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JT's Consolidated Financial Results for 2017 First Quarter

First Quarter confirms steady progress towards full year target

Consolidated Financial Results for 2017 First Quarter

- Adjusted operating profit at constant currency decreased 3.1% due to the decline of the Japanese domestic tobacco business, despite the growth in the international tobacco and pharmaceutical businesses. Although this is a decrease in comparison with the previous year, the profit was ¥ 159.3 billion of the ¥ 607.0 billion full year profit target.
  On a reported basis, the profit declined 8.6% due to unfavorable currency movements in the international tobacco business.
- Operating profit and profit attributable to owners of the parent declined 26.9% and 27.5% respectively due to unfavorable comparison of gains from real estate assets disposals which were significant last year.

Results by Business Segment

- **International Tobacco Business:** Adjusted operating profit increased 1.5% in US Dollars at constant currency, driven by price/mix gains and cost optimization. On a reported basis, adjusted operating profit declined 6.1% due to unfavorable currency movements. In Japanese Yen, adjusted operating profit decreased 7.6% due to the depreciation of the US Dollar.
- **Japanese Domestic Tobacco Business:** Adjusted operating profit declined 13.0% primarily due to JT cigarette sales volume decline impact.
- **Pharmaceutical Business:** Adjusted operating profit increased 58.9% mainly driven by higher royalty revenue.
- **Processed Food Business:** Adjusted operating profit was stable at ¥1.2 billion.

Consolidated Forecast for 2017

The Company maintains its current forecast for the fiscal year 2017.

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

"We are making good progress towards achieving our full year profit target. This quarter was impacted by unfavorable comparisons due to one-off specific factors in the previous year, but our underlying business performance and financial results were in line with our expectations. The international tobacco business delivered steady profit growth at constant currency, in a challenging operating environment. At the same time, we reaffirmed our robust operating base in the Japanese domestic tobacco business as assumed. It is encouraging that the pharmaceutical and the processed food businesses continued to contribute to the Group. I'm confident that we can achieve our full year target while continuing to invest for future sustainable growth amid a continuously challenging business environment."

Consolidated Financial Results for 2017 First Quarter

(billions of Yen)	January – March		Difference	Change
	2016	2017		
Revenue	534.1	506.1	-27.9	-5.2%
Adjusted operating profit	164.4	150.3	-14.1	-8.6%
Operating profit	203.7	149.0	-54.7	-26.9%
Profit attributable to owners of the parent	145.4	105.5	-40.0	-27.5%

At constant currency:

Adjusted operating profit	164.4	159.3	-5.1	-3.1%

- **Revenue**
  Revenue decreased 5.2% due to the decline of the Japanese domestic tobacco business and unfavorable currency movements in the international tobacco business despite the growth in the pharmaceutical business. This decrease also included one-off impacts of temporary demand increase ahead of the retail price amendment of MEVIUS last year in the Japanese domestic tobacco business and unfavorable trade inventory adjustments versus the same period last year in the international tobacco business.

- **Adjusted Operating Profit**
  Adjusted operating profit at constant currency decreased 3.1% due to the decline of the Japanese domestic tobacco business, despite the growth in the international tobacco and pharmaceutical businesses. Although this is a decrease in comparison with the previous year, the profit was ¥ 159.3 billion of the ¥ 607.0 billion full year profit target.
  On a reported basis, the profit declined 8.6% due to unfavorable currency movements in the international tobacco business.

- **Operating Profit**
  Operating profit declined 26.9% due to unfavorable comparison of gains from real estate assets disposals which were significant last year.

- **Profit Attributable to Owners of the Parent**
  Profit attributable to owners of the parent declined 27.5% mainly due to decreased operating profit.

Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	January - March		Change
	2016	2017	
Total shipment volume[1]	94.4	91.7	-2.9%
GFB shipment volume	66.4	66.0	-0.5%
Core revenue[2]	284.7	276.0	-3.1%
Adjusted operating profit	99.5	92.0	-7.6%

At constant currency in US Dollars (millions of US Dollars)

Adjusted operating profit	863	875	1.5%

Total shipment volume declined 2.9% primarily due to industry volume contraction in several markets, market share loss due to competitor driven price discounting in CIS+ and unfavorable trade inventory adjustments versus the same period last year. GFB shipment volume was stable but grew excluding inventory adjustments, supported by strong performance in Iran and Taiwan. Year-on-year total and GFB market shares increased in several key markets.

In US Dollars, core revenue at constant currency was stable at US$2,469 million as price/mix gains in several key markets offset the volume decline impact. Adjusted operating profit at constant currency grew 1.5% driven by price/mix gains and cost reduction benefits including contribution from the manufacturing footprint optimization, while investments in emerging markets and emerging products continued. On a reported basis, core revenue and adjusted operating profit declined 1.6% and 6.1%, respectively, due to unfavorable currency movements.

In Japanese Yen, core revenue and adjusted operating profit decreased 3.1% and 7.6% due to the depreciation of the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	January – March		Change
	2016	2017	
JT cigarette sales volume[3]	27.2	23.0	-15.3%
Core revenue[4]	160.6	143.9	-10.4%
Adjusted operating profit	65.7	57.2	-13.0%

JT cigarette sales volume decreased 15.3%. This is mainly due to the continued industry volume contraction caused by the expansion of the tobacco vapor category and the continued market diminishing trend, as well as temporary demand increase ahead of the retail price amendment of MEVIUS in April 2016. JT's market share was 61.0%, at parity level to last year.

Core revenue declined 10.4% due to the impact from the sales volume decline partially offset by the benefit from the retail price amendment of MEVIUS last year. Adjusted operating profit declined 13.0% due to lower core revenue and despite benefits from cost reduction initiatives.

Pharmaceutical Business

(billions of Yen)	January – March		Change
	2016	2017	
Revenue	21.5	23.2	7.7%
Adjusted operating profit	3.2	5.1	58.9%

Revenue increased 7.7% mainly driven by higher royalty revenue entailing sales increase of original JT compounds that have been out licensed. Adjusted operating profit increased 58.9% as a result of the revenue increase.

Processed Food Business

(billions of Yen)	January – March		Change
	2016	2017	
Revenue	39.4	38.3	-2.9%
Adjusted operating profit	1.2	1.2	0.7%

The processed food business continued to focus mainly on its staple foods and seasonings category, and to strive for cost reduction initiatives in order to strengthen its earning capacity.

Although sales of seasonings increased, revenue decreased 2.9% due to lower sales of other products. Adjusted operating profit was stable at ¥1.2 billion as a result of lower material costs and cost reduction initiatives despite revenue decrease.

Consolidated Forecast for 2017

The Company maintains its current forecast for the fiscal year 2017.

(billions of Yen)	FY 2017 Forecast	Change from 2016 Actual
Revenue	2,110.0	-33.3 (-1.6%)
Adjusted operating profit	587.0	0.2 (0.0%)
Operating profit	560.0	-33.3 (-5.6%)
Profit attributable to owners of the parent	402.0	-19.7 (-4.7%)

Forecast at constant currency

Adjusted operating profit	607.0	20.2 (3.4%)

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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*

[1] Including fine cut, cigars, pipe tobacco and snus, but excluding contract manufactured products, waterpipe tobacco and emerging products.
[2] Including revenues from waterpipe tobacco and emerging products, but excluding revenues from distribution, contract manufacturing and other peripheral businesses.
[3] Excluding sales volume of domestic duty free, the China business and emerging products.
[4] Excluding revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others, including revenues from domestic duty free, the China business and emerging products such as Ploom TECH devices and capsules.

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