 billion. Adjusted operating profit increased ¥2.0 billion as a result of higher revenue and lower raw material costs due to the appreciation of the Japanese Yen.



Consolidated Forecast for FY2016

(billions of Yen)	FY2015 Actual	FY2016 Initial Forecast	FY2016 Revised Forecast	Change from FY2016 Initial Forecast	Change from FY2015 Actual
Revenue	2,252.9	2,200.0	2,120.0	-80.0	-132.9 (-5.9%)
Adjusted operating profit	626.7	562.0	569.0	7.0	-57.7 (-9.2%)
Operating profit	565.2	566.0	572.0	6.0	6.8 (1.2%)
Profit attributable to owners of the parent	398.5	399.0	409.0	10.0	10.5 (2.6%)

At constant FX:

Adjusted operating profit	626.7	673.0	680.0	7.0	53.3 (8.5%)
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- At constant currency, the forecast for adjusted operating profit is revised upwards by ¥7.0 billion, 8.5% growth from the previous fiscal year, mainly reflecting the strong first half performance in the international tobacco business.
- The revenue forecast is revised downwards by ¥80.0 billion due to the appreciation of the Japanese Yen against the US Dollar. The forecast for adjusted operating profit is revised upwards by ¥7.0 billion reflecting the strong first half performance in the international tobacco business, as the revision of exchange rate assumptions of local currencies, mainly the Russian Ruble, against the US Dollar offsets the negative impact of Japanese Yen.
- The forecast for operating profit is revised upwards by ¥6.0 billion. The revision is mainly due to stronger adjusted operating profit growth.
- The forecast for profit attributable to owners of the parent is revised upwards by ¥10.0 billion due to higher operating profit and lower effective tax rate.

Forecasts by Business Segment

- **International Tobacco Business⁷:** The forecasts for total and GFB shipment volumes are revised upwards by 8.0 billion and 6.0 billion cigarette equivalent units respectively, reflecting strong performance in the first half. In US Dollars, the forecast for adjusted operating profit at constant currency is revised upwards by US\$80.0 million due to strong volume growth and price/mix effect, an increase of 11.4% from the previous year, while investments continue to accelerate. The reported adjusted operating profit forecast is also revised upwards by US\$380 million mainly as a result of favorably revised exchange rate assumption of the Russian Ruble. In Japanese Yen, the forecast for adjusted operating profit is revised upwards by ¥9.0 billion despite stronger than expected Japanese Yen against the US Dollar.
- **Japanese Domestic Tobacco Business:** The industry volume is forecast to decline more than initially expected, resulting in downward revision of total sales volume by 1.0 billion. Core revenue forecast is also revised downwards by ¥4.0 billion. Nevertheless, adjusted operating profit forecast remains unchanged reflecting lower raw material costs caused by the appreciation of the Japanese Yen.



- **Pharmaceutical Business:** The forecasts for revenue and adjusted operating profit are revised downwards by ¥3.0 billion respectively, due to lower royalty revenue affected by the appreciation of Japanese Yen. Nevertheless, royalty revenue from Stribild among others has shown steady performance in line with our assumptions. There is no change in our expectations for the business to turn profitable this year.
- **Processed Food Business:** The revenue forecast is revised downwards by ¥3.0 billion due to the readjustment of the sales plan. The forecast for adjusted operating profit is revised upwards by ¥1.5 billion primarily supported by the appreciation of the Japanese Yen leading to lower material costs.

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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 June 2016. Russia, Spain and Turkey on a 12-month rolling average at the end of May 2016. 12-month share of market growth for May 2016 markets is calculated against a 12-month share of market at the end of May 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 are: Ruble 67.50, UK Sterling 0.72, Euro 0.90, Swiss Franc 0.98, Taiwan Dollar 32.50, Turkish Lira 2.90 and ¥105.8. 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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