

# Consolidated Financial and Business Results for 1H FY 3/2006



November 1, 2005  
Japan Tobacco Inc.

## Cautions for this material

### Forward-Looking and Cautionary Statements

This presentation contains forward-looking statements about our industry, business, plans and objectives, financial conditions and results of operations based on current expectations, assumptions, estimates and projections. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of operational results and financial condition and state other forward-looking information.

These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors that could cause our actual results to differ from those suggested by any forward-looking statement. We assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. 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) health concerns relating to the use of tobacco products;
- (2) legal or regulatory developments and changes; including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, and governmental investigations and privately imposed smoking restrictions;
- (3) litigation in Japan and elsewhere;
- (4) our ability to further diversify our business beyond the tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside of Japan;
- (6) competition and changing consumer preferences;
- (7) the impact of any acquisitions or similar transactions;
- (8) local and global economic conditions, and
- (9) fluctuations in foreign exchange rates and the costs of raw materials.

Today's program

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# 16:00 -

◆ Interim results for the 1st half, and full-term forecasts for FY 3/2006

➢ By Katsuhiko Honda, President and CEO,  
Representative Director

# 16:30 – (about an hour)

◆ Questions and answers

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## Interim results for the 1st half, and full-term forecasts for FY 3/2006

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Katsuhiko Honda  
President and CEO,  
Representative Director

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## Key message

### # Corporate-wide challenge for FY 3/2006

Implementation of the growth strategies, and promotion of management activities toward sustainable growth

### # General overview of 1H FY 3/2006

We kept increasing income by reinforcing the foundation of profitability.

We have revised upward the full-term forecast of net income.

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## Interim results for the 1<sup>st</sup> half of FY 3/2006

### # Summary of performance

- ◆ The Company increased profits (EBITDA, operating income and recurring profit) for five consecutive interim periods.

(JPY billion)

	1H FY 3/2005 Actual results	1H FY 3/2006 Actual results	Change
<b>Sales including taxes</b>	2,369.2	2,346.8	-22.3
<b>Sales excl. taxes</b>	1,017.3	1,008.6	-8.7
<b>EBITDA</b>	202.6	227.6	24.9
<b>Operating income</b>	140.1	165.2	25.0
<b>Recurring profit</b>	137.8	158.3	20.5
<b>Interim net income</b>	75.0	101.0	25.9

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## Interim results for the 1<sup>st</sup> half of FY 3/2006 (by Business Segment)

### # Domestic and International Tobacco Business

- ◆ Domestic tobacco business increased income by overcoming a decrease in profits following termination of the contract on Marlboro with reinforcement of the profitability foundation.
- ◆ International tobacco business maintained strong momentum and increased sales and income. (consolidated January-June 2005 results)

(JPY billion)

	1H FY3/2005 Actual results	1H FY3/2006 Actual results	Change
<b>Domestic tobacco sales excl. tax</b>	618.3	602.3	-16.0
<b>Domestic tobacco EBITDA</b>	150.7	161.0	10.2
<b>Domestic tobacco operating income</b>	111.1	116.6	5.4
<b>International tobacco sales excl. tax</b>	208.3	228.0	19.7
<b>International tobacco EBITDA</b>	34.2	47.6	13.3
<b>International tobacco operating income</b>	24.1	36.7	12.6

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## Interim results for the 1<sup>st</sup> half of FY 3/2006 (by Business Segment)

### # Pharmaceuticals and Foods Business

- ◆ Pharmaceuticals business improved operating balance thanks to one-time revenue from licensing-out.
- ◆ Foods business is stably moving ahead to achieve the initial income goal.

(JPY billion)

	1H FY3/2005 Actual results	1H FY3/2006 Actual results	Change
Pharmaceuticals sales	25.6	25.4	-0.2
Pharmaceuticals EBITDA	-1.0	0.0	1.0
Pharmaceuticals operating income	-2.8	-1.6	1.2
Foods sales	134.8	141.0	6.2
Foods EBITDA	4.4	5.8	1.3
Foods operating income	1.6	3.1	1.5

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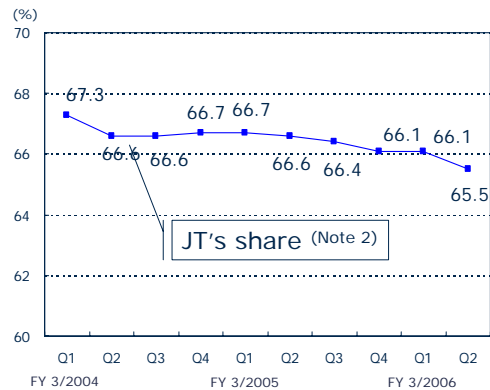
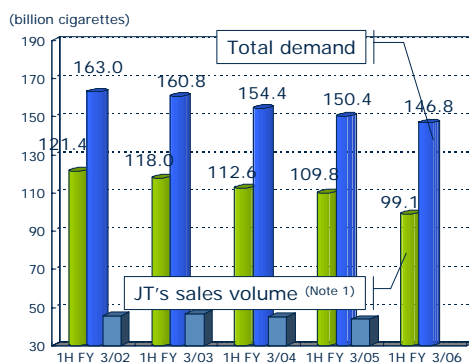
## Full-Term Prospect for This Fiscal Year



### Domestic Tobacco Business

Implementation of growth strategies & further reinforcement of cost competitiveness

■ Under softening total demand, intense competition for market shares

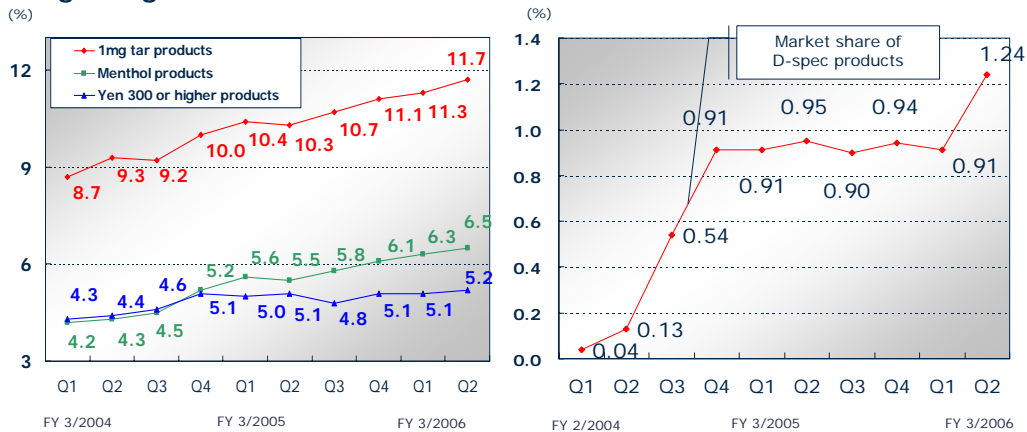


Note 1: JT's sales volume & market share: JT's original brands + international brands for JT's domestic market (CAMEL, Winston, Salem, etc.)  
 Note 2: JT original products + JTI products for the Japan market



## Domestic Tobacco Business

■ The 1-mg tar product segment and D-spec products are steadily gaining the market share.



Note 1: Figures in the chart do not include the share on any markets of China, Hong Kong, Macau and domestic duty-free shops.  
 Note 2: JT's sales volume & market share: JT original products + JTI products for the Japan market (CAMEL, Winston, Salem, etc.)

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## Domestic Tobacco Business

### Measures implemented during the 1<sup>st</sup> half

#### Merchandise strategies

- ◆ Integration of JTI products on Japanese market
- ◆ Launch of new products
  - Test marketing of new 13 brands from July
  - Nationwide launch of 2 D-spec brands from Sept.

#### Sales & distribution strategies

- ◆ Expansion of exposure of JT product on vending machines
- ◆ Utilization of MCTI vending machines

#### Enhancement of cost competitiveness

- ◆ Smooth shift to nationwide 10 plant system

### Following challenges

- ◆ Nationwide sales campaign of Pianissimo Peche Menthol One
- ◆ Further penetration of national brands  
Seven Stars Revo Lights Menthol, Lucia Citrus Fresh Menthol One
- ◆ Establishment of D-spec category

- ◆ Enhancement of VM channel competitiveness
- ◆ Further strengthening relationships with retailers
- ◆ Utilization of database marketing

- ◆ Realization of internationally competitive processing costs

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## Domestic Tobacco Business

### # Full-term forecasts for FY 3/2006

- Compared to results of the previous fiscal year
  - Expecting an income increase overcoming impacts of sales volume decrease due to the termination of the Marlboro license contract
- Compared to the initial forecast
  - Revising downward considering a decline in total demand, intense share competition and leaf tobacco reappraisal loss

	FY 3/2005 Actual	FY 3/2006 Interim forecast	Change	%	FY 3/2006 Initial forecast
Sales volume (billion cigarettes)	213.2	191.0	-22.2	-10.4%	195.0
Sales including taxes (JPY billion)	3,491.4	3,408.0	-83.4	-2.3%	3,447.0
EBITDA (JPY billion)	296.0	310.0	13.9	4.7%	318.0
Operating income (JPY billion)	215.8	224.0	8.1	3.7%	232.0

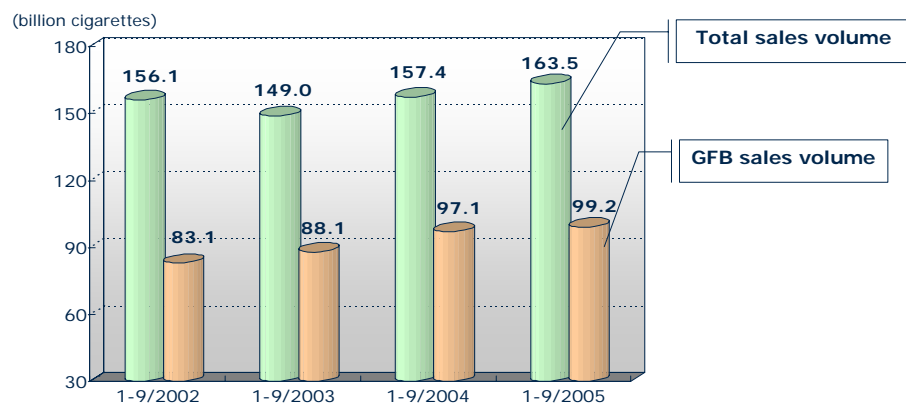
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## International Tobacco Business

Strengthen GFB equity and concentrate on core markets

### # GFB sales volume and total sales volume grow steadily



GFB: Global Flagship Brand (CAMEL, Winston, MILD SEVEN, Salem)

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## International Tobacco Business

### ■ Forecasts for 2005

#### > Compared to results of the previous year

- EBITDA\* is expected to grow more than 20% and maintain double digit growth for five consecutive years.

\*EBITDA before royalty payment to JT

#### > Compared to the initial forecast

- We revised upward our forecast of profits, even though forecasts of sales volume were revised downward due to the tax hike induced sales decrease in the Philippines, etc.

	2004 Actual	2005 Revised	Change	%	2005 Initial
Sales volume (billion cigarettes)	212.4	219.0	6.6	3.1%	222.0
GFB sales volume	131.4	134.0	2.6	2.0%	137.0
Sales including taxes (JPY billion)	792.7	870.0	77.2	9.7%	850.0
EBITDA (JPY billion)	65.4	88.0	22.5	34.5%	79.0
Operating income (JPY billion)	44.4	66.0	21.5	48.6%	57.0
Before royalty payment to JT					
EBITDA (JPY billion)	80.2	102.0	21.7	27.1%	92.0
Yen/US\$ exchange rate (Yen)	108.23	108.00	-0.23		105.00

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## Pharmaceuticals Business & Foods Business

### ■ Pharmaceuticals business

Putting three compounds representing potential world-class drugs in clinical development

	FY 3/2005 Actual	FY 3/2006 Interim forecast	Change	%	(JPY billion) FY 3/2005 Initial forecast
Sales	57.6	47.5	-10.1	-17.5%	47.5
EBITDA	5.4	-5.5	-10.9	-	-5.5
Operating income	1.8	-8.5	-10.3	-	-8.5

### ■ Foods business

Establishing profitable structure & aiming at higher business value

	FY 3/2005 Actual	FY 3/2006 Interim forecast	Change	%	(JPY billion) FY 3/2005 Initial forecast
Sales	265.3	276.0	10.6	4.0%	276.0
EBITDA	7.9	10.5	2.5	32.9%	10.5
Operating income	1.9	5.0	3.0	163.1%	5.0

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## Full-term forecasts for FY 3/2006

### ■ Full-term forecasts for FY 3/2006

- > Compared to results of the previous fiscal year
  - Each of EBITDA, operating income, recurring profit and net income is expected to mark a historical high.
- > Compared to initial forecasts
  - EBITDA and operating income are expected as initially forecasted, and net income has been revised upward.

(JPY billion)

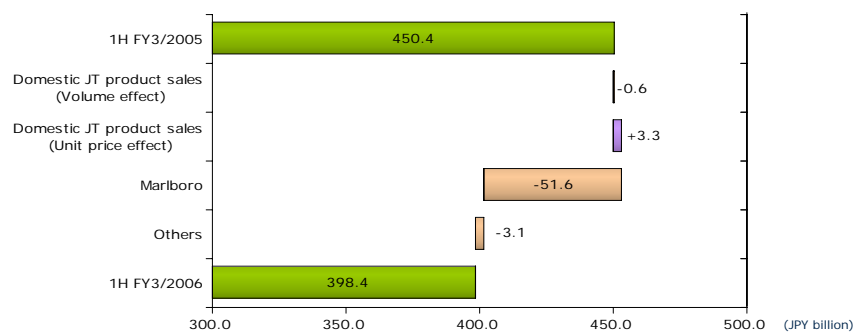
	FY 3/2005 Actual	FY 3/2006 Interim forecast	Change	FY 3/2006 Initial forecast
Sales	4,664.5	4,620.0	-44.5	4,640.0
EBITDA	400.1	424.0	23.8	423.0
Operating income	273.3	298.0	24.6	297.0
Recurring profit	270.2	291.0	20.7	293.0
Net income	62.5	189.0	126.4	180.0
ROE (%)	4.2	11.9	7.7	11.4
FCF	269.4	106.0	-163.4	108.0

**【Reference Material】**  
**Analyses of interim results for the 1<sup>st</sup> half,**  
**and full-term forecasts for FY 3/2006**



**Interim results for the 1<sup>st</sup> half of FY 3/2006**

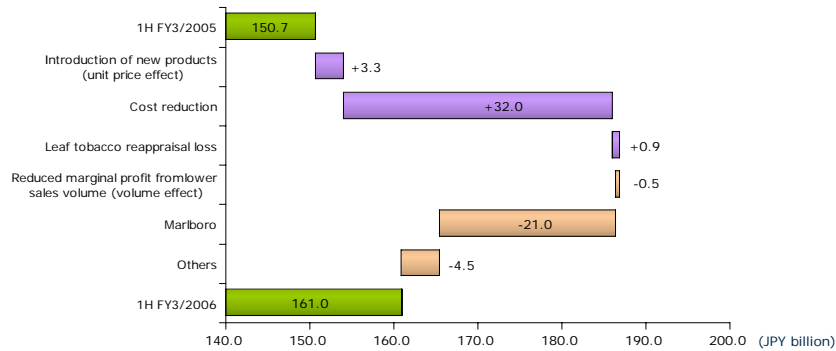
⚡ Domestic Tobacco Business - Net sales excluding tobacco excise tax\*  
 from JPY 450.4 billion to JPY 398.4 billion (down JPY 52.0 billion)  
 \*excluding imported tobacco



⚡ Domestic Tobacco Business – Net sales excluding tobacco excise tax  
 from JPY 618.3 billion to JPY 602.3 billion (down JPY 16.0 billion)

**Interim results for the 1<sup>st</sup> half of FY 3/2006**

**Domestic Tobacco Business – EBITDA**  
from JPY 150.7 billion to JPY 161.0 billion (up JPY 10.2 billion)



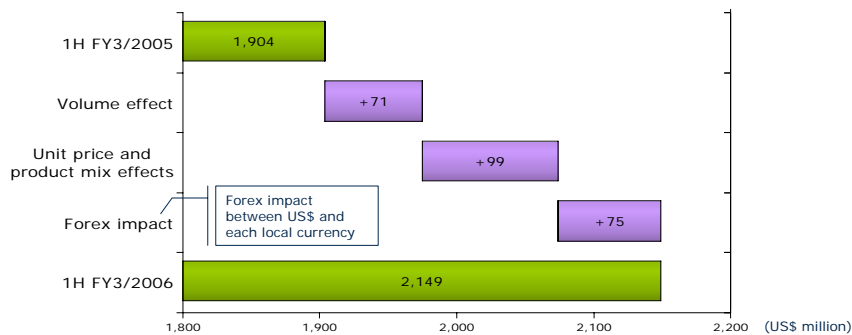
**Domestic Tobacco Business – Operating income**  
from JPY 111.1 billion to JPY 116.6 billion (up JPY 5.4 billion)

- ◆ Depreciation and amortization\*: from JPY 39.5 billion to JPY 44.3 billion (up JPY 4.8 billion)

\*Depreciation and amortization = depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of goodwill

**Interim results for the 1<sup>st</sup> half of FY 3/2006**

**International Tobacco Business – Net sales excluding tobacco excise tax**  
from US\$ 1,904 million to US\$ 2,149 million (up US\$ 245 million)



(Reference) International Tobacco Business – Net sales excluding tobacco excise tax  
from JPY 208.3 billion to 228.0 billion (up JPY 19.7 billion)

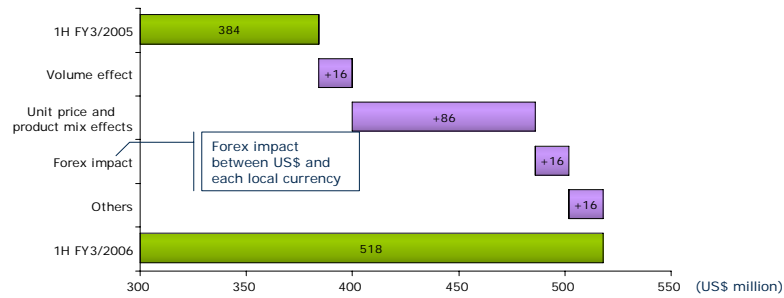
- ◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 108.50 to US\$1=JPY 106.16 (up JPY 2.34)

### Interim results for the 1<sup>st</sup> half of FY 3/2006

#### International Tobacco Business – EBITDA\*1

from US\$ 384 million to US\$ 518 million (up US\$ 134 million)

\*1 Before royalty payment



(Reference) Segment information base

International Tobacco Business – EBITDA: from JPY 34.2 billion to JPY 47.6 billion (up JPY 13.3 billion)

International Tobacco Business – Operating income: from JPY 24.1 billion to JPY 36.7 billion (up JPY 12.6 billion)

◆ Depreciation and amortization\*2: from JPY 10.1 billion to JPY 10.8 billion (up JPY 0.7 billion)

◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 108.50 to US\$1=JPY 106.16 (up JPY 2.34)

\*2 Depreciation and amortization = depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of goodwill

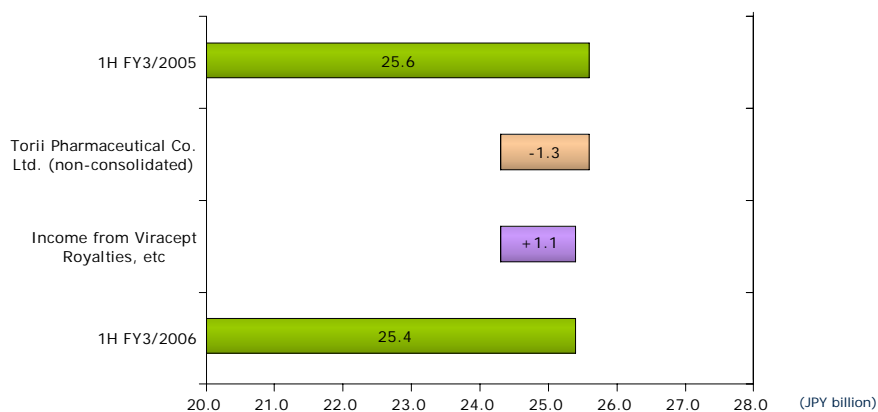
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### Interim results for the 1<sup>st</sup> half of FY 3/2006

#### Pharmaceuticals Business - Net Sales

from JPY 25.6 billion to JPY 25.4 billion (down JPY 0.2 billion)

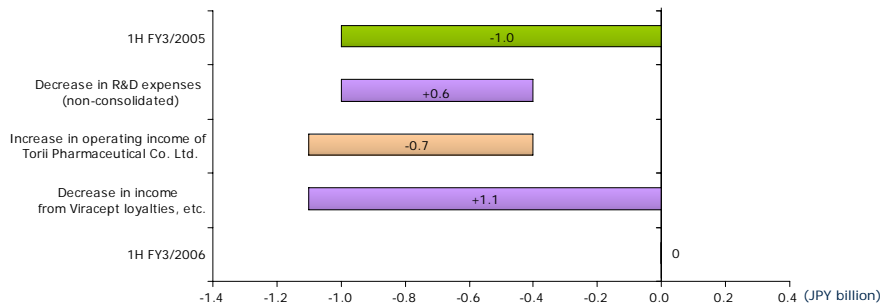


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**Interim results for the 1<sup>st</sup> half of FY 3/2006**

**Pharmaceuticals Business - EBITDA**  
 from JPY -1.0 billion to JPY 0.0 billion (up JPY 1.0 billion)



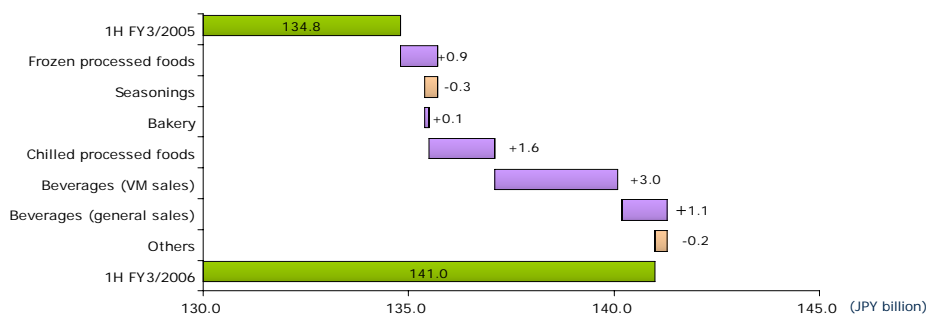
**Pharmaceuticals Business - Operating income**  
 from JPY -2.8 billion to JPY -1.6 billion (up JPY 1.2 billion)

◆ Depreciation and amortization\*: from JPY 1.8 billion to JPY 1.6 billion (down JPY 0.1 billion)

\*Depreciation and amortization = depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of goodwill

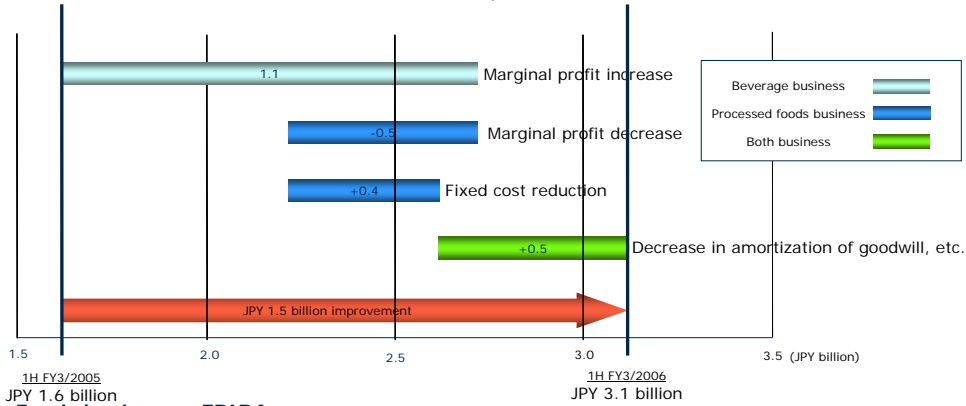
**Interim results for the 1<sup>st</sup> half of FY 3/2006**

**Foods Business – Net Sales**  
 from JPY 134.8 billion to JPY 141.0 billion (up JPY 6.2 billion)



**Interim results for the 1<sup>st</sup> half of FY 3/2006**

**# Foods business – Operating Income**  
 from JPY 1.6 billion to JPY 3.1 billion (up JPY 1.5 billion)



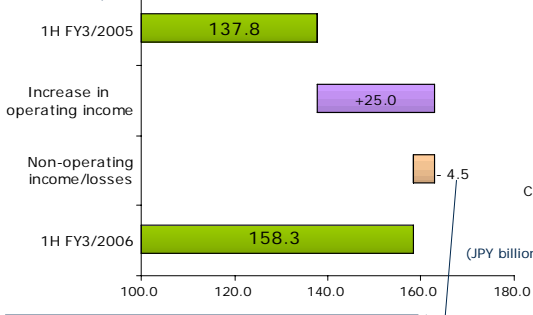
**# Foods business – EBIDA**  
 from JPY 4.4 billion to JPY 5.8 billion (up JPY 1.3 billion)

- ◆ Increase in operating income (JPY 1.5 billion) included the effect of decrease in depreciation and amortization\* (down JPY 0.1 billion)

\* Depreciation and amortization = depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of good will

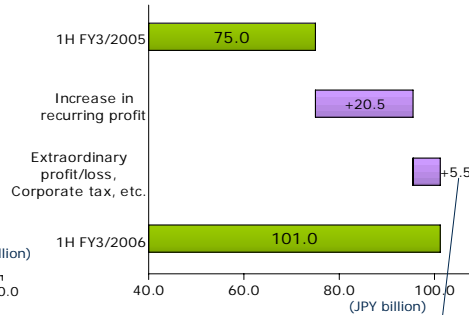
**Interim results for the 1<sup>st</sup> half of FY 3/2006**

**# Recurring profit from JPY 137.8 billion to JPY 158.3 billion (up JPY 20.5 billion)**



Main factors for increase: Increase in interest income (+JPY 0.7 billion), Decrease in financial support for domestic leaf tobacco growers (+JPY 0.3 billion), Increase in dividend income (+JPY 0.1 billion), etc.  
 Main factors for decline: Increase in foreign exchange loss(net) (-JPY 3.8 billion), Increase in periodic mutual assistance association cost (-JPY 0.3 billion), Increase in interest expense (-JPY 0.1 billion), etc.

**# Net income from JPY 75.0 billion to JPY 101.0 billion (up JPY 25.9 billion)**

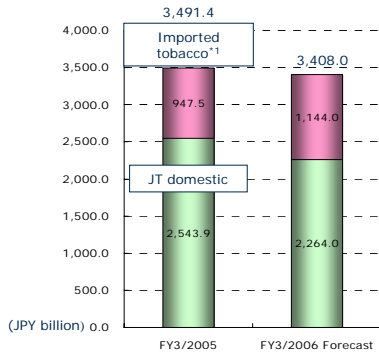


Main factors for increase: Decrease in business restructuring costs (+JPY 59.2 billion), Decrease in loss on disposal of property, plant and equipment (+JPY 2.2 billion), etc.  
 Main factors for decline: Increase in loss on sale of property, plant and equipment (-JPY 23.2 billion), Decrease in gain on sale of property, plant and equipment (-JPY 13.0 billion), etc.

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

- # **Domestic Tobacco Business-Net sales before tobacco excise tax\***  
from JPY 2,543.9 billion to 2,264.0 billion (down JPY 279.9 billion)
- \*excluding imported tobacco
- # **Domestic Tobacco Business – Net sales before tobacco excise tax**  
from JPY 3,491.4 billion to JPY 3,408.0 billion (down JPY 83.4 billion)

\* On consolidated basis, net sales of domestic tobacco business includes imported tobacco sales, which are handled by TS Network, JT's subsidiary.



**【Main factors for increase】**

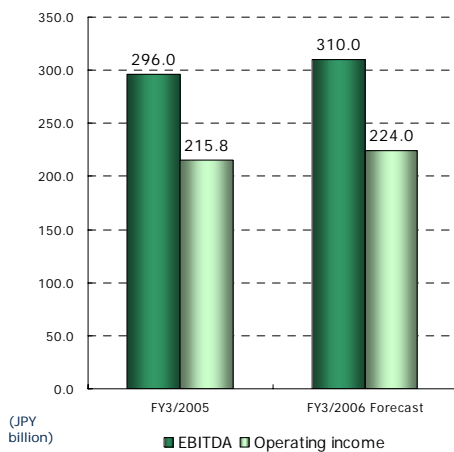
- Increase in imported tobacco (including Marlboro in May and afterwards)  
from JPY 947.5 billion to JPY 1,144.0 billion  
(up JPY 196.4 billion)

**【Main factors for decline】**

- Sales volume decrease  
from 213.2 billion cigarettes to 191.0 billion cigarettes (down 22.2 billion cigarettes)

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

- # **Domestic Tobacco Business – EBITDA**  
from JPY 296.0 billion to JPY 310.0 billion (up JPY 13.9 billion)



**【Main factors for increase】**

- Increase in JT sales volume\* (+ 1.6 billion cigarettes, + JPY 4.5 billion)
- \* JT original products + JTI products for the Japan market from May 2005
- Cost savings (approx. + JPY 57.0 billion)
- Improvement of leaf tobacco reappraisal loss (approx. + JPY 7.1 billion)
- Unit price increase

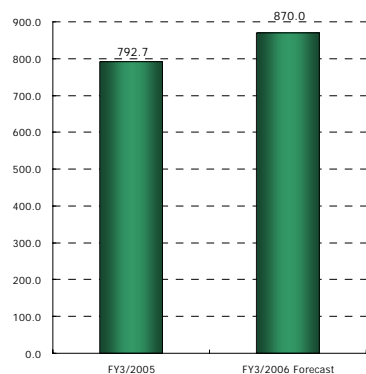
**【Main factors for decline】**

- Decrease in Marlboro sales volume  
(– 23.8 billion cigarettes, approx. – JPY 48.0 billion)
- Increase in sales promotion expenses
- Others

- # **Domestic Tobacco Business – Operating income**  
from JPY 215.8 billion to JPY 224.0 billion (up JPY 8.1 billion)

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

International Tobacco Business – Net sales before tobacco excise tax from JPY 792.7 billion to JPY 870.0 billion (up JPY 77.2 billion)



- 【Main factors for increase】**
- Unit price and product mix effects
  - Tobacco excise tax increase
  - Sales volume increase

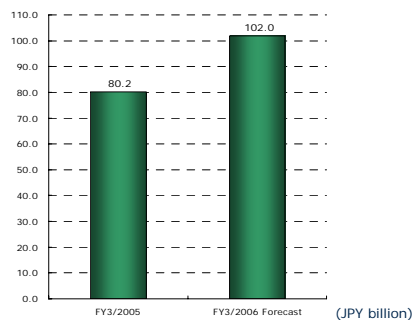
(Reference)

◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 108.23 to US\$1=JPY 108.00 (up JPY 0.23)

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

International Tobacco Business – EBITDA\* from JPY 80.2 billion to JPY 102.0 billion (up JPY 21.7 billion)

\* Before royalty payment



- 【 Main factors for increase】**
- Unit price and product mix effects
  - Sales volume increase

(Reference) Segment information base

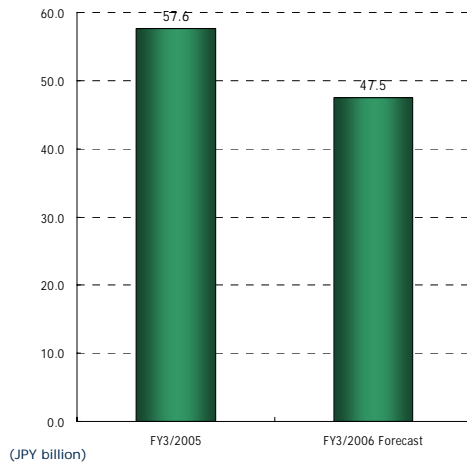
International Tobacco Business – EBITDA: from JPY 65.4 billion to JPY 88.0 billion (up JPY 22.5 billion)

International Tobacco Business – Operating income: from JPY 44.4 billion to JPY 66.0 billion (up JPY 21.5 billion)

◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 108.23 to US\$1=JPY 108.00 (up JPY 0.23)

Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year

■ Pharmaceuticals Business – Net sales  
from JPY 57.6 billion to JPY 47.5 billion (down JPY 10.1 billion)



【Main factors for increase】

- FY3/2006: One-time revenue from licensing-out of JTK-303 (+US\$ 15 million)

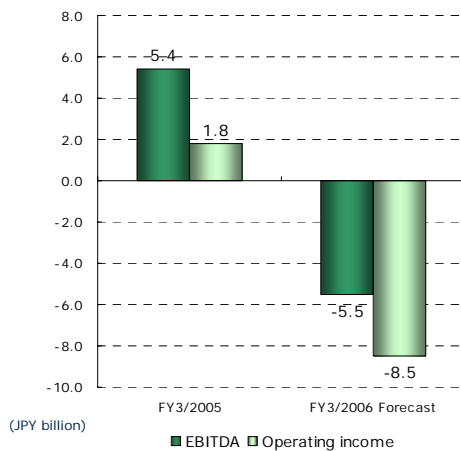
【Main factors for decrease】

- FY3/2005: One-time revenue from licensing-out of JTT-705
- Decrease in Viracept royalty
- Decrease in Torii Pharmaceutical sales (from JPY 41.9 billion to JPY 40.6 billion, down JPY 1.3 billion)

Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year

■ Pharmaceuticals Business – EBITDA  
from JPY 5.4 billion to - JPY 5.5 billion (down JPY 10.9 billion)

■ Pharmaceuticals Business – Operating income  
from JPY 1.8 billion to - JPY 8.5 billion (down JPY 10.3 billion)



【Main factors for increase】

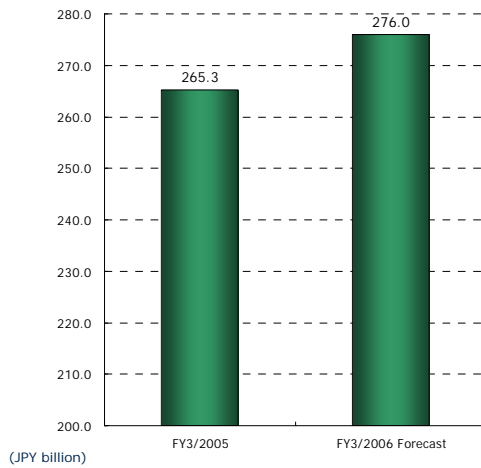
- FY3/2006: One-time revenue from licensing-out of JTK-303 (+US\$ 15 million)

【Main factors for decline】

- FY3/2005: One-time revenue from licensing-out of JTT-705
- Decrease in Viracept royalty
- Decrease in Torii Pharmaceutical operating income (from JPY 8.4 billion to JPY 7.2 billion, down JPY 1.2 billion)

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

**# Foods Business – Net sales**  
**from JPY 265.3 billion to JPY 276.0 billion (up JPY 10.6 billion)**



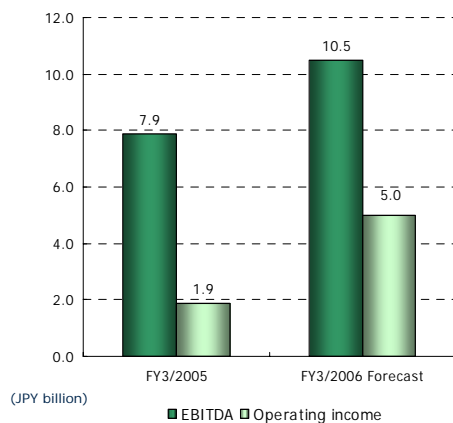
**【Main factors for increase】**

- Increase in processed foods sales
- Increase in beverage sales through vending machine channels

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

**# Foods Business – EBITDA**  
**from JPY 7.9 billion to JPY 10.5 billion (up JPY 2.5 billion)**

**# Foods Business – Operating income**  
**from JPY 1.9 billion to JPY 5.0 billion (up JPY 3.0 billion)**

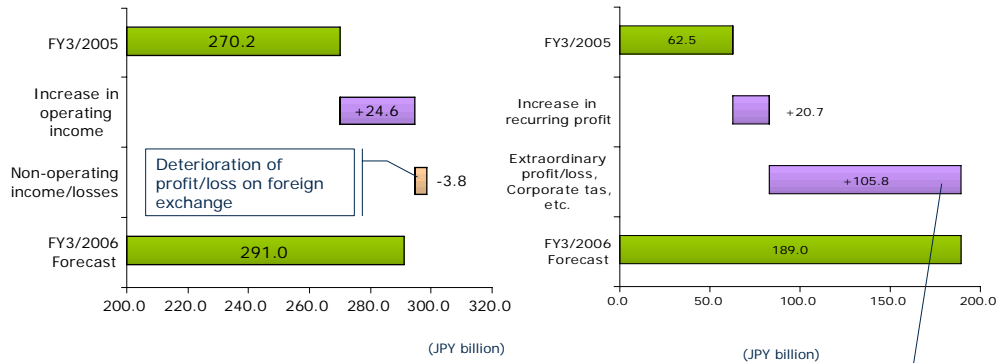


**【Main factors for increase】**

- Increased marginal profit due to business scale growth
- Cost savings and efficiency enhancement across business

**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

**■ Recurring profit from JPY 270.2 billion to JPY 291.0 billion (up JPY 20.7 billion)**    **■ Net income from JPY 62.5 billion to JPY 189.0 billion (up JPY 126.4 billion)**



Main factors for increase: FY3/2005: Business restructuring cost (+JPY 224.8 billion), FY3/2005: One-time termination fee to domestic leaf tobacco growers (+JPY 4.2 billion)  
 Main factors for decline: Deterioration of profit/loss on disposal of property, plant and equipment

## 1. Breakdown of net sales

(unit: JPY billion)

	6 months ended Sep 2004	6 months ended Sep 2005	Change
Net sales including excise tax	2,369.2	2,346.8	-22.3
Domestic tobacco	1,794.7	1,751.1	-43.6
Excluding imported tobacco	1,310.4	1,174.6	-135.8
International tobacco	383.9	417.6	33.6
Net sales excluding excise tax (Excluding imported tobacco)	849.4	804.6	-44.7
Domestic tobacco	450.4	398.4	-52.0
International tobacco	208.3	228.0	19.7
Pharmaceuticals	25.6	25.4	-0.2
Foods	134.8	141.0	6.2
Beverages	92.2	96.4	4.1
Processed foods	42.5	44.6	2.1
Others	30.0	11.6	-18.4

\* International tobacco business is consolidated for 6 months ended June.

## 2. Leaf tobacco reappraisal profit / loss\*

(unit: JPY billion)

	6 months ended Sep 2004	6 months ended Sep 2005	Change
Leaf tobacco reappraisal profit / loss	2.3	1.3	-0.9

\* Profit when denoted negative

## 3. Breakdown of SG&amp;A expenses

(unit: JPY billion)

	6 months ended Sep 2004	6 months ended Sep 2005	Change
SG&A	340.8	298.3	-42.4
Personnel <sup>1</sup>	93.0	76.6	-16.4
Advertising and general publicity	14.5	11.6	-2.8
Sales promotion	68.9	72.0	3.1
R&D	20.4	18.3	-2.0
Depreciation and amortization	26.9	26.5	-0.4
Others <sup>2</sup>	116.9	93.1	-23.8

<sup>1</sup> Personnel expense is the sum of compensation, salaries, allowances, provision for retirement benefit, legal welfare, employee bonuses and accrual of employee bonuses<sup>2</sup> Others include Marlboro license related expenses which accounted for JPY 5.7 billion for 6 months ended Sep 30, 2005 and JPY 23.7 billion for 6 months ended Sep 30, 2004, respectively.4. EBITDA by business segment<sup>1</sup>

(unit: JPY billion)

	6 months ended Sep 2004	6 months ended Sep 2005	Change
Consolidated EBITDA	202.6	227.6	24.9
Operating income	140.1	165.2	25.0
Depreciation and amortization <sup>2</sup>	62.5	62.3	-0.1
Portion of goodwill amortization	0.4	0.7	0.3
Domestic tobacco EBITDA	150.7	161.0	10.2
Operating income	111.1	116.6	5.4
Depreciation and amortization <sup>2</sup>	39.5	44.3	4.8
Portion of goodwill amortization	0.0	0.5	0.5
International tobacco EBITDA	34.2	47.6	13.3
Operating income	24.1	36.7	12.6
Depreciation and amortization <sup>2</sup>	10.1	10.8	0.7
Pharmaceuticals EBITDA	(1.0)	0.0	1.0
Operating income	(2.8)	(1.6)	1.2
Depreciation and amortization <sup>2</sup>	1.8	1.6	-0.1
Foods EBITDA	4.4	5.8	1.3
Operating income	1.6	3.1	1.5
Depreciation and amortization <sup>2</sup>	2.8	2.7	-0.1
Portion of goodwill amortization	0.4	0.2	-0.1
Others EBITDA	14.3	11.0	-3.3
Operating income	5.9	4.0	-1.9
Depreciation and amortization <sup>2</sup>	8.3	6.9	-1.3
Portion of goodwill amortization	0.0	-	-0.0

(Reference) (unit: US\$ million)

International tobacco EBITDA (Before royalty payment)	384	518	134
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<sup>1</sup> EBITDA=operating income + depreciation and amortization<sup>2</sup><sup>2</sup> Depreciation and amortization = depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of goodwill

\* International tobacco business is consolidated for 6 months ended June.

## 5. Amortization relating to major acquisitions

(unit: JPY billion)

	6 months ended Sep 2004	6 months ended Sep 2005	Years to amortize	Finish date
JT International	16.6	17.2	-	-
Trademark rights (owned by JT)	14.6	14.6	10	Apr-09
Patents (owned by JT)	1.9	1.9	8	Apr-07
Goodwill*	-	0.5	20	Mar-25
former Asahi Chemical Food Group	0.0	0.0	-	-
Trademark rights	0.0	0.0	10	Jun-09
Patents	0.0	0.0	8	Jun-07
Japan Beverage	0.4	0.1	5	Mar-07
Goodwill	0.4	0.1	5	Mar-07

\* Effective from the fiscal year ended March 31, 2002, amortization of goodwill of JT International ceased due to the adoption of a new accounting pronouncement by JT International. Since then, the goodwill is subject to being tested for impairment annually. From the fiscal year ending March 31, 2006, amortization of a part of this goodwill allocated to the domestic tobacco business started over 20 years.

## 6. Capital expenditure

(unit: JPY billion)

	6 months ended Sep 2004	6 months ended Sep 2005	Change
Capital expenditures	40.8	49.4	8.5
Domestic tobacco	22.3	55.0	32.7
International tobacco	7.8	10.8	2.9
Pharmaceuticals	0.9	0.9	-0.0
Foods	3.9	2.0	-1.8
Others	6.1	6.9	0.8

## 7. Cash and cash equivalents\*

(unit: JPY billion)

	As of end of March 2005	As of end of Sep 2005	Change
Cash and cash equivalents	863.6	904.2	40.5

\* Cash and cash equivalents = cash and deposits + marketable securities + commercial paper received under repurchase agreements

## 8. Interest-bearing debt\*

(unit: JPY billion)

	As of end of March 2005	As of end of Sep 2005	Change
Interest-bearing debt	230.7	226.8	-3.8

\* Interest-bearing debt = short-term bank loans + bonds + long-term debt

## 9. Business data

	6 months ended Sep 2004	6 months ended Sep 2005	Change
<Domestic tobacco business>			
JT sales volume* (billion cigarettes)	109.8	99.1	-10.7
Industry volume (billion cigarettes)	150.4	146.8	-3.6
JT Market share	73.0%	67.5%	-5.5%pt
JT net sales before tax per 1,000 cigarettes (JPY)	11,755	11,684	-71
JT net sales after tax per 1,000 cigarettes (JPY)	3,941	3,874	-67

\* Sales volume of domestic duty-free and China division is excluded, which was 1.6 billion for 6 months ended Sep 30, 2005 and 3.0 billion for 6 months ended Sep 30, 2004, respectively.

	6 months ended June 2004	6 months ended June 2005	Change
<International tobacco business>			
Total sales volume (billion cigarettes)	101.5	104.6	3.1
GFB sales volume (billion cigarettes)	62.7	64.4	1.6
JPY/USD rate for consolidation (JPY)	108.50	106.16	-2.34

	6 months ended Sep 2004	6 months ended Sep 2005	Change
<Pharmaceuticals business>			
Royalty revenue of Viracept (USD million)	29	25	-3
R&D expenses (parent company) (JPY billion)	10.1	9.4	-0.6

	As of end of March 2005	As of end of Sep 2005	Change
<Foods business - Beverage business>			
Number of beverage vending machines *	226,000	234,500	8,500
JT-owned	44,500	42,500	-2,000
Combined	54,000	59,500	5,500

\* "Beverage vending machines" include vending machines for cans and packs, etc. and for cups owned by other companies and operated by our subsidiary. "JT-owned" vending machines are owned by JT. "Combined" vending machines are owned by our subsidiaries or affiliates, and focus on selling JT brand beverages but also sell non-JT brand beverages.

## 10. Number of employees\*

	As of end of March 2005	As of end of Sep 2005	Change
Number of employees (consolidated basis)	32,640	32,200	-440
Domestic tobacco	Tobacco	12,460	n.a.
International tobacco	24,350	11,810	n.a.
Pharmaceuticals	1,566	1,585	19
Foods	5,357	5,303	-54
Other businesses	706	677	-29
Corporate	661	365	-296
Number of employees (parent company)	10,124	9,632	-492
Number of employees based on enrollment (parent company)	11,300	10,824	-476

\* Number of employees is counted at working base, unless otherwise indicated.

## 1. Consolidated financial outlook for fiscal year ending March 31, 2006 compared to the forecast as of April 2005

(JPY billion)

	Initial forecast	Revised forecast	Change
Net sales including excise tax	4,640.0	4,620.0	-20.0
Excluding imported tobacco	3,506.0	3,476.0	-30.0
EBITDA	423.0	424.0	1.0
Operating income	297.0	298.0	1.0
Recurring profit	293.0	291.0	-2.0
Net income	180.0	189.0	9.0
Return on Equity	11.4%	11.9%	0.5%pt
Free Cash Flow*	108.0	106.0	-2.0

\*Free Cash Flow is cash flow from operating activities plus cash flow from investing activities less the items below:

<From cash flow from operating activities>  
 - Interest received, dividend received and tax implication by deducting the items (assumption of corporate tax rate: 42%)  
 - Interest paid and the tax implication by deducting the item (assumption of corporate tax rate: 42%)

<From cash flow from investing activities>  
 - Purchases of and proceeds from sale of marketable securities  
 - Purchases of and proceeds from sale of investment securities and others

FCF calculated according to the above adjustment may not be equal to FCF shown on the above table. The difference comes from purchases of and proceeds from sale of business investment securities which are included in investment securities on the Cash flow statement but excluded from the adjustment above.

(JPY billion)

	Initial forecast	Revised forecast	Change
Capital expenditures	109.0	107.0	-2.0
Domestic tobacco	Tobacco	81.0	n.a.
International tobacco	82.0	26.0	n.a.
Pharmaceuticals	2.0	2.0	0.0
Foods	5.0	5.0	0.0
Other businesses	20.0	20.0	0.0

## Consolidated financial outlook by business segment (JPY billion)

	Initial forecast	Revised forecast	Change
Net sales including excise tax	4,640.0	4,620.0	-20.0
Domestic tobacco	3,447.0	3,408.0	-39.0
Excluding imported tobacco	2,313.0	2,264.0	-49.0
International tobacco	850.0	870.0	20.0
Pharmaceuticals	47.5	47.5	0.0
Foods	276.0	276.0	0.0
EBITDA	423.0	424.0	1.0
Domestic tobacco	318.0	310.0	-8.0
International tobacco	79.0	88.0	9.0
Pharmaceuticals	-5.5	-5.5	0.0
Foods	10.5	10.5	0.0
Operating income	297.0	298.0	1.0
Domestic tobacco	232.0	224.0	-8.0
International tobacco	57.0	66.0	9.0
Pharmaceuticals	-8.5	-8.5	0.0
Foods	5.0	5.0	0.0

&lt;Reference&gt;

## Financial outlook of parent company (JPY billion)

	Initial forecast	Revised forecast	Change
Net sales including excise tax	2,430.0	2,380.0	-50.0
Recurring profit	201.0	202.0	1.0
Net income	119.0	132.0	13.0

(JPY)

	Initial forecast	Revised forecast	Change
Dividend per share	14,000	14,000	0

## Major assumptions

## (1) Domestic tobacco business (billions of cigarettes)

	Initial forecast	Revised forecast	Change
Sales volume	195.0	191.0	-4.0

Excludes sales of domestic duty-free and China division

## (2) International tobacco business (billions of cigarettes, USD million, JPY)

	Initial forecast	Revised forecast	Change
Total sales volume	222.0	219.0	-3.0
GFB sales volume	137.0	134.0	-3.0
JPY/USD rate	105.00	108.00	3.00

## 2. Consolidated financial outlook for fiscal year ending March 31, 2006 compared to the results of previous fiscal year

(JPY billion)

	FY 2005/03	Revised forecast	Change
Net sales including excise tax	4,664.5	4,620.0	-44.5
Excluding imported tobacco	3,716.9	3,476.0	-240.9
EBITDA	400.1	424.0	23.8
Operating income	273.3	298.0	24.6
Recurring profit	270.2	291.0	20.7
Net income	62.5	189.0	126.4
Return on Equity	4.2%	11.9%	7.7%pt
Free Cash Flow*	269.4	106.0	-163.4

\*Free Cash Flow is cash flow from operating activities plus cash flow from investing activities less the items below:

<From cash flow from operating activities>  
 - Interest received, dividend received and tax implication by deducting the items (assumption of corporate tax rate: 42%)  
 - Interest paid and the tax implication by deducting the item (assumption of corporate tax rate: 42%)

<From cash flow from investing activities>  
 - Purchases of and proceeds from sale of marketable securities  
 - Purchases of and proceeds from sale of investment securities and others

FCF calculated according to the above adjustment may not be equal to FCF shown on the above table. The difference comes from purchases of and proceeds from sale of business investment securities which are included in investment securities on the Cash flow statement but excluded from the adjustment above.

(JPY billion)

	FY 2005/03	Revised forecast	Change
Capital expenditures	85.1	107.0	21.8
Domestic tobacco	Tobacco	81.0	n.a.
International tobacco	65.2	26.0	n.a.
Pharmaceuticals	3.1	2.0	-1.1
Foods	7.3	5.0	-2.3
Other businesses	10.6	20.0	9.3

## Consolidated financial outlook by business segment (JPY billion)

	FY 2005/03	Revised forecast	Change
Net sales including excise tax	4,664.5	4,620.0	-44.5
Domestic tobacco	3,491.4	3,408.0	-83.4
Excluding imported tobacco	2,543.9	2,264.0	-279.9
International tobacco	792.7	870.0	77.2
Pharmaceuticals	57.6	47.5	-10.1
Foods	265.3	276.0	10.6
EBITDA	400.1	424.0	23.8
Domestic tobacco	296.0	310.0	13.9
International tobacco	65.4	88.0	22.5
Pharmaceuticals	5.4	-5.5	-10.9
Foods	7.9	10.5	2.5
Operating income	273.3	298.0	24.6
Domestic tobacco	215.8	224.0	8.1
International tobacco	44.4	66.0	21.5
Pharmaceuticals	1.8	-8.5	-10.3
Foods	1.9	5.0	3.0

&lt;Reference&gt;

## Financial outlook of parent company (JPY billion)

	FY 2005/03	Revised forecast	Change
Net sales including excise tax	2,685.9	2,380.0	-305.9
Recurring profit	194.1	202.0	7.8
Net income	27.0	132.0	104.9

(JPY)

	FY 2005/03	Revised forecast	Change
Dividend per share	13,000	14,000	1,000

## Major assumptions

## (1) Domestic tobacco business (billions of cigarettes)

	FY 2005/03	Revised forecast	Change
Sales volume	213.2	191.0	-22.2

Excludes sales of domestic duty-free and China division

## (2) International tobacco business (billions of cigarettes, USD million, JPY)

	2004	Revised forecast	Change
Total sales volume	212.4	219.0	6.6
GFB sales volume	131.4	134.0	2.6
JPY/USD rate	108.23	108.00	-0.23

# Data in Domestic Tobacco Business

(Data Sheets)

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

\* **Original measurement Basis** = JT original products + Marlboro cigarettes (until April 2005) + JTI products for the Japan market from May 2005 onward

\* **New measurement Basis** = JT original products + JTI products for the Japan market

## Domestic Tobacco Business Results

### 1. Quarterly Sales Volume (billions of cigarettes)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	65.6	47.0	56.4	49.2	218.3
FY2005	54.2	55.6	55.6	47.7	213.2
FY2006	50.5	48.5			

\* The above mentioned figures include sales of Marlboro cigarettes in April 2005 and JTI products (Camel, Winston, Salem etc.) for the domestic market from May 2005 onward.

### 2. Quarterly Retail Price Sales (billions of JPY)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	836.1	648.2	777.5	678.9	2,940.9
FY2005	748.0	767.0	767.5	658.9	2,941.6
FY2006	694.7	664.2			

\* Retail price sales = sales volume \* fixed retail price.

\* The above mentioned figures include sales of Marlboro cigarettes in April 2005 and JTI products (Camel, Winston, Salem etc.) for the domestic market from May 2005 onward.

### 3. Quarterly Net Sales Per Thousand Cigarettes (JPY)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	10,856	11,732	11,746	11,759	11,478
FY2005	11,754	11,755	11,752	11,765	11,756
FY2006	11,715	11,653			

\* Net sales per thousand cigarettes

= (retail price sales - retailer margins - consumption tax) / sales volume \* 1,000

### 4. Quarterly Net Sales Excluding Excise Tax

#### Per Thousand Cigarettes (JPY)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	3,850	3,923	3,934	3,943	3,908
FY2005	3,940	3,942	3,937	3,946	3,941
FY2006	3,901	3,845			
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	3,758	3,825	3,840	3,845	3,813
FY2005	3,844	3,844	3,840	3,845	3,843
FY2006	3,845	3,846			

\* Net sales excluding excise tax per thousand cigarettes

= (retail price sales - retailer margins - consumption tax - excise taxes) / sales volume \* 1,000

### 5. Quarterly JT Market Share (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	73.0	72.9	72.7	73.1	72.9
FY2005	73.0	73.0	72.7	72.7	72.9
FY2006	69.6	65.4			
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	67.3	66.6	66.6	66.7	66.8
FY2005	66.7	66.6	66.4	66.1	66.5
FY2006	66.1	65.5			

## Market Share in Growing Segments

### 1. 1mg Tar

#### (1) JT 1mg Tar Product Share (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	6.6	7.3	7.3	7.9	7.2
FY2005	8.3	8.2	8.6	8.9	8.5
FY2006	10.6	11.7			
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	8.7	9.3	9.2	10.0	9.1
FY2005	10.4	10.3	10.7	11.1	10.6
FY2006	11.3	11.7			

#### (2) JT Share in 1mg Tar Segment (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
FY2004	43.0	45.8	45.6	47.6
FY2005	47.5	46.9	47.3	47.5
FY2006	55.7	60.4		
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
FY2004	56.5	58.6	57.6	60.2
FY2005	59.6	58.6	59.0	59.4
FY2006	59.7	60.4		

### 2. Menthol

#### (1) JT Menthol Product Share (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	7.0	7.5	7.6	8.4	7.6
FY2005	8.6	8.6	9.0	9.3	8.9
FY2006	8.1	6.5			
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	4.2	4.3	4.5	5.2	4.5
FY2005	5.6	5.5	5.8	6.1	5.7
FY2006	6.3	6.5			

#### (2) JT Share in Menthol Segment (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
FY2004	49.5	49.9	49.4	52.4
FY2005	51.7	51.1	52.0	52.5
FY2006	45.1	34.4		
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
FY2004	29.4	28.9	29.5	32.3
FY2005	33.2	32.4	33.8	34.4
FY2006	34.7	34.4		

### 3. JPY 300 or above

#### (1) JT JPY 300 or above Product Share (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	10.5	11.1	11.2	11.8	11.1
FY2005	11.7	11.8	11.5	12.1	11.8
FY2006	8.8	5.1			
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	4.3	4.4	4.6	5.1	4.5
FY2005	5.0	5.1	4.8	5.1	5.0
FY2006	5.1	5.2			

#### (2) JT Share in JPY 300 or above Segment (%)

Original Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
FY2004	51.1	52.5	52.8	54.2
FY2005	53.9	53.8	52.8	53.6
FY2006	39.1	22.2		
New Basis	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
FY2004	21.2	20.8	21.5	23.2
FY2005	23.2	23.0	22.2	22.8
FY2006	22.6	22.3		

### 4. Quarterly D-spec Product Share (%)

	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Total
FY2004	0.04	0.13	0.54	0.91	0.38
FY2005	0.91	0.95	0.90	0.94	0.93
FY2006	0.91	1.24			

Japan Tobacco Inc. Clinical development (as of October 31, 2005)

Code	Stage	Indication	Mechanism	Characteristics	Development	Rights
JTT-705 (oral)	Phase1(JPN)	Dyslipidemia	CETP inhibitor	Decreases LDL and increases HDL by inhibition of CETP -CETP:Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL -HDL:High density lipoprotein, Good Cholesterol -LDL:Low density lipoprotein, Bad Cholesterol	Developed by JT	A license agreement was signed with Roche (Switzerland) for development and commercialization of this compound worldwide except Japan and Korea. (October 2004)
JTT-130 (oral)	Phase2(JPN) Phase1(Overseas)	Hyperlipidemia	MTP inhibitor	Treatment of hyperlipidemia by reducing absorption of cholesterol and triglyceride via inhibition of MTP MTP:Microsomal Triglyceride Transfer Protein	Developed by JT Developed by JT	
JTK-303 (oral)	Phase1(JPN)	Anti-HIV	Integrase inhibitor	Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV (HIV:Human Immunodeficiency Virus)	Developed by JT	A license agreement was signed with Gilead (US) for development and commercialization of this compound worldwide except Japan . (March 2005)
JTT-302 (oral)	Phase1(Overseas)	Dyslipidemia	CETP inhibitor	Decreases LDL and increases HDL by inhibition of CETP -CETP:Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL -HDL:High density lipoprotein, Good Cholesterol -LDL:Low density lipoprotein, Bad Cholesterol	Developed by JT	
JTT-305 (oral)	Phase1(JPN)	Osteoporosis	CaSR antagonist	Increases BMD and decreases new vertebral fractures by accelerating endogenous PTH secretion via antagonism of circulating Ca on CaSR in parathyroid cells -BMD: Bone Mineral Density -PTH: Parathyroid Hormone -CaSR: Calcium-Sensing Receptor	Developed by JT	

Changes from the previous announcement on August 1, 2005:

Development of JTE-607 was terminated.