JAPAN TOBACCO INC.
2-1, Toranomon 2-chome, Minato-ku
Tokyo 105-8422 JAPAN
Phone:03-3582-3111

**FOR IMMEDIATE RELEASE**

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**JT's Consolidated Financial Results for FY2014 First Quarter**

# Solid performance despite a one-off slowdown in the Japanese Domestic Tobacco Business following the April tax hike

## Results for FY2014 First Quarter

- Revenue grew 1.6% driven by robust price/mix in the International Tobacco Business and depreciation of the Japanese Yen against the US Dollar, despite the temporary slowdown in the Japanese Domestic Tobacco Business following the April consumption tax (VAT) hike.

- Adjusted operating profit at constant FX declined 2.8% as the price/mix in the International Tobacco Business could not completely offset the temporary slowdown in the Japanese Domestic Tobacco Business. Operating profit on a reported basis grew 1.2% due to higher gains from real estate asset disposals.

- Profit attributable to owners of the parent increased 8.2% as a result of higher operating profit and a lower effective corporate tax rate.

- International Tobacco Business: steadily delivered revenue and double-digit earnings growth driven by robust price/mix. Core revenue and adjusted operating profit at constant FX in US Dollars grew 5.1% and 14.4% respectively. In Japanese Yen, the growth was 12.5% and 16.4% respectively due to the depreciation of the currency against the US Dollar.

- Japanese Domestic Tobacco Business: Total sales volume declined 15.6% affected by a one-off increase in demand preceding the April tax hike. Mevius, which was significantly affected by the temporary slowdown in April, recovered to achieve gains in overall market share.

## Forecast for FY2014

The Company maintains the current forecast for the fiscal year 2014.

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

"Our International Tobacco Business continued to demonstrate solid earnings growth, underpinned by enhanced brand equity and pricing opportunities. This underlines the strength of our business fundamentals at a time when the industry is contracting. In Japan, after the temporary slowdown caused by the April VAT hike, Mevius is once again driving our growth in market share. Although the overall business environment remains challenging I firmly believe we can achieve the targets set out in our Business Plan 2014."

## Consolidated Financial Results for FY2014 First Quarter

| (billions of Yen) | Apr-Jun | | Difference | Net Change |
|---|---|---|---|---|
| | **2013** | **2014** | | |
| **Revenue** | 547.9 | 556.4 | 8.5 | 1.6% |
| **Adjusted operating profit** | 151.4 | 148.9 | -2.5 | -1.7% |
| **Operating profit** | 146.5 | 148.2 | 1.7 | 1.2% |
| **Profit attributable to owners of the parent** | 98.1 | 106.2 | 8.1 | 8.2% |

At constant FX:

| | | | | |
|---|---|---|---|---|
| **Adjusted operating profit** | 151.4 | 147.1 | -4.3 | -2.8% |

- **Revenue**
  Despite the one-off negative effect of the higher demand preceding the April tax hike in the Japanese Domestic Tobacco Business, revenue increased 1.6% driven by strong price/mix in the International Tobacco Businesses and the depreciation of the Japanese currency.

- **Adjusted Operating Profit**
  Affected by the temporary slowdown in the Japanese Domestic Tobacco Business adjusted operating profit at constant FX declined 2.8%. On a reported basis operating profit grew 1.2% due to higher gains from real estate asset disposals.

- **Profit Attributable to Owners of the Parent**
  Profit attributable to owners of the parent grew 8.2%, due to higher operating profit as well as a lower effective corporate tax rate.

## Results by Business Segment

### International Tobacco Business (Financial results for January 1 – March 31, 2014)

| (billions of units, billions of Yen) | Jan-Mar | | Net Change |
|---|---|---|---|
| | 2013 | 2014 | |
| **Total shipment volume**[1] | 92.8 | 87.7 | -5.4% |
| **GFB shipment volume**[1] | 58.5 | 55.3 | -5.5% |
| **Core revenue** | 252.3 | 283.7 | 12.5% |
| **Adjusted operating profit** | 90.2 | 105.1 | 16.4% |

Total and GFB shipment volumes declined 5.4% and 5.5% respectively. This was due to industry contraction in several key markets, notably in France, Russia, Spain and the UK, as well as trade inventory adjustments coupled with downtrading from increased competition in the Value segment in Turkey. Year-on-year market share was flat or increased in most key markets namely France, Italy, Spain, Turkey and the UK. In Russia, share of value and GFB share of market continued to grow.

In US Dollars at constant FX, core revenue and adjusted operating profit grew 5.1% and 14.4% respectively driven by strong price/mix, more than offsetting the 5.4% overall volume decline. On a reported basis, core revenue and adjusted operating profit increased 1.2% and 4.7% respectively. In Japanese Yen, core revenue and adjusted operating profit grew 12.5% and 16.4% respectively, as a result of the currency depreciation against the US Dollar.

### Japanese Domestic Tobacco Business

| (billions of units, billions of Yen) | Apr-Jun | | Net Change |
|---|---|---|---|
| | 2013 | 2014 | |
| **Total sales volume** | 29.3 | 24.7 | -15.6% |
| **Core revenue** | 165.2 | 144.2 | -12.7% |
| **Adjusted operating profit** | 64.6 | 51.3 | -20.7% |

Total sales volume declined 15.6% affected by a temporary slowdown following the tax hike in April. As a result, core revenue also decreased 12.7%. Adjusted operating profit decreased 20.7% partly offset by continuous cost reduction.

Following a temporary slowdown immediately after the April tax hike, Mevius quickly returned to delivering steady growth through a number of brand equity strengthening initiatives aimed at retaining consumers. Market share which decreased to 30.0% in April, grew to 31.6% in May and to 32.0% in June. A strong performance by Mevius also helped regain the overall share of market, which grew from 59.1% in April to 59.7% in May and to 60.0% in June.

## Pharmaceutical Business

| (billions of Yen) | Apr-Jun | | Difference |
|---|---|---|---|
| | 2013 | 2014 | |
| **Revenue** | 16.8 | 13.1 | -3.7 |
| **Adjusted operating profit** | -0.9 | -3.8 | -2.8 |

Revenue declined ¥3.7 billion to ¥13.1 billion, with an adjusted operating profit of -¥3.8 billion. Comparable figures for last year included milestone revenue related to progress in R&D of original JT compounds that have been out-licensed. The decline was also attributed to the temporary slowdown in demand for Torii Pharmaceutical products after the April tax hike.

Key achievements since April 2014:

- JT
  JTT-252 (type 2 diabetes) and JTK-351 (anti-HIV): entered clinical trials
- Torii Pharmaceutical
  Riona Tablets 250mg (Hyperphosphatemia): launched in Japan in May
- Out-licensed to partners
  Mekinist (melanoma): in July partner announced the receipt of the European Medicines Agency's approval

## Beverage Business

| (billions of Yen) | Apr-Jun | | Difference |
|---|---|---|---|
| | 2013 | 2014 | |
| **Revenue** | 45.9 | 44.9 | -1.0 |
| **Adjusted operating profit** | -1.6 | -1.4 | 0.2 |

The beverage business has continued to take marketing initiatives focusing on the "Roots" and "Momono Tennen-sui" brands. However, there was a decline in total sales volume of the Company's beverage products and revenue declined ¥1.0 billion. Adjusted operating profit improved to -¥1.4 billion due to lower expenses.

## Processed Food Business

| (billions of Yen) | Apr-Jun | | Difference |
|---|---|---|---|
| | 2013 | 2014 | |
| **Revenue** | 37.4 | 37.3 | -0.1 |
| **Adjusted operating profit** | 0.1 | 0.0 | -0.1 |

The revenue in the processed food business remained flat. As a result of higher raw materials costs due to the depreciation of the Japanese Yen offset by lower expenditure, adjusted operating profit also maintained its level.

**Consolidated Forecast for the 12 month period ending December 31, 2014**

The Company maintains its current financial outlook for this fiscal year.

| (billions of Yen) | Jan-Dec | | Difference | Net Change |
|---|---|---|---|---|
| | 2013 Actual | 2014 Forecast | | |
| **Revenue** | 2,372.2 | 2,430.0 | 57.8 | 2.4% |
| **Adjusted operating profit** | 613.0 | 623.0 | 10.0 | 1.6% |
| **Operating profit** | 643.3 | 554.0 | -89.3 | -13.9% |
| **Profit attributable to owners of the parent** | 443.6 | 370.0 | -73.6 | -16.6% |
| At constant FX: | | | | |
| **Adjusted operating profit** | 613.0 | 650.0 | 37.0 | 6.0% |

Please note that JT Group will change the closing date of its accounting period from March 31 to December 31. Consequently, the fiscal year 2014 on a reported basis is a transitional period for the change, and will cover only nine months from April 1, 2014 to December 31, 2014. The change does not affect the international affiliates, as they are already operating on a January 1 to December 31 accounting period basis.

For the purpose of fair comparison, in its forecast the Company refers to the fiscal year 2014 as a full calendar year from January 1 to December 31, 2014.

**Reference: Results for the January-June period in 2014**

The figures below are intended solely for comparison purposes following a change in the company's financial year-end to December 31. They have been compiled using a simplified calculation method and have not been audited.

| (billions of Yen) | Jan-Jun | | Net Change |
|---|---|---|---|
| | 2013 | 2014 | |
| **Revenue** | 1126.9 | 1172.3 | 4.0% |
| At constant FX: | | | |
| **Adjusted operating profit** | 293.3 | 325.4 | 10.9% |

The figures for Jan-Jun 2014:

- are a combination of FY2013 fourth quarter (Jan-Mar 2014) and FY2014 first quarter (Apr-Jun 2014) results
- exclude International Tobacco Business results for the corresponding period (Oct–Dec 2013, and Jan–Mar 2014)
- include preliminary International Tobacco Business results for Jan–Jun 2014 on a Japanese Yen basis

*Different calculation method to be used at the time of FY2014 full year results disclosure.

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*Japan Tobacco Inc. is a leading international tobacco product company. Its products are sold in over 120 countries and its internationally recognized brands include Winston, Camel, Mevius and Benson & Hedges. With diversified operations, JT is also actively present in pharmaceuticals, beverages and processed foods. The company's revenue was ¥2.400 trillion (US$23,318 million(*)) in the fiscal year ended March 31, 2014.*

**Translated at the rate of ¥102.92 per $1, as of March 31, 2014*

Notes:

[1] Following a recent assessment of fine cut consumption, the conversion rate from tons to cigarette equivalent units for High Volume Tobacco has been adjusted since 2014. 2013 figures for Total and GFB shipment volume have been restated accordingly.

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

Contacts: Ryohei Sugata, General Manager
Dmitry Krivtsov, Associate General Manager
Media and Investor Relations Division
Japan Tobacco Inc. Tokyo: +81-3-5572-4292
E-mail: jt.media.relations@jt.com