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JT's Consolidated Financial Results for FY2016

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

Consolidated Financial Results for January 1 – December 31, 2016

- Adjusted operating profit at constant currency grew 11.3% led by both the international and the Japanese domestic tobacco businesses and the contribution of the pharmaceutical and the processed food businesses. On a reported basis, the profit declined 6.4% due to unfavorable currency movements in the international tobacco business.
- Operating profit and profit attributable to owners of the parent grew 5.0% and 5.8% respectively as the strong business performance in all businesses and higher gains from the sale of real estate assets more than offset unfavorable currency movements.
- The Company's Board is recommending a total dividend per share of ¥130, including a first half-year dividend per share of ¥64.

Results by Business Segment

- **International Tobacco Business:** Adjusted operating profit increased 13.4% in US Dollars at constant currency, primarily driven by robust price/mix. On a reported basis, adjusted operating profit declined 5.0% due to unfavorable currency movements. In Japanese Yen, adjusted operating profit decreased 14.7% due to the appreciation of the currency against US Dollar.
- **Japanese Domestic Tobacco Business:** Adjusted operating profit grew 2.4% mainly driven by the retail price amendment of Mevius and the contribution of Natural American Spirit. The profit growth was also supported by the effects of the measures to strengthen competitiveness.
- **Pharmaceutical Business:** Adjusted operating profit grew by ¥12.0 billion to a historical record of ¥9.7billion, delivering positive earnings for the first time regardless of one-off milestone revenues.
- **Processed Food Business:** Adjusted operating profit grew ¥2.3 billion to ¥5.0 billion, achieving increased profit in four consecutive financial periods.

Consolidated Forecast for FY2017

- Adjusted operating profit at constant currency is forecast to grow 3.4%, due to higher profits in the international tobacco business, the pharmaceutical business and the processed food business, partly offset by lower profit in the Japanese tobacco business. On a reported basis, the profit is expected to remain flat.
- Operating profit and profit attributable to owners of the parent are forecast to decrease 5.6% and 4.7% respectively due to principally lower gains from sales of real estate assets.
- For the FY2017, the Company intends to increase the total dividend per share to ¥140.

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

"We are pleased that all the business segments have contributed to our profit growth at constant currency last year. Our international tobacco business achieved another year of double-digit profit growth at constant currency, primarily driven by robust pricing combined with GFB performance. At the same time we managed to increase market share in several key markets in a continuously challenging environment. Meanwhile, we have delivered steady profit growth in Japan, driven by the retail price change of Mevius and strong performance of newly added Natural American Spirit."

"We will continue to take a number of strategic initiatives to strengthen our brand equity, geographic reach and emerging products in our tobacco businesses. Our sustainable profit growth will principally come through the tobacco businesses supported by the pharmaceutical and the processed food businesses. We are confident that pursuing our "4S" model is the ultimate way to maximize our value in the mid- to long-term."

Consolidated Financial Results for January 1 – December 31, 2016

(billions of Yen)	January – December		Difference	Net Change
	2015	**2016**		
Revenue	2,252.9	2,143.3	-109.6	-4.9%
Adjusted operating profit	626.7	586.8	-39.9	-6.4%
Operating profit	565.2	593.3	28.1	5.0%
Profit attributable to owners of the parent[1]	398.5	421.7	23.2	5.8%
At constant currency:				
Adjusted operating profit	626.7	697.5	70.8	11.3%

- **Revenue**
  Revenue decreased 4.9% 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 11.3% led by all business segments. On the reported basis, adjusted operating profit declined 6.4%, due to unfavorable currency movements in the international tobacco business.

- **Operating Profit**
  Operating profit grew 5.0% as a result of principally gains from the sale of real estate assets as the strong business performance in all businesses and higher gains from the sale of real estate assets more than offset unfavorable currency movements.

- **Profit Attributable to Owners of the Parent**
  Profit attributable to owners of the parent grew 5.8% mainly due to increased operating profit.

Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	January - December		Net Change
	2015	2016	
Total shipment volume[2]	393.9	398.7	1.2%
GFB shipment volume	273.6	283.7	3.7%
Core revenue[3]	1,252.5	1,138.8	-9.1%
Adjusted operating profit	394.4	336.2	-14.7%

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, Korea, Myanmar, the Philippines, Spain, Taiwan and Turkey was supported by acquisitions and favorable trade inventory adjustments mainly in the first quarter. 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. Market share[4] increased in key markets including France, Italy, Spain and Taiwan. In Russia and the UK, GFB market share continued to grow.

In US Dollars, core revenue and adjusted operating profit at constant currency increased 8.5% and 13.4% respectively, driven primarily by robust price/mix contributions, while the business continued investing in seeding markets and emerging products for future sustainable growth. On a reported basis, core revenue increased 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.
In Japanese Yen, core revenue and adjusted operating profit decreased 9.1% and 14.7% respectively due to the appreciation of the currency against the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	January – December		Net Change
	2015	2016	
Total sales volume[5]	109.2	106.2	-2.8%
Core revenue[6]	642.2	649.7	1.2%
Adjusted operating profit	254.1	260.2	2.4%

Despite the positive performance of Natural American Spirit, total sales volume decreased 2.8%. This is mainly due to the continued industry contraction caused by the expansion of the T-vapor category and the continued market diminishing trend, as well as the negative impact of the retail price amendment of certain products.
Core revenue grew 1.2% driven by the positive impact of the acquisition of Natural American Spirit and the retail price amendment of certain products including Mevius. Adjusted operating profit grew 2.4% due to higher core revenue and the benefits from the measures to enhance the competitiveness of the business.

Pharmaceutical Business

(billions of Yen)	January – December		Difference
	2015	**2016**	
Revenue	75.6	87.2	11.6
Adjusted operating profit	-2.3	9.7	12.0

Revenue increased ¥11.6 billion due to higher royalty revenue, and a one-off milestone revenue related to R&D progress of an original JT compound that has been out-licensed. Adjusted operating profit increased ¥12.0 billion to ¥9.7 billion as a result of the revenue increase.

Processed Food Business

(billions of Yen)	January – December		Difference
	2015	**2016**	
Revenue	165.8	164.1	-1.8
Adjusted operating profit	2.7	5.0	2.3

The processed food business continued to focus on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread.
Although sales of staple food and seasoning increased, revenue decreased ¥1.8 billion to ¥164.1 billion due to lower sales of other products. Adjusted operating profit increased ¥2.3 billion to ¥5.0 billion as a result of product mix improvement and lower material costs from the appreciation of the Japanese Yen.

Consolidated Forecast for FY2017

Unit: Billions of Yen

	Jan-Dec 2016 Actual (A)	Jan-Dec 2017 Forecast (B)	Change from 2016 Actual (B)-(A)
Revenue	2,143.3	2,110.0	-33.3 (-1.6%)
Adjusted operating profit	586.8	587.0	0.2 (0.0%)
Operating profit	593.3	560.0	-33.3 (-5.6%)
Profit attributable to owners of the parent	421.7	402.0	-19.7 (-4.7%)

Forecast at constant currency

Adjusted operating profit	586.8	607.0	20.2 (3.4%)

- **Revenue**
  Revenue is forecast to decline 1.6% due to unfavorable currency movements in the international tobacco business and lower revenue in the Japanese domestic tobacco business partially offset by growth in both the pharmaceutical and the processed food businesses.

- **Adjusted Operating Profit**
  Adjusted operating profit at constant currency is forecast to increase 3.4% due to higher profits in the international tobacco business, the pharmaceutical business and the processed food business, partly offset by lower profit in the Japanese tobacco business. On a reported basis, the profit is expected to remain flat.

- **Operating Profit**
  Operating profit is forecast to decline 5.6% due to principally lower gains from sales of real estate assets.

- **Profit Attributable to Owners of the Parent**
  Profit attributable to owners of the parent is expected to decrease 4.7% due to lower operating profits partially offset by effective tax ratio decline.

Forecasts by Business Segment

- **International Tobacco Business[7]:** GFB shipment volume is forecast to increase 1.5% driven by continued growth in seeding markets. Total shipment volume is expected to decrease 0.9% due to lower industry volume mainly in Russia, following the largest ever excise tax increase, and in the UK.
  In US Dollars, adjusted operating profit at constant currency is expected to grow 9.1% driven by efficiencies generated from planned and executed manufacturing footprint optimization programs, while the business will continue investing for the future. The profit on a reported basis is forecast to increase 1.8% due to unfavorable local currency movements against the US Dollar. In Japanese Yen, adjusted operating profit is expected to increase 3.2% due to the depreciation of the currency against the US Dollar.

- **Japanese Domestic Tobacco Business:** Total sales volume is forecast to decline 9.6% due to the continued industry contraction caused by the expansion of the T-vapor category and the continued market diminishing trend.
  Core revenue is forecast to decline by 4.6% as the lower sales volume partly offset by increasing sales of Ploom TECH and the retail price amendment of Mevius last year. The forecast for adjusted operating profit is expected to decrease 6.2% as lower core revenue partially offset by cost reduction.

- **Pharmaceutical Business:** Revenue and adjusted operating profit are forecast to grow by ¥10.8 billion to ¥98.0 billion and ¥9.3 billion to ¥19.0 billion due to higher royalty revenue and the sales growth of Torii Pharmaceutical, our subsidiary. The profit growth will strongly contribute to the overall Group's profit.

- **Processed Food Business:** The revenue is forecast to increase by ¥0.9 billion to ¥165.0 billion led by sales growth of staple food and seasoning. Adjusted operating profit is forecast to grow by ¥1.0 billion to ¥6.0 billion due to higher revenue, product mix improvements and lower material costs.

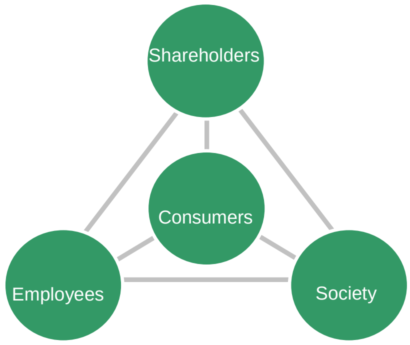
Management Principle

- **Basic Management Principle**

Under the "4S" model, the JT Group strives to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can. The "4S" model has allowed us to achieve sustainable profit growth in the past years. The Group firmly believes that the "4S" model will increase the Group's value in the mid- to long-term, and consequently is in the best interests of all stakeholders.

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 investment 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 Company'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 Company's mid-term operating environment and financial outlook
  - Continue to closely monitor shareholder returns of global FMCG companies**

* As its financial policy, the Company maintains 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.

**The Company monitors global FMCG companies which have a stakeholder model similar to our "4S" model, and have realized strong business growth.

- **Mid- to Long-Term Directional Guidance**

The tobacco business will grow adjusted operating profit at the mid to high single-digit rate per annum in the mid- to long-term. It will remain the core business and profit growth engine of the JT Group. The international tobacco business will continue to strengthen its role as the Group's profit growth engine, while the Japanese domestic tobacco business will continue to maintain its highly competitive platform of profitability.

The pharmaceutical business aims to make a stable profit contribution to the Group through R&D promotion for next generation of strategic compounds and value maximization of each product.

The processed food business strives to achieve operating profit margin on par with the industry average, aiming to make further profit contribution to the Group.

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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$19,703million(*)) in the fiscal year ended December 31, 2016.

**Translated at the rate of ¥108.78 per $1, as of December 31, 2016*

[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 December 2016.
[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; Russian Ruble 60.00 from 67.07, UK Sterling 0.81 from 0.74, Euro 0.95 from 0.90 and Japanese Yen 110.00 from 108.78. 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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