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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.

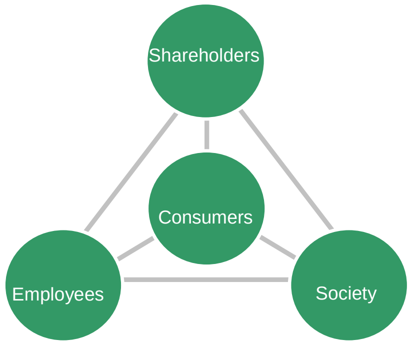
Management Principle

- **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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Results for FY2016

Please refer to notes in page 1 regarding the separation of continuing operations and discontinued operations due to the withdrawal from Beverage Business in 2015.

1. Consolidated results highlight (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)	Variance (%)
Continuing operations				
Revenue	2,252.9	2,143.3	-109.6	-4.9%
Operating profit	565.2	593.3	+28.1	+5.0%
Adjusted operating profit	626.7	586.8	-39.9	-6.4%
Profit before income tax	565.1	578.2	+13.1	+2.3%
Profit	402.7	425.8	+23.0	+5.7%
Profit (attributable to owners of the parent company)	398.5	421.7	+23.2	+5.8%
Dividend per share (JPY)	118.00	130.00	+12.00	+10.2%
Basic EPS* (JPY)	221.95	235.47	+13.52	+6.1%
Discontinued operations				
Profit	87.5	-	-	-
Profit (attributable to owners of the parent company)	87.2	-	-	-
Continuing and discontinued operations combined				
Profit	490.2	425.8	-64.5	-13.2%
Profit (attributable to owners of the parent company)	485.7	421.7	-64.0	-13.2%
Basic EPS* (JPY)	270.54	235.47	-35.07	-13.0%
ROE (attributable to owners of the parent company)	19.5%	17.2%	-2.3%pt	

*Based on profit attributable to owners of the parent company

・FY2015 results for discontinued business included gain from share transfer of a subsidiary engaged in beverage vending machine operator business.

● [reference] Consolidated results (continuing operations) (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	626.7	697.5	+70.8	+11.3%

2. Revenue by business segment (continuing operations) (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)	Variance (%)
Revenue	2,252.9	2,143.3	-109.6	-4.9%
Japanese domestic tobacco	677.3	684.2	+6.9	+1.0%
Core revenue	642.2	649.7	+7.5	+1.2%
International tobacco	1,317.2	1,199.2	-118.0	-9.0%
Core revenue	1,252.5	1,138.8	-113.7	-9.1%
Pharmaceutical	75.6	87.2	+11.6	+15.4%
Processed food	165.8	164.1	-1.8	-1.1%
Others	17.0	8.6	-8.4	-49.3%

● [reference] International tobacco business (Unit: USD million)

	FY2015	FY2016	Variance (abs)	Variance (%)
Core revenue	10,338	10,490	+152	+1.5%
Core revenue at constant FX	10,338	11,215	+877	+8.5%

Results for FY2016

3. Adjusted operating profit (and total adjustments) by business segment (continuing operations) (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)	Variance (%)
Consolidated: operating profit	565.2	593.3	+28.1	+5.0%
Adjustments, total	61.4	-6.6	-68.0	
Amortization of acquired intangibles	31.9	46.8	+14.9	
Adjustments (income)	-10.3	-65.2	-54.9	
Adjustments (costs)	39.9	11.9	-28.0	
Consolidated: adjusted operating profit	626.7	586.8	-39.9	-6.4%
Japanese domestic tobacco: operating profit	249.2	244.1	-5.1	-2.0%
Adjustments, total	4.8	16.1	+11.3	
Amortization of acquired intangibles	-	16.2	+16.2	
Adjustments (income)	-0.1	-0.3	-0.2	
Adjustments (costs)	4.9	0.1	-4.8	
Japanese domestic tobacco: adjusted operating profit	254.1	260.2	+6.2	+2.4%
International tobacco: operating profit	346.9	301.8	-45.1	-13.0%
Adjustments, total	47.5	34.4	-13.0	
Amortization of acquired intangibles	31.9	30.5	-1.4	
Adjustments (income)	-3.5	-0.0	+3.5	
Adjustments (costs)	19.1	4.0	-15.2	
International tobacco: adjusted operating profit	394.4	336.2	-58.2	-14.7%
Pharmaceutical: operating profit	-2.3	9.7	+12.0	-
Adjustments, total	-	-	-	
Amortization of acquired intangibles	-	-	-	
Adjustments (income)	-	-	-	
Adjustments (costs)	-	-	-	
Pharmaceutical: adjusted operating profit	-2.3	9.7	+12.0	-
Processed food: operating profit	3.2	5.0	+1.8	+56.8%
Adjustments, total	-0.5	0.0	+0.5	
Amortization of acquired intangibles	-	-	-	
Adjustments (income)	-0.5	-0.0	+0.5	
Adjustments (costs)	0.0	0.0	-0.0	
Processed food: adjusted operating profit	2.7	5.0	+2.3	+83.2%
Others / Elimination: operating profit	-31.8	32.7	+64.5	-
Adjustments, total	9.6	-57.1	-66.7	
Amortization of acquired intangibles	-	-	-	
Adjustments (income)	-6.2	-64.9	-58.7	
Adjustments (costs)	15.8	7.8	-8.0	
Others / Elimination: adjusted operating profit	-22.2	-24.4	-2.2	-

● [reference] International tobacco business (Unit: USD million)

	FY2015	FY2016	Variance (abs)	Variance (%)
Adjusted operating profit	3,257	3,095	-163	-5.0%
Adjusted operating profit at constant FX	3,257	3,693	+435	+13.4%

4. Depreciation and amortization (continuing operations) (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)
Consolidated	133.1	140.8	+7.7
Japanese domestic tobacco	43.7	58.0	+14.3
International tobacco	76.0	69.1	-6.9
Pharmaceutical	4.6	4.9	+0.3
Processed food	6.5	6.4	-0.1
Others/Elimination	2.4	2.3	-0.0

5. Consolidated financial position (continuing & discontinued operations combined)

(Unit: JPY billion)

	2015 Dec. end	2016 Dec. end	Variance (abs)
Total assets	4,558.2	4,744.4	+186.1
Total equity	2,521.5	2,528.0	+6.5
Equity attributable to owners of the parent company	2,451.6	2,456.1	+4.5
BPS (attributable to owners of the parent company) (JPY)	1,369.06	1,371.39	+2.3

6. Liquidity and interest-bearing debt (continuing & discontinued operations combined)

(Unit: JPY billion)

	2015 Dec. end	2016 Dec. end	Variance (abs)
Liquidity *1	529.0	297.0	-231.9
Interest-bearing debt *2	255.3	555.3	+300.0

*1: Cash and deposits + marketable securities + securities purchased under repurchase agreements

*2: Short-term bank loans + CP + bonds + long-term borrowings + lease obligations

7. Consolidated cash flow (continuing & discontinued operations combined)

(Unit: JPY billion)

	FY2015	FY2016	Variance (abs)
Cash flows from operating activities	468.4	376.5	-91.9
Cash flows from investing activities	-63.3	-687.5	-624.2
Cash flows from financing activities	-254.9	91.3	+346.2
Cash and cash equivalents, beginning of the year	385.8	526.8	+140.9
Foreign currency translation adj. on cash & cash equivalents	-9.4	-13.0	-3.6
Cash and cash equivalents, end of the period	526.8	294.2	-232.6
FCF*	386.7	-316.2	-702.9

*: FCF is sum of cash flows from operating activities and investing activities, but excludes the following items;
- From operating CF: interest received, dividends received, interest paid and income taxes related to these items
- From investing CF: purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

8. Capital expenditures (continuing operations)

(Unit: JPY billion)

	FY2015	FY2016	Variance (abs)
Consolidated	129.8	113.0	-16.8
Japanese domestic tobacco	37.4	29.8	-7.6
International tobacco	77.2	70.6	-6.6
Pharmaceutical	6.2	3.8	-2.4
Processed food	5.7	5.7	+0.1
Others/Elimination	3.3	3.1	-0.2

9. Business data

● Japanese domestic tobacco business

	FY2015	FY2016	Variance (abs)	Variance (%)	
JT sales volume*1	109.2	106.2	-3.1	-2.8%	BNU
Ready made cigarettes industry volume*2	182.3	173.8	-8.5	-4.6%	BNU
JT market share	59.9%	61.1%	+1.2%pt		
JT revenue per 1,000 cigarettes	5,661	5,870	+209	+3.7%	JPY

*1: Excludes volumes of duty-free in Japan, China business (3.8 BNU in FY2015 and 3.9 BNU in FY2016, respectively) and emerging products

*2: Industry volume of cigarettes in Japan market (excluding Emerging Products)

● International tobacco business

	FY2015	FY2016	Variance (abs)	Variance (%)	
Total shipment volume	393.9	398.7	+4.8	+1.2%	BNU
GFB shipment volume	273.6	283.7	+10.2	+3.7%	BNU
JPY/USD	121.10	108.78	-12.32	-10.2%	JPY
RUB/USD	60.98	67.07	+6.09	-9.1%	RUB
GBP/USD	0.65	0.74	+0.09	-11.6%	GBP
EUR/USD	0.90	0.90	+0.00	-0.3%	EUR
CHF/USD	0.96	0.98	+0.02	-2.3%	CHF
TWD/USD	31.76	32.24	+0.49	-1.5%	TWD
TRY/USD	2.72	3.02	+0.30	-9.9%	TRY

● Pharmaceutical business (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)	Variance (%)
R&D expenses	30.7	30.7	-0.0	-0.1%

10. Number of employees *

	2015 Dec. end	2016 Dec. end	Variance (abs)
Consolidated	44,485	44,667	+182
Japanese domestic tobacco	9,470	9,486	+16
International tobacco	26,200	26,558	+358
Pharmaceutical	1,839	1,850	+11
Processed food	5,798	5,683	-115
Others / Corporate	1,178	1,090	-88
Parent company	7,549	7,298	-251

*: Excludes employees taking a leave of absence

Results for FY2016

11. Consolidated statement of income (continuing operations) (Unit: JPY billion)

	FY2015	FY2016	Variance (abs)	Variance (%)
Revenue	2,252.9	2,143.3	-109.6	-4.9%
Cost of sales	920.1	872.4	-47.6	-5.2%
Gross profit	1,332.8	1,270.9	-62.0	-4.6%
Other operating income	15.4	70.1	+54.7	+356.2%
Share of profit in investments accounted for using the equity method	6.4	6.5	+0.1	+1.7%
SG & A	789.3	754.1	-35.2	-4.5%
Advertising expenses	25.6	26.1	+0.5	+1.8%
Promotion expenses	120.3	124.8	+4.5	+3.7%
Shipping and warehousing expenses	26.9	26.8	-0.1	-0.2%
Commission	51.3	50.9	-0.5	-0.9%
Employee benefit expenses	264.7	241.8	-23.0	-8.7%
R&D expenses	57.8	58.2	+0.4	+0.7%
Depreciation and amortization	66.0	79.1	+13.1	+19.8%
Other	176.7	146.6	-30.2	-17.1%
Operating profit	565.2	593.3	+28.1	+5.0%
Amortization of acquired intangibles	31.9	46.8	+14.9	+46.7%
Adjustments (income)	-10.3	-65.2	-54.9	-
Adjustments (costs)	39.9	11.9	-28.0	-70.2%
Adjusted operating profit	626.7	586.8	-39.9	-6.4%
Financial income	15.0	6.6	-8.4	-55.9%
Dividend income	1.8	1.7	-0.1	-3.6%
Interest income	13.0	4.7	-8.3	-64.1%
Foreign exchange gain	-	-	-	-
Other	0.2	0.2	+0.0	+5.2%
Financial costs	15.1	21.7	+6.6	+43.5%
Interest expenses	3.9	8.7	+4.8	+122.7%
Employee benefit expenses	4.0	3.5	-0.5	-12.1%
Foreign exchange loss	6.0	9.2	+3.2	+52.8%
Other	1.3	0.4	-0.9	-71.6%
Profit before income taxes	565.1	578.2	+13.1	+2.3%
Income taxes	162.4	152.5	-9.9	-6.1%
Profit for the period	402.7	425.8	+23.0	+5.7%
Attributable to owners of the parent company	398.5	421.7	+23.2	+5.8%
Attributable to non-controlling interests	4.3	4.1	-0.2	-4.6%

12. Consolidated financial position (continuing & discontinued operations combined) (Unit: JPY billion)

	2015 Dec. end	2016 Dec. end	Variance (abs)
Current assets	1,798.2	1,606.0	-192.2
Cash and cash equivalents	526.8	294.2	-232.6
Trade and other receivables	406.4	396.9	-9.5
Inventories	563.8	558.8	-5.0
Other financial assets *1	17.8	14.9	-2.9
Other current assets	280.5	340.3	+59.8
Non-current assets held-for-sale	2.9	0.8	-2.1
Non-current assets	2,760.0	3,138.4	+378.4
Property, plant & equipment	681.9	680.8	-1.0
Goodwill *2	1,429.3	1,602.0	+172.7
Intangible assets *3	332.5	424.0	+91.5
Investment property	23.6	18.2	-5.4
Retirement benefit assets	39.0	23.7	-15.3
Investments accounted for using the equity method	59.5	123.8	+64.2
Other financial assets *1	101.7	99.4	-2.4
Deferred tax assets	92.6	166.6	+74.0
Total assets	4,558.2	4,744.4	+186.1

	2015 Dec. end	2016 Dec. end	Variance (abs)
Current liabilities	1,265.9	1,356.6	+90.7
Trade and other payables	373.0	377.9	+4.9
Bonds and borrowings *4	31.0	208.5	+177.5
Income tax payables	106.4	54.9	-51.5
Other financial liabilities *4	6.5	13.0	+6.6
Provisions	19.3	12.5	-6.8
Other current liabilities *5	729.8	689.6	-40.1
Liabilities directly associated with non-current assets held-for-sale	-	-	-
Non-current liabilities	770.8	859.8	+89.0
Bonds and borrowings *4	215.9	339.0	+123.1
Other financial liabilities *4	10.1	9.0	-1.1
Retirement benefit liabilities	333.6	333.4	-0.2
Provisions	9.2	4.4	-4.8
Other non-current liabilities *5	114.0	102.2	-11.7
Deferred tax liabilities	88.0	71.7	-16.3
Total liabilities	2,036.7	2,216.3	+179.6
Equity	2,521.5	2,528.0	+6.5
Share capital	100.0	100.0	-
Capital surplus	736.4	736.4	-
Treasury shares	-444.3	-443.8	+0.5
Other components of equity	-137.1	-303.6	-166.4
Retained earnings	2,196.7	2,367.1	+170.4
Non-controlling interests	69.9	71.9	+2.0
Total liabilities and equity	4,558.2	4,744.4	+186.1

*1: Other financial assets (current & non-current combined)

Other financial assets	119.6	114.3	-5.3
Derivative assets	7.1	11.8	+4.7
Equity securities	72.8	65.5	-7.2
Debt securities	6.6	4.6	-2.0
Time deposits	1.0	1.0	-0.0
Other	39.6	38.3	-1.3
Allowance for doubtful accounts	-7.5	-6.9	+0.6

*2: Goodwill ~ Cash-generating unit

Japanese domestic tobacco	16.3	265.9	+249.6
Internatioanal tobacco	1,387.6	1,310.7	-76.9
Processed food	25.4	25.4	-

*3: Intangible assets ~ Trademarks

Japanese domestic tobacco	2.3	148.3	+146.0
International tobacco	266.5	216.6	-49.9

*4: Bonds and borrowings and other financial liabilities (current & non-current combined)

Total financial liabilities	263.5	569.6	+306.1
Derrivative liabilities	5.6	12.5	+6.9
Short-term borrowings	30.8	187.9	+157.1
Commercial paper	-	-	-
Current portion of long-term borrowings	0.1	0.6	+0.4
Current portion of bonds	-	20.0	+20.0
Long-term borrowings	0.9	0.9	+0.0
Bonds	215.1	338.2	+123.1
Other	11.0	9.5	-1.5

*5: Other liabilities (current & non-current combined)

Total other liabilities	843.7	791.8	-51.9
Tobacco excise tax payables	334.6	306.8	-27.7
Tobacco special excise tax payables	14.5	13.9	-0.7
Tobacco local excise tax payables	183.5	180.8	-2.7
Consumption tax payables	103.9	105.5	+1.6
Bonus to employees	34.0	33.8	-0.2
Employee's unused paid vacations liabilities	18.8	18.8	+0.0
Other	154.3	132.2	-22.2

FY2017 Forecasts

1. Summary of consolidated forecasts

(Unit: JPY billion)

	FY2016	FY2017	Variance (abs)	Variance (%)
Revenue	2,143.3	2,110.0	-33.3	-1.6%
Operating profit	593.3	560.0	-33.3	-5.6%
Adjusted operating profit	586.8	587.0	+0.2	+0.0%
Profit (attributable to owners of the parent company)	421.7	402.0	-19.7	-4.7%

● [reference] Consolidated forecast

(Unit: JPY billion)

	FY2016	FY2017	Variance (abs)	Variance (%)
Adjusted operating profit at constant FX	586.8	607.0	+20.2	+3.4%

2. EPS, DPS, ROE

(Unit: JPY)

	FY2016	FY2017	Variance (abs)	Variance (%)
Basic EPS	235.47	224.46	-11.01	-4.7%
DPS	130.00	140.00	+10.00	+7.7%
ROE (attributable to owner of the parent company)	17.2%	16.2%	-1.0%pt	

3. Revenue by business segment

(Unit: JPY billion)

	FY2016	FY2017	Variance (abs)	Variance (%)
Revenue	2,143.3	2,110.0	-33.3	-1.6%
Japanese domestic tobacco	684.2	655.0	-29.2	-4.3%
Core revenue	649.7	620.0	-29.7	-4.6%
International tobacco	1,199.2	1,178.0	-21.2	-1.8%
Core revenue	1,138.8	1,118.0	-20.8	-1.8%
Pharmaceutical	87.2	98.0	+10.8	+12.4%
Processed food	164.1	165.0	+0.9	+0.6%
Others	8.6	7.0	-1.6	-18.6%

● [reference] International tobacco business

(Unit: USD million)

	FY2016	FY2017	Variance (abs)	Variance (%)
Core revenue	10,490	10,170	-320	-3.1%
Core revenue at constant FX	10,490	10,440	-50	-0.5%

FY2017 Forecasts

4. Operating profit and adjusted operating profit by business segment (Unit: JPY billion)

	FY2016	FY2017	Variance (abs)	Variance (%)
Consolidated: operating profit	593.3	560.0	-33.3	-5.6%
Japanese domestic tobacco	244.1	227.0	-17.1	-7.0%
International tobacco	301.8	317.5	+15.7	+5.2%
Pharmaceutical	9.7	19.0	+9.3	+95.5%
Processed food	5.0	6.0	+1.0	+20.2%
Others/Elimination	32.7	-10.0	-42.7	-
Adjusted operating profit	586.8	587.0	+0.2	+0.0%
Japanese domestic tobacco	260.2	244.0	-16.2	-6.2%
International tobacco	336.2	347.0	+10.8	+3.2%
Pharmaceutical	9.7	19.0	+9.3	+95.5%
Processed food	5.0	6.0	+1.0	+20.1%
Others/Elimination	-24.4	-29.0	-4.6	-

● [reference] International tobacco business (Unit: USD million)

	FY2016	FY2017	Variance (abs)	Variance (%)
Adjusted operating profit	3,095	3,150	+55	+1.8%
Adjusted operating profit at constant FX	3,095	3,375	+280	+9.1%

5. Free cash flow (Unit: JPY billion)

	FY2016	FY2017	Variance (abs)
FCF*	-316.2	355.0	+671.2

*: FCF is sum of cash flows from operating activities and investing activities, but excludes the following items;
- From operating CF: interest received, dividends received, interest paid and income taxes related to these items
- From investing CF: purchase of investment securities (for both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (for both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

6. Capital expenditures (Unit: JPY billion)

	FY2016	FY2017	Variance (abs)
Consolidated	113.0	136.0	+23.0
Japanese domestic tobacco	29.8	42.0	+12.2
International tobacco	70.6	64.0	-6.6
Pharmaceutical	3.8	9.0	+5.2
Processed food	5.7	15.5	+9.8
Others/Elimination	3.1	5.0	+1.9

7. Business data

● Japanese domestic tobacco business

	FY2016	FY2017	Variance (abs)	Variance (%)	
JT sales volume*	106.2	96.0	-10.2	-9.6%	BNU

*: Excludes volumes of duty-free in Japan, China business and emerging products

● International tobacco business

	FY2016	FY2017	Variance (abs)	Variance (%)	
Total shipment volume	398.7	395.0	-3.7	-0.9%	BNU
GFB shipment volume	283.7	288.0	+4.3	+1.5%	BNU
JPY/USD	108.78	110.00	+1.22	+1.1%	JPY
RUB/USD	67.07	60.00	-7.07	+11.8%	RUB
GBP/USD	0.74	0.81	+0.07	-8.7%	GBP
EUR/USD	0.90	0.95	+0.05	-4.9%	EUR
CHF/USD	0.98	1.00	+0.02	-1.5%	CHF
TWD/USD	32.24	32.00	-0.24	+0.8%	TWD
TRY/USD	3.02	3.65	+0.63	-17.3%	TRY
IRR/USD	35,814	39,500	+3,686	-9.3%	IRR

Data of JT products in Japanese market

* Excludes sales from the China, Hong Kong, and Macau markets, domestic duty-free sales and emerging products.

Japanese Domestic Tobacco Business Results

1. Quarterly Sales Volume

(billions of cigarettes)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2014	30.4	24.7	28.8	28.4	112.4
2015	25.5	27.6	28.2	28.0	109.2
2016	27.2	25.5	27.0	26.5	106.2

2. Quarterly Revenue Per Thousand Cigarettes

(JPY)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2014	5,483	5,652	5,675	5,670	5,617
2015	5,671	5,662	5,666	5,647	5,661
2016	5,672	5,952	5,935	5,930	5,870

* Revenue per thousand cigarettes = (retail price sales-retailer margins-consumption tax-excise taxes)/sales volume×1,000

3. Quarterly JT Market Share

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2014	61.5	59.6	60.1	60.0	60.4
2015	59.9	60.0	59.7	60.1	59.9
2016	62.4	59.8	60.7	61.4	61.1

Quarterly Market Share of Brands

1. MEVIUS

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	32.1	32.3	31.9	32.0	32.1
2016	33.2	29.8	31.1	31.5	31.4

2. Winston

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	7.5	7.5	7.5	8.0	7.6
2016	7.6	8.4	8.0	8.0	8.0

*Market shares of "Cabin" and "Caster" which were integrated into "Winston" in Aug, 2015, are retrospectively reflected.

3. Seven Stars

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	7.4	7.4	7.6	7.4	7.5
2016	7.3	7.7	7.5	7.6	7.5

4. Natural American Spirit

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	1.0	1.1	1.3	1.3	1.2
2016	1.4	1.6	1.6	1.7	1.5

*The source of market share before completing the acquisition is JT estimate

Quarterly Market Share in Menthol Segment

1. JT Menthol Product Share

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2014	9.0	9.6	9.4	9.5	9.4
2015	10.1	10.1	10.3	10.5	10.2
2016*	11.3	11.2	11.2	11.3	11.3

*The source of Natural American Spirit market share before completing the acquisition is JT estimate

2. Menthol Market Share

(%)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2014	26.1	27.3	26.7	27.1	26.8
2015	27.7	27.8	28.2	28.1	28.0
2016	27.9	28.8	28.6	28.1	28.4

Japan Tobacco Inc. Clinical Development as of February 6, 2017

＜In-house development＞

Code （Generic Name）	Potential Indication/Dosage form	Mechanism		Phase	Note
JTZ-951	Anemia associated with chronic kidney disease /Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	Phase2(Japan) Phase1(Overseas)	In-house
JTE-052	Autoimmune/allergic diseases /Oral, Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase2(Japan)	In-house Co-development with Torii
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase2(Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1(Overseas)	In-house
JTK-351	HIV infection /Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV.	Phase1(Japan)	In-house
JTE-451	Autoimmune/allergic diseases /Oral	RORγ antagonist	Suppresses overactive immune response via inhibition of ROR γ related to Th 17 activation.	Phase1(Overseas)	In-house
JTT-751 （ferric citrate）	Iron-deficiency anemia/Oral	Oral iron replacement	Corrects iron-deficiency anemia by using absorbed Iron for synthesis of hemoglobin.	Phase2(Japan)	In-license （Keryx Biopharmaceuticals） Co-development with Torii *additional indication

Clinical trial phase presented above is based on the first dose.

＜Licensed compounds＞

Compound （JT's code）	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2).	NSCLC, trametinib+dabrafenib U.S., EU, Japan marketing approvals submitted
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
JTE-052	LEO Pharma	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	
JTZ-951	JW Pharmaceutical	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	

Updates since the previous announcement on October 31, 2016:

＜In-house development＞
・JT obtained manufacturing and marketing approval of Descovy® Combination Tablets LT and HT in Japan on December 9, 2016
・JTE-051: advanced to Phase 2 in Overseas
・JTT-851: terminated