

## Consolidated Financial and Business Results for Q3 FY 3/2006



Japan Tobacco Inc.

### Caution concerning forward-looking statements

#### 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, 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.

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

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

## ■ General overview of Q3 FY 3/2006

We will certainly accomplish our "JT PLAN-V" management goal, and expect full-term earnings to reach historical highs

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## Business results for Q3 FY 3/2006

### ■ Summary of performance

- ◆ Maintaining an upward trend in income

(unit: JPY billion)

	Q3 FY 3/2005 Actual results	Q3 FY 3/2006 Actual results	Change
Sales including taxes	3,596.4	3,550.3	-46.0
Sales excl. taxes	1,548.0	1,531.5	-16.4
EBITDA	324.7	345.7	20.9
Operating income	230.3	251.8	21.4
Recurring profit	227.4	243.5	16.1
Quarterly net income	131.4	164.0	32.6

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## Business results for Q3 FY 3/2006 (by business segment)

### ■ Domestic and International Tobacco Businesses

- ◆ The Domestic Tobacco segment increased income by reinforcing the fundamentals of our profitability, after overcoming decreased profits following the termination of a contract with Marlboro and a decline in total demand.
- ◆ International Tobacco maintained strong momentum and increased both sales and income (consolidated January-September 2005 results).

(unit: JPY billion)

	Q3 FY 3/2005 Actual results	Q3 FY 3/2006 Actual results	Change
Domestic tobacco sales, excl. tax	932.9	906.7	-26.2
Domestic tobacco EBITDA	232.1	241.4	9.2
Domestic tobacco operating income	172.6	176.7	4.0
International tobacco sales, excl. tax	321.5	355.8	34.2
International tobacco EBITDA	58.6	76.1	17.5
International tobacco operating income	43.0	59.6	16.6

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## Business results for Q3 FY 3/2006 (by business segment)

### ■ Pharmaceutical business and foods business

- ◆ Pharmaceutical business segment booked a lump-sum revenue from licensing of JTT-705 in Q3 of last FY.
- ◆ Our Foods segment is stable and moving forward, on track in achieving its initial income goal.

(unit: JPY billion)

	Q3 FY 3/2005 Actual results	Q3 FY 3/2006 Actual results	Change
Pharmaceuticals sales	47.4	38.8	-8.5
Pharmaceuticals EBITDA	7.2	-0.2	-7.4
Pharmaceuticals operating income	4.5	-2.6	-7.2
Foods sales	202.5	212.7	10.1
Foods EBITDA	6.6	9.6	3.0
Foods operating income	2.2	5.4	3.2

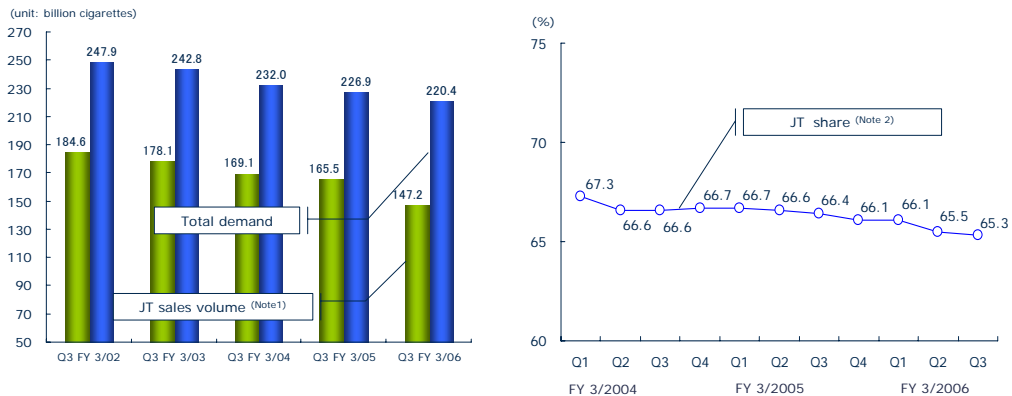
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## Outlook for this fiscal year (Domestic Tobacco Business)

Implementation of growth strategies & further reinforcement of cost competitiveness

### Despite softening total demand, our total market share remains level



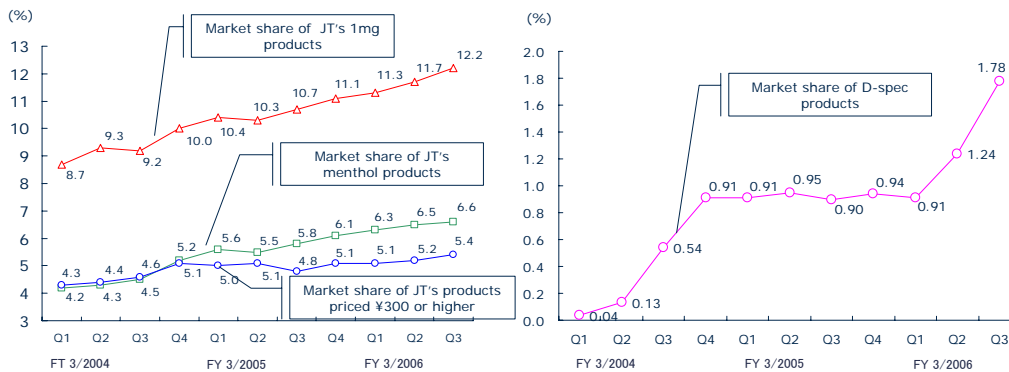
(Note 1): JT original brands + Marlboro to end of Apr. 2005 + JT brands for the Japanese market from May 2005 (CAMEL, Winston and Salem, etc.)  
 (Note 2): JT original brands + JT brands for the Japanese market from May 2005 (CAMEL, Winston and Salem, etc.)

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## Outlook for this fiscal year (Domestic Tobacco Business)

### Growth segment and D-spec products are steadily gaining in market share.



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

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## Outlook for this fiscal year (Domestic Tobacco Business)

### ■ Measures to be taken from now on

#### ◆ Merchandise strategies

- Nationwide sales campaign for Seven Stars Revo Super Lights
- Further penetration of national brands ※  
※D-spec products, including Seven Stars and the Pianissimo family of products
- Establishment of the D-spec product category



#### ◆ Sales and distribution strategies

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



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## Outlook for this fiscal year (Domestic Tobacco Business)

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

- Compared to results of the previous fiscal year
  - Expecting no change in income while overcoming the impacts of decreased sales volume due to the termination of the Marlboro license contract and a decline in total demand
- Compared to our interim forecast
  - Revised downward after considering a decline in total demand, intense share competition, and leaf tobacco reappraisal loss

	FY 3/2005 Actual	FY 3/2006 Q3 Forecast	Change	FY 3/2006 Interim forecast
Sales volume (billion cigarettes)	213.2	189.0	-24.2	191.0
Sales including taxes (JPY billion)	3,491.4	3,403.0	-88.4	3,408.0
EBITDA (JPY billion)	296.0	302.0	5.9	310.0
Operating income (JPY billion)	215.8	216.0	0.1	224.0

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## Outlook for this fiscal year (International Tobacco Business)

Strengthen GFB equity and concentrate on core markets

	2004 Actual	2005 Actual	Change	%	2005 Interim forecast
Volume (billion cigarettes)	212.4	220.3	7.9	3.7%	219.0
GFB volume	131.4	133.8	2.4	1.8%	134.0
	2004 Actual	2005 Forecast	Change	%	2005 Interim forecast
Sales including taxes (JPY billion)	792.7	880.0	87.2	11.0%	870.0
EBITDA (JPY billion)	65.4	94.0	28.5	43.5%	88.0
Operating income (JPY billion)	44.4	71.0	26.5	59.7%	66.0
Before royalty payment to JT					
EBITDA (JPY billion)	80.2	107.0	26.7	33.4%	102.0
Yen/US\$ exchange rate (JPY)	108.23	110.26	2.03		108.00

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## Outlook for this fiscal year (Pharmaceuticals & Foods Segments)

### ■ Pharmaceutical business

Achieving the goal to "placing three compounds representing potential world-class drugs into clinical development"

(unit: JPY billion)

	FY 3/2005 Actual	FY 3/2006 Q3 Forecast	Change	FY 3/2006 Interim forecast
Sales	57.6	48.5	-9.1	47.5
EBITDA	5.4	-4.0	-9.4	-5.5
Operating income	1.8	-7.0	-8.8	-8.5

### ■ Foods business

Establishing a profitable structure, aiming at higher business value

(unit: JPY billion)

	FY 3/2005 Actual	FY 3/2006 Q3 Forecast	Change	FY 3/2006 Interim forecast
Sales	265.3	275.0	9.6	276.0
EBITDA	7.9	10.5	2.5	10.5
Operating income	1.9	5.0	3.0	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
  - EBITDA, operating income, recurring profit and net income each are expected to mark a historical high.
- Compared to interim forecasts
  - EBITDA and operating income are expected to remain as predicted in the original interim forecast, while net income has been revised upward.

(unit: JPY billion)

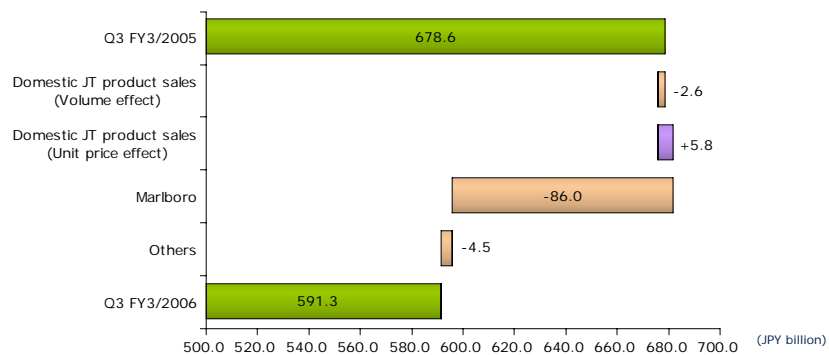
	FY 3/2005 Actual	FY 3/2006 Q3 Forecast	Change	FY 3/2006 Interim forecast
Sales	4,664.5	4,620.0	-44.5	4,620.0
EBITDA	400.1	424.0	23.8	424.0
Operating income	273.3	298.0	24.6	298.0
Recurring profit	270.2	289.0	18.7	291.0
Net income	62.5	195.0	132.4	189.0
ROE (%)	4.2	12.3	8.1	11.9
FCF	269.4	101.0	-168.4	106.0

**【Reference Material】**  
**Analyses of Q3 (Apr.-Dec.) results of FY 3/2006 and full-term forecasts for FY 3/2006**



**Q3 (Apr.-Dec.) results for FY 3/2006**

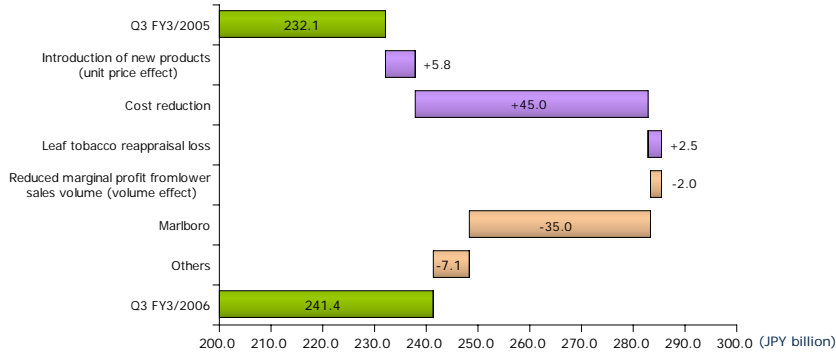
■ Domestic Tobacco Business - Net sales excluding tobacco excise tax\* from JPY 678.6 billion to JPY 591.3 billion (down JPY 87.3 billion)  
 \*excluding imported tobacco



■ Domestic Tobacco Business – Net sales excluding tobacco excise tax from JPY 932.9 billion to JPY 906.7 billion (down JPY 26.2 billion)

**Q3 (Apr.-Dec.) results for FY 3/2006**

**Domestic Tobacco Business – EBITDA**  
 from JPY 232.1 billion to JPY 241.4 billion (up JPY 9.2 billion)



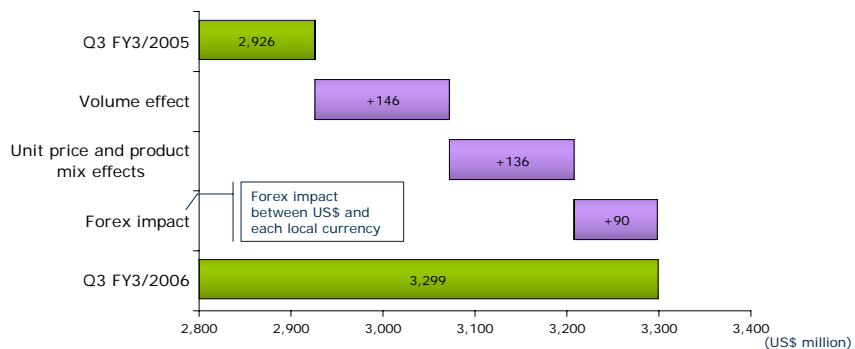
**Domestic Tobacco Business – Operating income**  
 from JPY 172.6 billion to JPY 176.7 billion (up JPY 4.0 billion)

◆ Depreciation and amortization\*: from JPY 59.5 billion to JPY 64.7 billion (up JPY 5.2 billion)

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

**Q3 (Apr.-Dec.) results for FY 3/2006**

**International Tobacco Business – Net sales excluding tobacco excise tax**  
 from US\$ 2,926 million to US\$ 3,299 million (up US\$ 372 million)



(Reference) International Tobacco Business – Net sales excluding tobacco excise tax  
 from JPY 321.5 billion to 355.8 billion (up JPY 34.2 billion)

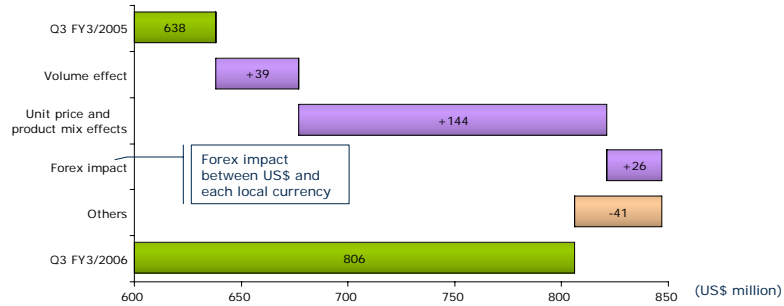
◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 109.00 to US\$1=JPY 107.90 (up JPY 1.10)

**Q3 (Apr.-Dec.) results for FY 3/2006**

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

from US\$ 638 million to US\$ 806 million (up US\$ 167 million)

\*1 Before royalty payment



(Reference) Segment information base

International Tobacco Business – EBITDA: from JPY 58.6 billion to JPY 76.1 billion (up JPY 17.5 billion)

International Tobacco Business – Operating income: from JPY 43.0 billion to JPY 59.6 billion (up JPY 16.6 billion)

◆ Depreciation and amortization\*2: from JPY 15.6 billion to JPY 16.5 billion (up JPY 0.9 billion)

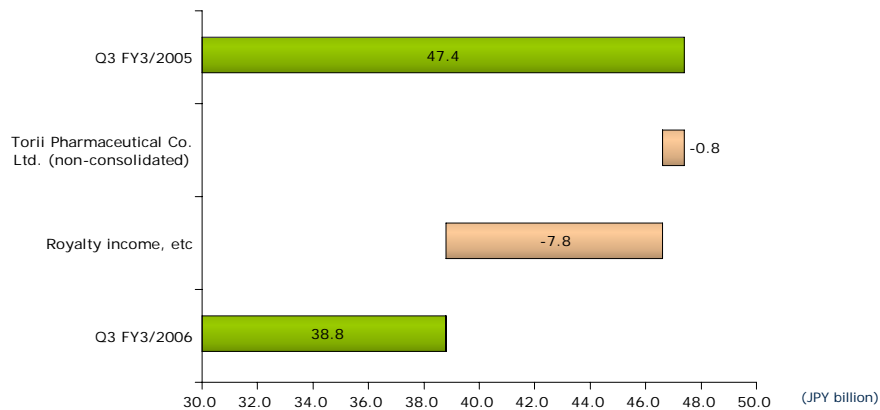
◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 109.00 to US\$1=JPY 107.90 (up JPY 1.10)

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

**Q3 (Apr.-Dec.) results for FY 3/2006**

**Pharmaceuticals Business - Net Sales**

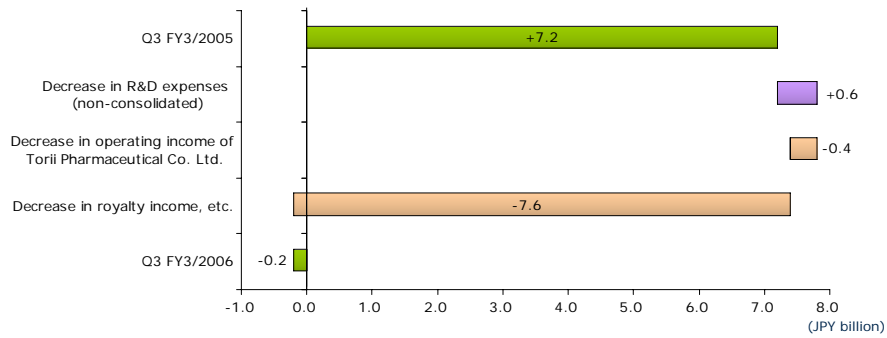
from JPY 47.4 billion to JPY 38.8 billion (down JPY 8.5 billion)



**Q3 (Apr.-Dec.) results for FY 3/2006**

**Pharmaceuticals Business - EBITDA**

from JPY 7.2 billion to JPY -0.2 billion (down JPY 7.4 billion)



**Pharmaceuticals Business - Operating income**

from JPY 4.5 billion to JPY -2.6 billion (down JPY 7.2 billion)

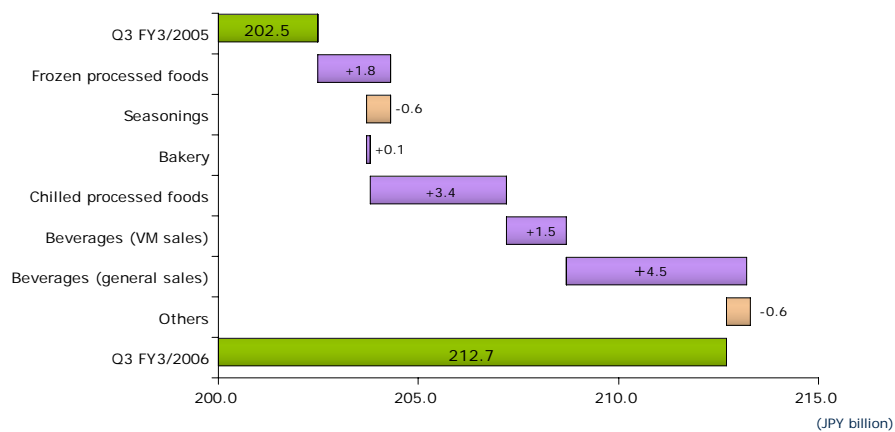
◆ Depreciation and amortization\*: from JPY 2.7 billion to JPY 2.4 billion (down JPY 0.2 billion)

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

**Q3 (Apr.-Dec.) results for FY 3/2006**

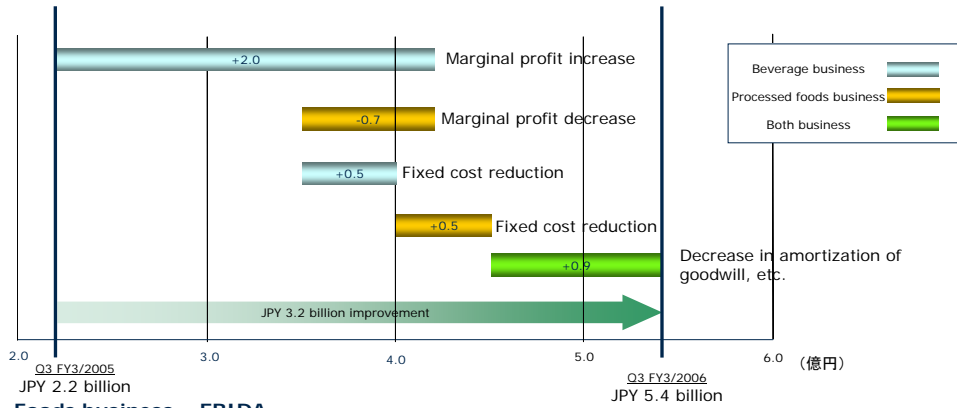
**Foods Business – Net Sales**

from JPY 202.5 billion to JPY 212.7 billion (up JPY 10.1 billion)



**Q3 (Apr.-Dec.) results for FY 3/2006**

**Foods business – Operating Income**  
from JPY 2.2 billion to JPY 5.4 billion (up JPY 3.2 billion)



**Foods business – EBIDA**  
from JPY 6.6 billion to JPY 9.6 billion (up JPY 3.0 billion)

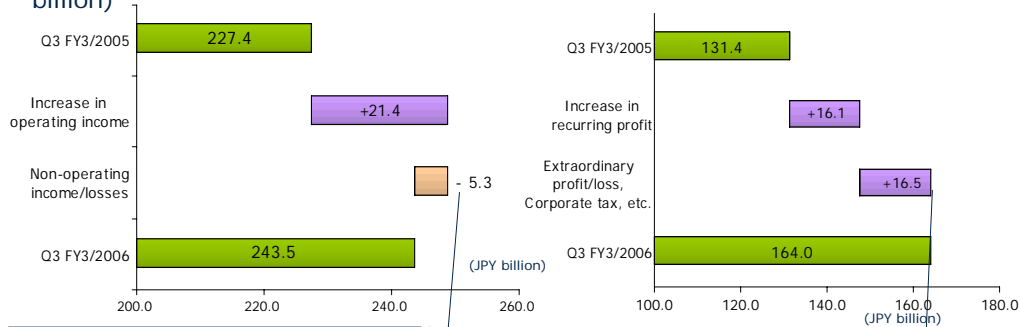
◆ Increase in operating income (JPY 3.2 billion) included the effect of decrease in depreciation and amortization\* (down JPY 0.2 billion)

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

**Q3 (Apr.-Dec.) results for FY 3/2006**

**Recurring profit from JPY 227.4 billion to JPY 243.5 billion (up JPY 16.1 billion)**

**Net income from JPY 131.4 billion to JPY 164.0 billion (up JPY 32.6 billion)**



**Main factors for increase:** Increase in interest income (+JPY 1.2 billion), Increase in dividend income (+JPY 0.2 billion), Decrease in financial support for domestic leaf tobacco growers (+JPY 0.2 billion), etc.  
**Main factors for decline:** Decrease in Gain on disposition of marketing rights (-JPY 2.5 billion), Increase in foreign exchange loss(net) (-JPY 2.1 billion), Increase in periodic mutual assistance association cost (-JPY 0.5 billion), Increase in interest expense (-JPY 0.4 billion), etc.

**Main factors for increase:** Decrease in business restructuring costs (+JPY 64.9 billion), Decrease in loss on disposal of property, plant and equipment (+JPY 3.4 billion), Decrease in Minority interests (+JPY 2.2 billion), etc.  
**Main factors for decline:** Increase in loss on sale of property, plan and equipment (-JPY 22.2 billion), Increase in Income taxes (-JPY 22.0 billion), Decrease in gain on sale of property, plan and equipment (-JPY 12.9 billion), etc.

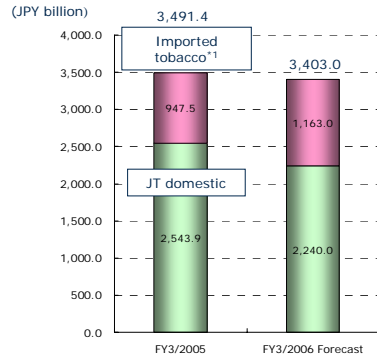
**Full-term forecasts for FY 3/2006 compared to results of the previous fiscal year**

■ **Domestic Tobacco Business-Net sales before tobacco excise tax\***  
**from JPY 2,543.9 billion to 2,240.0 billion (down JPY 303.9 billion)**

\*excluding imported tobacco

■ **Domestic Tobacco Business – Net sales before tobacco excise tax**  
**from JPY 3,491.4 billion to JPY 3,403.0 billion (down JPY 88.4 billion)**

\*1 On the 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】**

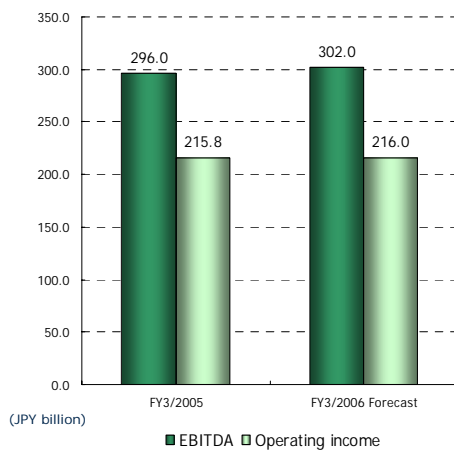
- Increase in imported tobacco (including Marlboro in May and afterwards)  
 from JPY 947.5 billion to JPY 1,163.0 billion  
 (up JPY 215.4 billion)

**【Main factors for decline】**

- Sales volume decrease  
 from 213.2 billion cigarettes to 189.0 billion cigarettes  
 (down 24.2 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 302.0 billion (up JPY 5.9 billion)**



**【Main factors for increase】**

- Cost savings (approx. + JPY 54.0 billion)  
 - Unit price increase  
 - Improvement of leaf tobacco reappraisal loss (+ JPY 4.2 billion)

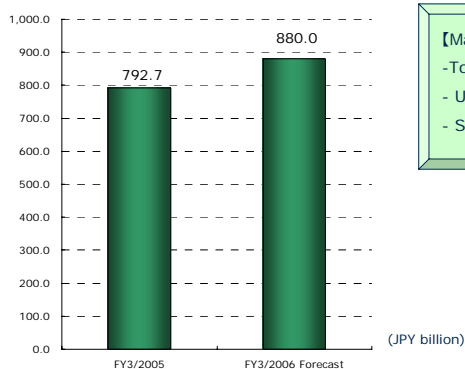
**【Main factors for decline】**

- Decrease in Marlboro sales volume (- 23.8 billion cigarettes, approx. - JPY 48.0 billion)  
 - Decrease in JT sales volume\* (- 0.3 billion cigarettes, approx. - JPY 1.0 billion)  
 \*JT original products + JTI products for the Japan market from May 2005  
 - Increase in sales promotion expenses  
 - Others

■ **Domestic Tobacco Business – Operating income**  
**from JPY 215.8 billion to JPY 216.0 billion (up JPY 0.1 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 880.0 billion (up JPY 87.2 billion)



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

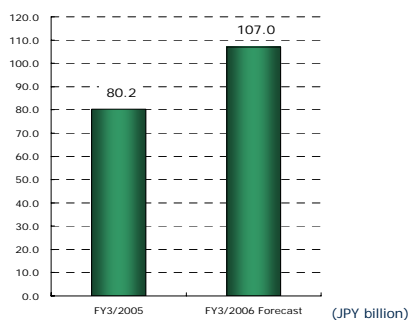
(Reference)

◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 108.23 to US\$1=JPY 110.26 (down JPY 2.03)

**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 107.0 billion (up JPY 26.7 billion)

\* Before royalty payment



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

(Reference) Segment information base

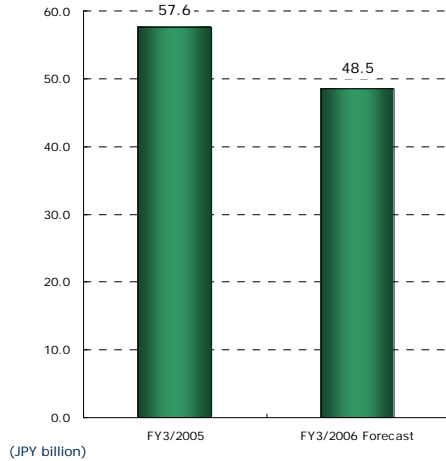
International Tobacco Business – EBITDA: from JPY 65.4 billion to JPY 94.0 billion (up JPY 28.5 billion)

International Tobacco Business – Operating income: from JPY 44.4 billion to JPY 71.0 billion (up JPY 26.5 billion)

◆ JPY/US\$ foreign exchange rate: from US\$1=JPY 108.23 to US\$1=JPY 110.26 (down JPY 2.03)

**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 48.5 billion (down JPY 9.1 billion)**



**【Main factors for increase】**

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

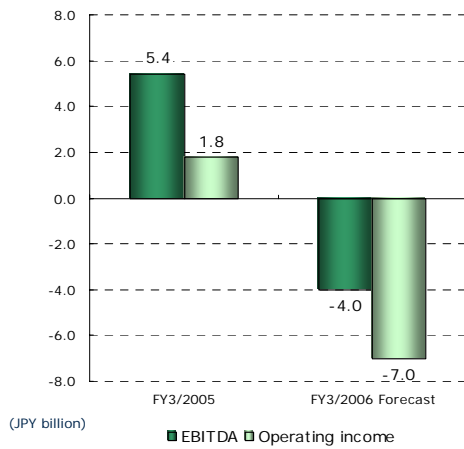
**【Main factors for decrease】**

- 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 - 4.0 billion (down JPY 9.4 billion)**

**■ Pharmaceuticals Business – Operating income**  
**from JPY 1.8 billion to JPY - 7.0 billion (down JPY 8.8 billion)**



**【Main factors for increase】**

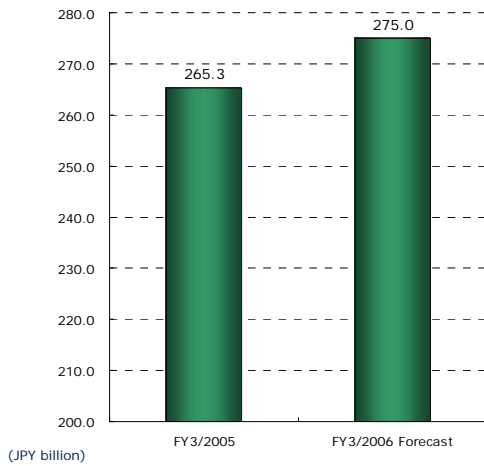
- FY3/2006: One-time revenue from licensing-out of JTK-303 (+US\$ 15 million)

**【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 275.0 billion (up JPY 9.6 billion)



**【Main factors for increase】**

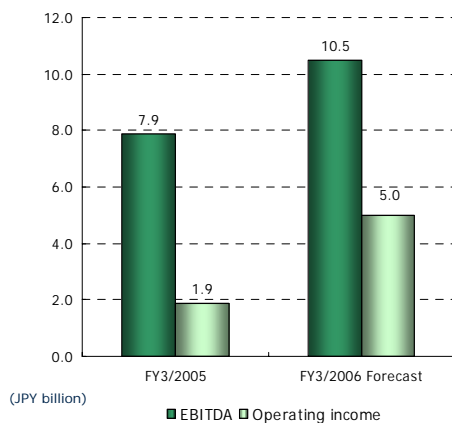
- Increase in processed foods sales
- Increase in beverage sales through vending machine channels

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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】**

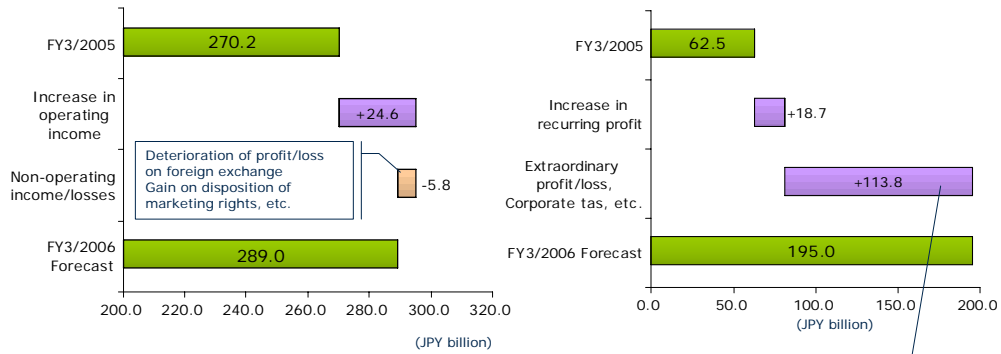
- Increased marginal profit due to business scale growth
- Cost savings and efficiency enhancement across business

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

■ Recurring profit from JPY 270.2 billion to JPY 289.0 billion (up JPY 18.7 billion)
 ■ Net income from JPY 62.5 billion to JPY 195.0 billion (up JPY 132.4 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), etc.  
**Main factors for decline:** Deterioration of profit/loss on disposal of property, plant and equipment, etc.