



FOR IMMEDIATE RELEASE

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JT's Consolidated Financial Results for 2017 Second Quarter (January 1 – June 30, 2017)

First Half results confirm steady business performance

Highlights

Consolidated Financial Results

- Adjusted operating profit at constant currency increased 3.6% driven by the international tobacco and pharmaceutical businesses.
On a reported basis, adjusted operating profit declined 1.2% due to unfavorable currency movements in the international tobacco business.
- Operating profit and profit attributable to owners of the parent declined 9.2% and 8.7% respectively mainly due to a decrease in gains from the sale of real estate assets.

Results by Business Segment

- **International Tobacco Business:** Adjusted operating profit grew 9.1% in US Dollars at constant currency mainly led by cost optimization. On a reported basis, adjusted operating profit grew 0.5% due to currency fluctuations. In Japanese Yen, adjusted operating profit increased 1.0% due to the appreciation of the US Dollar.
- **Japanese Domestic Tobacco Business:** Adjusted operating profit declined 7.4%, primarily due to the impact of JT cigarette sales volume decline, partially offset by the benefits of the retail price amendment of MEVIUS last year and cost decreases.
- **Pharmaceutical Business:** Adjusted operating profit increased 224.5% mainly driven by higher royalty revenues.
- **Processed Food Business:** Adjusted operating profit decreased 30.9% due to revenue decrease.

Consolidated Forecast for 2017

- Adjusted operating profit at constant currency is forecast to grow from the previous fiscal year but is revised downwards by ¥10.0 billion from the initial forecast due to lower profits in the Japanese domestic tobacco business partially offset by higher profit in the pharmaceutical business.
On a reported basis, the profit forecast is revised upwards by ¥2.0 billion due to higher profit in the international tobacco business as a result of favorably revised exchange rate assumptions.
- While the forecast for operating profit is revised upwards by ¥5.0 billion mainly due to adjusted operating profit growth, the forecast for profit attributable to owners of the parent remains unchanged mainly due to an increase in net interest expense.

Forecasts by Business Segment

- **International Tobacco Business:** The forecast for adjusted operating profit in US Dollars at constant currency remains unchanged at 9.1% growth from the previous fiscal year. On a reported basis, the adjusted operating profit forecast increased by US\$80 million in US Dollars or ¥12.0 billion in Japanese Yen as a result of favorably revised exchange rate assumptions.
- **Japanese Domestic Tobacco Business:** The forecast for adjusted operating profit is revised downwards by ¥14.0 billion due to the impact of JT cigarette sales volume decline.
- **Pharmaceutical Business:** The forecast for adjusted operating profit is revised upwards by ¥4.0 billion mainly driven by higher royalty revenues.
- **Processed Food Business:** The forecast for adjusted operating profit remains unchanged.

Dividend

- As stated in the “Business Plan 2017”, the Company announced an interim dividend of ¥70 per share and a forecast for the year-end dividend of ¥70 per share, resulting in an annual forecast dividend of ¥140 per share this year.

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

“In the first half, we achieved continued growth in the Group’s adjusted operating profit at constant currency driven by the international tobacco and pharmaceutical businesses, despite an increasingly uncertain and challenging operating environment.

“We’ve seen high earnings growth in the international tobacco business, for which our well-planned and executed cost optimization initiative is bearing fruit, as well as higher royalty revenues in the pharmaceutical business which also contributed to the Group’s profit increase.

“In the Japanese tobacco business, cigarette industry volume decline puts further pressure on us, resulting in adjustments to our business performance. In the meantime, our promising tobacco vapor product, Ploom TECH, continues to receive strong interest from consumers in Tokyo, where we launched at the end of June. Given the unique features of Ploom TECH as well as our commitment and resources, we are confident to win in the increasingly competitive Japanese tobacco vapor category in the mid-term.

“As announced, 2017 has proved to be a particularly difficult year for us, however, we remain committed to investing for future sustainable profit growth and will continue to do so during the rest of this year.”

Consolidated Financial Results

(billions of Yen)	January – June		Difference	Change
	2016	2017		
Revenue	1,076.9	1,045.3	-31.5	-2.9%
Adjusted operating profit	318.3	314.7	-3.7	-1.2%
Operating profit	345.0	313.3	-31.7	-9.2%
Profit attributable to owners of the parent	247.1	225.6	-21.5	-8.7%

At constant currency:

Adjusted operating profit	318.3	329.7	11.4	3.6%
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- Revenue**
 Revenue decreased 2.9% as growth in the pharmaceutical business was unable to offset the decline of the Japanese domestic tobacco business and unfavorable currency movements in the international tobacco business.
- Adjusted Operating Profit**
 Adjusted operating profit at constant currency increased 3.6% driven by the international tobacco and pharmaceutical businesses.
 On a reported basis, adjusted operating profit declined 1.2% due to unfavorable currency movements in the international tobacco business.
- Operating Profit**
 Operating profit declined 9.2% mainly due to a decrease in gains from the sale of real estate assets.
- Profit Attributable to Owners of the Parent**
 Profit attributable to owners of the parent declined 8.7% primarily due to lower operating profit.

Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	January - June		Difference	Change
	2016	2017		
Total shipment volume¹	199.7	193.2	-6.5	-3.3%
GFB shipment volume	140.7	140.8	0.1	0.0%
Revenue	616.0	606.7	-9.3	-1.5%
Core revenue²	584.1	577.2	-6.8	-1.2%
Adjusted operating profit	193.1	195.1	2.0	1.0%

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

Core revenue	5,239	5,224	-15.0	-0.3%
Adjusted operating profit	1,729	1,886	157.0	9.1%

Strong performance primarily in Iran and Taiwan was unable to offset the impact of industry volume contraction in several markets and the unfavorable inventory comparisons in the first quarter, resulting in total shipment volume declining 3.3%. GFB shipment volume remained stable, mainly driven by market share gains in several key markets.

In US Dollars, core revenue decreased 0.3% at constant currency due to volume decline and 1.9% on a reported basis due to currency fluctuations. Adjusted operating profit grew 9.1% at constant currency led by cost optimization and positive price/mix while we continued to invest in emerging markets and emerging products. On a reported basis, adjusted operating profit grew 0.5%, due to currency fluctuations.

In Japanese Yen, core revenue decreased 1.2% and adjusted operating profit increased 1.0% due to the appreciation of the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	January - June		Difference	Change
	2016	2017		
Cigarette industry volume	86.2	76.8	-9.5	-11.0%
JT cigarette sales volume³	52.7	46.8	-5.9	-11.2%
Revenue	335.9	310.4	-25.6	-7.6%
Core revenue⁴	318.6	294.4	-24.2	-7.6%
Adjusted operating profit	129.6	120.0	-9.6	-7.4%

JT cigarette sales volume decreased 11.2%. This is mainly due to cigarette industry volume contraction caused by the expansion of the tobacco vapor category and a continued diminishing market trend. JT's market share was 61.0%, at parity level to last year.

Core revenue declined 7.6%, impacted by sales volume decline, partially offset by the benefit of the retail price amendment of MEVIUS last year. Adjusted operating profit declined 7.4% due to lower core revenue, despite benefits from cost decreases.

Pharmaceutical Business

(billions of Yen)	January - June		Difference	Change
	2016	2017		
Revenue	40.3	47.2	6.9	17.1%
Adjusted operating profit	2.8	9.0	6.2	224.5%

Revenue increased 17.1% mainly driven by higher royalty revenues from increased sales of original JT compounds. Adjusted operating profit grew 224.5% as a result of the revenue increase.

Processed Food Business

(billions of Yen)	January - June		Difference	Change
	2016	2017		
Revenue	79.9	77.5	-2.5	-3.1%
Adjusted operating profit	3.1	2.2	-1.0	-30.9%

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

Although sales of seasonings increased, revenue decreased 3.1% due to lower sales of other products. Adjusted operating profit decreased 30.9% as a result of the revenue decline.

Consolidated Forecast for 2017

(billions of Yen)	2017 Revised Forecast	Difference from 2017 Initial Forecast	Difference from 2016 Actual	Change from 2016 Actual
Revenue	2,125.0	15.0	-18.3	-0.9%
Adjusted operating profit	589.0	2.0	2.2	0.4%
Operating profit	565.0	5.0	-28.3	-4.8%
Profit attributable to owners of the parent	402.0	-	-19.7	-4.7%

At constant currency:

Adjusted operating profit	597.0	-10.0	10.2	1.7%
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- **Revenue**

The revenue forecast is revised upwards by ¥15.0 billion as a result of favorably revised exchange rate assumptions in the international tobacco business and higher revenue in the pharmaceutical business despite lower revenue in the Japanese domestic tobacco business.

- **Adjusted Operating Profit**

The forecast for adjusted operating profit at constant currency grows from the previous fiscal year but is revised downwards by ¥10.0 billion from the initial forecast due to lower profit in the Japanese domestic tobacco business, partially offsetting higher profit in the pharmaceutical business.

On a reported basis, adjusted operating profit forecast is revised upwards by ¥2.0 billion due to higher profit in the international tobacco business as a result of favorably revised exchange rate assumptions.

- **Operating Profit**

The forecast for operating profit is revised upwards by ¥5.0 billion mainly due to adjusted operating profit growth.

- **Profit Attributable to Owners of the Parent**

The forecast for profit attributable to owners of the parent remains unchanged as an increase in financial costs offset the operating profit growth.

Forecasts by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	2017 Revised Forecast	Difference from 2017 Initial Forecast	Difference from 2016 Actual	Change from 2016 Actual
Total shipment volume	391.0	-4.0	-7.7	-1.9%
GFB shipment volume	288.0	-	4.3	1.5%
Revenue	1,210.0	32.0	10.8	0.9%
Core revenue	1,152.0	34.0	13.2	1.2%
Adjusted operating profit	359.0	12.0	22.8	6.8%

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

Core revenue	10,440	-	-50	-0.5%
Adjusted operating profit	3,375	-	280	9.1%

While the forecast for total shipment volume is revised downwards by 4.0 billion units reflecting recent operating environment changes in several Middle East and African markets, the forecast for GFB shipment volume is maintained.

In US Dollars, the forecast for adjusted operating profit at constant currency remains unchanged at 9.1% growth from the previous fiscal year, mainly led by continuous cost optimization. On a reported basis, the profit forecast is increased by US\$80 million as a result of favorably revised exchange rate assumptions.

In Japanese Yen, the forecast for adjusted operating profit is revised upwards by ¥12.0 billion primarily as a result of revised exchange rate assumptions reflecting the recent trend of US Dollar appreciation.

(Reference) Exchange rate assumptions for US\$1.00

	2017 Revised Forecast	Effects to the adjusted operating profit forecast
Russian Ruble	60.00	-
UK Sterling	0.80	Positive
Euro	0.90	Positive
Japanese Yen	111.16	Positive

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	2017 Revised Forecast	Difference from 2017 Initial Forecast	Difference from 2016 Actual	Change from 2016 Actual
JT cigarette sales volume	93.0	-3.0	-13.2	-12.4%
Revenue	642.0	-13.0	-42.2	-6.2%
Core revenue	602.0	-18.0	-47.7	-7.3%
Adjusted operating profit	230.0	-14.0	-30.2	-11.6%

The forecast of JT cigarette sales volume is revised downwards by 3.0 billion units. This reflects cigarette industry contraction including effects of the expansion of the tobacco vapor category and the continued diminishing market trend.

As a result of the revised sales volume, the forecasts for core revenue and adjusted operating profit are revised downwards by ¥18.0 billion and ¥14.0 billion, respectively.

Pharmaceutical Business

(billions of Yen)	2017 Revised Forecast	Difference from 2017 Initial Forecast	Difference from 2016 Actual	Change from 2016 Actual
Revenue	102.0	4.0	14.8	17.0%
Adjusted operating profit	23.0	4.0	13.3	136.7%

The forecasts for revenue and adjusted operating profit are both revised upwards by ¥4.0 billion, driven by higher royalty revenues from the increased sales of original JT compounds.

Processed Food Business

(billions of Yen)	2017 Revised Forecast	Difference from 2017 Initial Forecast	Difference from 2016 Actual	Change from 2016 Actual
Revenue	165.0	-	0.9	0.6%
Adjusted operating profit	6.0	-	1.0	20.1%

Forecasts for revenue and adjusted operating profit remain unchanged mainly supported by increased sales of staple foods.

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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*

Notes

- 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.

Additional definitions are provided at <https://www.jt.com/media/definitions/index.html>.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) decrease in demand for tobacco products in key markets;
- (2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;
- (3) increases in excise, consumption or other taxes on tobacco products in markets in which we operate;
- (4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products ;
- (5) our ability to realize anticipated results of our acquisition or other similar investments;
- (6) competition in markets in which we operate or into which we seek to expand;
- (7) deterioration in economic conditions in areas that matter to us;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

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