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JT's Consolidated Financial Results for FY2015

FY2015 demonstrated solid profit growth from continuing operations despite currency headwinds

Results for January 1 – December 31, 2015 on a Like-for-Like basis[1]

- Adjusted operating profit at constant currency grew 9.9% mainly driven by strong performance in the international and Japanese domestic tobacco businesses. On a reported basis, the profit declined 5.2% due to unfavorable local currency movements against the US Dollar in the international tobacco business.

- Profit from continuing operations grew 1.8% despite the unfavorable impact of exchange rates, due to robust profit growth at constant currency, lower one-off expenses and lower income taxes. These positive factors were partially offset by the losses related to the disposal of real estate assets and lower gains from the sale of real estate assets.

- Profit attributable to owners of the parent, which combines profits from continuing and discontinued operations, grew 24.8% due to the gains relating to the transfer of shares JT held in its subsidiaries conducting vending machine operations.

- International Tobacco Business: Adjusted operating profit increased 10.8% in US Dollars at constant currency driven by a robust price/mix together with positive GFB performance. On a reported basis, adjusted operating profit declined 23.4% due to unfavorable local currency movements against the US Dollar. In Japanese Yen, adjusted operating profit decreased 11.8%, partially offset by the appreciation of the US Dollar.

- Japanese Domestic Tobacco Business: Adjusted operating profit grew 6.4% driven by improved price/mix effect as well as the effects of the measures to strengthen the competitiveness of the Japanese domestic tobacco business.

- The Company's Board is recommending a total dividend per share of ¥118, including a first half-year dividend per share of ¥54.

"Business Plan 2016"

- Adjusted operating profit at constant currency is forecast to grow 7.4%, driven by strong business momentum in all businesses.

- Profit attributable to owners of the parent is expected to remain flat from FY2015 despite the unfavorable exchange rate assumptions, driven by strong business performance at constant currency as well as higher gains from the sales of real estate assets.

- For the FY2016, the Company intends to increase the total dividend per share to ¥128.

Mitsuomi Koizumi, President and Chief Executive Officer of JT, commented:
"Our international tobacco business has remained the profit growth engine of the JT Group. We delivered another year of double-digit profit growth in US Dollars at constant currency, while increasing investments for long-term sustainable growth. Domestically, our market share has remained stable, underpinned by marketing and sales initiatives focusing on Mevius as well as the integration of the Caster and Cabin brands with Winston."
"Even though we face a highly volatile operating environment, our priorities remain the same. We will continue to actively invest in our business with the aim of accelerating future growth."

Consolidated Financial Results for January 1 – December 31, 2015[1]

(billions of Yen)	January - December 2014	January - December 2015	Difference	Net Change
Revenue	2,259.2	2,252.9	-6.4	-0.3%
Adjusted operating profit	661.0	626.7	-34.3	-5.2%
Operating profit	572.6	565.2	-7.4	-1.3%
Profit from continuing operations (attributable to owners of the parent)	391.4	398.5	7.0	1.8%
Profit from discontinued operations (attributable to owners of the parent)	-2.4	87.2	89.6	-
Profit attributable to owners of the parent	389.1	485.7	96.6	24.8%
At constant currency:				
Adjusted operating profit	661.0	726.5	65.5	9.9%

Note: From the nine months ended September 30, 2015, continuing operations and discontinued operations have been presented separately. To reflect the changes in the method of presentation, the consolidated statement of income for the comparable period has been changed accordingly.

- **Revenue**
  Revenue remained almost flat. The impact of unfavorable local currency movements against the US Dollar in the international tobacco business was fully offset by improved price/mix effects in the international and Japanese domestic tobacco businesses as well as revenue growth in the pharmaceutical and processed food businesses.

- **Adjusted Operating Profit**
  Adjusted operating profit at constant currency increased 9.9% driven by the strong business momentum of the tobacco businesses, top-line growth in the pharmaceutical and processed food businesses, and the effects of the measures to strengthen the competitiveness of the Japanese domestic tobacco business. On a reported basis, adjusted operating profit declined 5.2% due to the negative exchange rate impact.

- **Operating Profit**
  Operating profit declined only 1.3% due to lower one-off expenses relating to the measures to strengthen the competitiveness of the Japanese domestic tobacco business and the optimization of manufacturing facilities in the international tobacco business. The positive impact was partially offset by the losses related to the disposal of real estate assets and lower gains from the sale of real estate assets.

- **Profit from continuing operations**
  Profit from continuing operations increased 1.8% as a result of lower income taxes.

- **Profit from discontinued operations**
  Profit from discontinued operations was ¥87.2 billion due to the gains relating to the transfer of shares the Company held in its subsidiaries conducting vending machine operations, partially offset by expenses relating to the withdrawal from the manufacture and sale of JT beverage products.

- **Profit Attributable to Owners of the Parent**
  Profit attributable to owners of the parent, which combines profits from continuing and discontinued operations, increased 24.8%.

Results by Business Segment

International Tobacco Business

(billions of units, billions of Yen)	January - December		Net Change
	2014	2015	
Total shipment volume[2]	398.0	393.9	-1.0%
GFB shipment volume	262.2	273.6	4.3%
Core revenue[3]	1,258.2	1,252.5	-0.5%
Adjusted operating profit	447.1	394.4	-11.8%

GFB shipment volume grew 4.3%, reflecting strong growth in the Benelux, Canada, Czech Republic, France, Germany, Iran, Italy, Romania, Turkey and Ukraine. Total shipment volume declined 1.0% due to industry contraction in Russia as well as a volatile operating environment in the Middle East, partly offset by positive volume performance in the Benelux, Czech Republic, France, Germany, Iran, Italy and Turkey. Market share[4] increased in key markets including France, Italy, Spain, Taiwan, Turkey and the UK. In Russia, GFB market share continued to grow.

In US Dollars, core revenue and adjusted operating profit at constant currency increased 7.0% and 10.8% respectively, driven by a robust price/mix and positive GFB performance. As a result of unfavorable local currency movements against the US Dollar, on a reported basis, core revenue and adjusted operating profit declined 13.2% and 23.4% respectively. In Japanese Yen, core revenue and adjusted operating profit decreased 0.5% and 11.8% respectively due to the appreciation of the US Dollar.

Japanese Domestic Tobacco Business

(billions of units, billions of Yen)	January - December		Net Change
	2014	2015	
Total sales volume	112.4	109.2	-2.8%
Core revenue	649.8	642.2	-1.2%
Adjusted operating profit	238.7	254.1	6.4%

Core revenue declined 1.2% with total sales volume 2.8% lower, mainly due to the industry volume decline. The decline in core revenue was partially offset by the improved price/mix effect, which mainly occurred in the first quarter, and higher domestic sales of duty-free products. Adjusted operating profit increased 6.4% driven by the price/mix effect, the effects of the measures to strengthen the competitiveness of the Japanese domestic tobacco business that accrued from the second quarter, as well as a one-off expenditure in the previous year.

Amid intensified competition, the Company continued to undertake marketing and sales initiatives and brand equity investment, primarily focused on Mevius. In addition, it has actively launched new products from Winston following the integration with the Caster and Cabin brands in August. As a result, JT's overall market share has remained stable at 59.9% for the twelve-month period.

Pharmaceutical Business

(billions of Yen)	January - December		Difference
	2014	2015	
Revenue	65.8	75.6	9.8
Adjusted operating profit	-7.3	-2.3	5.0

Revenue increased ¥9.8 billion due to higher royalty revenue related to an increase in sales of original JT compounds that have been out licensed, and sales growth of Torii Pharmaceutical. Adjusted operating profit improved ¥5.0 billion to -¥2.3 billion as a result of the revenue increase.

Processed Food Business

(billions of Yen)	January – December		Difference
	2014	2015	
Revenue	161.2	165.8	4.7
Adjusted operating profit	1.4	2.7	1.3

The processed food business has continued to focus on staple food such as frozen noodles, frozen rice, packed cooked rice and frozen baked bread. Revenue increased ¥4.7 billion to ¥165.8 billion, driven by the improved sales of frozen and ambient processed food products. Adjusted operating profit increased ¥1.3 billion to ¥2.7 billion as a result of higher revenue.

Beverage Business

The Company withdrew from the manufacture and sale of JT beverage products at the end of September 2015. In addition, the sale of shares JT held in its subsidiaries conducting vending machine operation business, Japan Beverage Holdings Inc. and JT A-Star Co., Ltd, and the sale of certain JT beverage brands were completed on July 31, 2015. Consequently, the beverage business is classified as discontinued operations from the third quarter 2015.

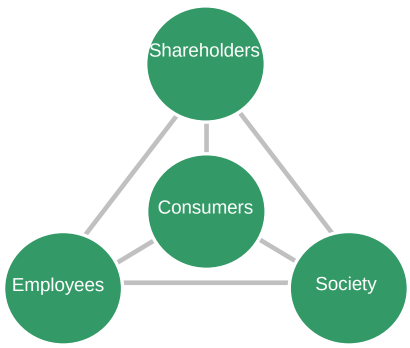
”Business Plan 2016”

- **Management Principle**

Under the “4S” model, the Company will balance the interests of consumers, shareholders, employees and the wider society, and fulfil its responsibilities towards them, aiming to exceed their expectations. The 4S model has allowed us to achieve sustainable profit growth in the past years. The Company firmly believes that the 4S model will increase the Company’s value in the mid- to long-term, and consequently is in the best interests of all stakeholders.

The Company will continue to prioritize business investments for sustainable profit growth in the mid- to long-term, and will continue to seek an optimal 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 share buy-back, which takes 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 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.

Consolidated Forecast for FY2016

Unit: Billions of Yen

	Jan-Dec 2015 Actual (A)	Jan-Dec 2016 Forecast (B)	Change from 2015 Actual (B)-(A)
Revenue	2,252.9	2,200.0	-52.9 (-2.3%)
Adjusted operating profit	626.7	562.0	-64.7 (-10.3%)
Operating profit	565.2	566.0	0.8 (0.1%)
Profit attributable to owners of the parent[5]	398.5	399.0	0.5 (0.1%)

Forecast at constant currency

Adjusted operating profit	626.7	673.0	46.3 (7.4%)

- Revenue and adjusted operating profit are forecast to decline 2.3% and 10.3% respectively due to unfavorable exchange rate assumptions[6]. Adjusted operating profit at constant currency is expected to grow 7.4% driven by improved price/mix effects in the international and Japanese domestic tobacco businesses and higher royalty revenue in the pharmaceutical business.

- Operating profit and profit attributable to owners of the parent are expected to remain flat despite the unfavorable exchange rate assumptions, due to the strong business performance at constant currency as well as higher gains from the sales of real estate assets. The positive impacts were partially offset by amortization of trademark of Natural American Spirit.

Forecasts by Business Segment

- **International Tobacco Business:** In US Dollars, adjusted operating profit at constant currency is expected to grow 9.0% driven by robust pricing and GFB[7] volume growth, while the business will continue increasing investments for the future. The profit on a reported basis is forecast to decline 17.1% due to unfavorable local currency movements against the US Dollar. In Japanese Yen, adjusted operating profit is expected to decline 19.1% due to the appreciation of the currency against the US Dollar.

- **Japanese Domestic Tobacco Business[8]:** Total sales volume is forecast to decline 1.1% due to lower overall demand, and a decrease in market share caused by the retail price amendment of Mevius and former third class cigarettes as of April 1, 2016. The decline will be partially offset by the integration of Natural American Spirit from this fiscal year. Core revenue is forecast to grow 2.6% driven by improved price/mix effect and Natural American Spirit. Adjusted operating profit is expected to increase 2.7% as a result of higher core revenue as well as effects of the measures to strengthen competitiveness which should be recognized mainly in the first quarter. The growth will be partially offset by increased investments in core brands.

- **Pharmaceutical Business:** Revenue is forecast to grow by ¥9.4 billion to ¥85.0 billion due to higher royalty revenue. Accordingly, the forecast for adjusted operating profit is ¥7.0 billion. Based on the foundation for stable profit generation through royalty income from out licensed compounds, the business is expected to start contributing to the Group's profit in FY2016, and aims to generate profits continuously in 2017 and beyond.

- **Processed Food Business:** As a result of sales growth in staple food products driven by introduction of higher added value products, revenue is forecast to grow ¥6.2 billion to ¥172.0 billion. Despite higher raw materials costs, adjusted operating profit is forecast to improve by ¥0.3 billion to ¥3.0 billion due to an increase in revenue.

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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] Fiscal year 2014 was a transitional year for JT Group after changing its accounting period from March 31 to December 31. On a reported basis fiscal year 2014 covered nine months for Japanese domestic business and 12 months for the consolidated subsidiaries which operate the Group's international tobacco business. In order to present fiscal year 2015 results on a comparable basis, the Company refers to fiscal year 2014 as a full calendar year from January 1 to December 31.
[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 and Nielsen on a 12-month rolling average, unless otherwise specified, for cigarettes and fine cut at the end of December 2015. Spain is on a 12-month rolling average at the end of November 2015. 12-month share of market growth for November 2015 markets is calculated against a 12-month share of market at the end of December 2014.
[5] Profit in 2016 is a comparison with profit from continuing operations
[6] The exchange rate assumptions for US $1.00 are: Ruble 80.00, UK Sterling 0.68, Euro 0.93, Swiss Franc 1.00, Taiwan Dollar 32.70, Turkish Lira 3.00 and ¥118.00. 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.
[7] Following the completion of the acquisition of the Natural American Spirit business outside the U.S. in January 2016, the brand has been newly added to the JT Group's Global Flagship Brands from the FY2016.
[8] The forecast is based on a hypothesis that JT's application on January 22, 2016 to amend the retail prices of certain tobacco products will be approved by the Minister of Finance.

Additional definitions are provided at http://www.jt.com/media/definitions/index.html.

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