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**FOR IMMEDIATE RELEASE**

**JT Reports Consolidated Interim Financial Results  
For the First Fiscal Half That Ended September 30, 2005**

**TOKYO, October 31, 2005** --- Japan Tobacco Inc. (JT) (TSE: 2914) announced today its consolidated interim financial results for the first fiscal half that ended September 30, 2005.

**1. Highlights**

➤ **Consolidated Interim Financial Results**

- In this fiscal half, JT achieved operating income/loss improvement in all four core business segments. As a result, the company's operating income was increased 17.9% to ¥165.2 billion and net income was up 34.6% to ¥101.0 billion.
- Due to the decline in total demand and severe competition in the Japan market, net sales of the domestic tobacco business decreased 2.4 percent. However, the effects from the business structure reform that was implemented last year exceeded the negative impact of this sales decline, allowing the company to achieve a 4.9 percent increase in operating income in the domestic tobacco business.
- JT's international tobacco business<sup>1</sup>, the company's profit growth engine, continued its momentum, driven by strong Global Flagship Brand<sup>2</sup> (GFB) growth. Operating income for the international tobacco business grew 52.4 percent mainly due to GFB sales volume increases in Russia, Iran, Ukraine, Italy and Taiwan.
- The pharmaceutical business has successfully attained the target outlined in JT's medium term management plan, "JT PLAN-V." Operating losses were improved to ¥1.6 billion from ¥2.8 billion compared with the same period last year, due mainly to one time sales income related to licensing and lower R&D expenses.
- To further strengthen profit position and to increase business value, the foods business continued to direct its efforts into the development and launching of distinctive and value-added new products while strengthening sales channels. Operating income for the foods business during the period saw an increase of 93.9 percent, due to higher sales and more effective execution of expenditures.

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<sup>1</sup> The results of the international tobacco business from January to June 2005 were incorporated into JT's consolidated interim financial results for the period that ended September 30, 2005.

<sup>2</sup> Global Flagship Brands include Camel, Winston, Mild Seven and Salem



➤ **Outlook for the Fiscal Year Ending March 31, 2006**

- JT management revised its net sales and earnings forecast for the fiscal year ending March 31, 2006. Net income for the year ending March 31, 2006 was revised upward by ¥9.0 billion from the initial forecast to ¥189.0 billion.

“When today’s revision of our net income forecast for the fiscal year is achieved, we will yet again be hitting new record highs,” said Katsuhiko Honda, President and CEO of JT. “And while we continue to be faced with a very challenging environment, we have created successes across our business lines despite the challenges, and this tells us that we are on the right track. We remain focused on bringing our “JT PLAN-V” strategy to a very positive conclusion.”

**2. Consolidated Interim Financial Results that Ended September 30, 2005**

Units: Billions of Yen

	1H FY03/2005	1H FY03/2006	Difference	Net change (%)
Net sales	2,369.2	2,346.8	-22.3	-0.9
EBITDA <sup>3</sup>	202.6	227.6	24.9	12.3
Operating income	140.1	165.2	25.0	17.9
Recurring profit	137.8	158.3	20.5	14.9
Net income	75.0	101.0	25.9	34.6

JT’s net sales showed a slight decrease of 0.9 percent to ¥2.346 trillion, compared to the previous fiscal first half. This was mainly due to a cigarette sales volume decline in the domestic tobacco business, despite a sales volume increase in the international tobacco business and increased sales in the food business.

Operating income grew to ¥165.2 billion, up 17.9 percent, mainly due to the positive effects of restructuring programs that were implemented in the previous fiscal year, and steady profit growth in the international tobacco business.

The company’s EBITDA and recurring profit for the period were ¥227.6 billion and ¥158.3 billion, respectively.

As a result, JT achieved a significant increase of 34.6 percent to ¥101.0 billion in net income, compared to the same period in the previous year. This was mainly due to the decrease of extraordinary expenses related to business structure reform, despite of the larger extraordinary losses related to the sale and disposal of fixed assets.

<sup>3</sup> EBITDA=operating income + depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of goodwill.



### 3. Results by Business Segment

#### ➤ Domestic Tobacco Business

Units: Billions of Yen

	1H FY03/2005	1H FY03/2006	Difference	Net change (%)
Net sales	1,794.7	1,751.1	-43.6	-2.4
EBITDA	150.7	161.0	10.2	6.8
Operating income	111.1	116.6	5.4	4.9

As of the end of April 2005, JT and Philip Morris International mutually agreed not to renew a more than 30-year Marlboro licensing agreement for the Japan market, and in addition, the marketing and sales of JTI products, such as Camel, Winston and Salem, for the Japan market were integrated into JT's domestic tobacco operations as of May 1, 2005.

As part of its top line growth strategy, JT continued to aggressively introduce new products in growing segments (1mg tar, menthol and ¥300 or above) into test markets, and expand the sales areas for these products once successful in testing. In line with this strategy, a total of six brands launched in the previous year have been expanded to nationwide distribution, following strong results in test markets. As a result, the company gained market share in all growing segments compared with the same period of last year.

In addition, "Pianissimo Pêche Menthol One," one of 13 new products introduced into test market as of July 1, 2005 and one of the company's "D-spec" brand cigarettes, will be expanded to nationwide distribution from the beginning of November.

In the mid-term management plan, "JT PLAN-V," JT stated that it would create a new and innovative category of cigarettes with "D-spec," reduced odor products. JT currently markets 11 "D-spec" products nationwide or locally, and has achieved 1.24 percent market share, up 0.29 percentage points compared with the same period in the previous year.

As part of its cost structure reforms for further profit growth, JT continued to strengthen its competitiveness through tireless cost reduction efforts. As of the end of March 2005, the company closed seven cigarette manufacturing factories and converted one factory into a manufacturing technology center. JT is now concentrating production on 10 cigarette manufacturing factories. In addition, JT integrated its sales offices at the end of June.

While the integration of JTI products helped increase domestic sales volume<sup>4</sup> for the fiscal half, this gain was not realized because of the sales volume declines due mainly to the termination of the Marlboro licensing agreement at the end of April. As a result, JT's domestic tobacco sales volume decreased by 10.7 billion cigarettes or 9.8 percent, compared with the same period last year, to 99.1 billion cigarettes. At the same time,

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<sup>4</sup> Sales volume from both the domestic duty free and the "China division," totaled 1.6 billion cigarettes for this period and were not incorporated figures above.



JT's market share decreased to 67.5 percent<sup>5</sup> from 73.0 percent<sup>6</sup> in the same period last year. Net sales per thousand cigarettes, excluding tax, decreased by ¥67 to ¥3,874, compared with the same fiscal half last year.

As a result, net sales for the domestic tobacco business decreased by 2.4 percent to ¥1.751 trillion compared to the previous year.

However, operating income grew 4.9 percent to ¥116.6 billion, mainly due to the effects of the business structure reforms that were implemented in the last fiscal year. EBITDA also increased to ¥161.0 billion, up ¥10.2 billion.

- In accordance with the revision of the ministerial decree of the Japanese Ministry of Finance, the company placed a new, on-pack, caution statement on all products shipped after July 2005.

### ➤ International Tobacco Business

Units: Billions of Yen

	1H FY03/2005	1H FY03/2006	Difference	Net change (%)
Net sales	383.9	417.6	33.6	8.8
EBITDA	34.2	47.6	13.3	39.0
Operating income	24.1	36.7	12.6	52.4

In the first fiscal half that ended June 30, 2005<sup>7</sup>, JT's international tobacco business continued its momentum, driven by steady GFB brand growth in sales and volume. This performance, together with unit price enhancement as volume shifted to higher priced GFB products, is in line with the company's strategy for achieving top line growth. As an additional step to increase the value of the GFB portfolio, the company globally introduced a new "Blue Wind" package design in July 2005 for the Mild Seven product family, the second best selling cigarette in the world.

Total sales volume in the period increased 3.0 percent from the same fiscal half last year, to 104.6 billion cigarettes, driven by strong sales volume growth in Russia, Iran, Ukraine, Italy and Taiwan. This offset the decrease in the license-based, low margin Philippine market, which had a minor impact on the international business' bottom line, and also helped offset the tax-hike induced volume decreases in Turkey and Korea. GFB sales volume increased 2.6 percent to 64.4 billion cigarettes, mainly driven by the sales growth of Winston in Russia, Iran, Ukraine and Italy; Camel in Italy; and Mild Seven in Taiwan.

Due to the cigarette sales volume growth along with unit price increases, net sales for the company's international tobacco business grew 8.8 percent to ¥417.6 billion. In addition, a one time positive impact resulting from the effective execution of expenditures in the Japanese market ahead of the transfer of the international company's

<sup>5</sup> JT share = JT original brands + Marlboro family (April) + JTI products (May - September)

<sup>6</sup> JT share = JT original brands + Marlboro family. JTI products are not incorporated.

<sup>7</sup> The results of the international tobacco business from January to June 2005 were incorporated into JT's consolidated interim financial results, which ended September 30, 2005.



Japan operations to the domestic tobacco business drove operating income for the unit up 52.4 percent to ¥36.7 billion, with EBITDA also increasing to ¥47.6 billion, up ¥13.3 billion.

- In August 2004, a Canadian subsidiary of JT received a Notice of Assessment from the tax authority of Quebec. This notice demanded payments in relation to business activities from 1990 to 1998, which was prior to JT's acquisition of R.J. Reynolds Tobacco Co.'s international business operations in 1999, without a reasonable base for the move. The subsidiary took appropriate action and it continues to operate its business as usual. The subsidiary will continue to take all possible measures, including legal options, to protect its business. Pursuant to the 1999 Purchase Agreement between JT and R.J. Reynolds Tobacco Co. and RJR Nabisco Inc. (collectively, RJR), JT's view is that it will be entitled to seek indemnification from RJR and any successors thereof for any and all damages and expenses incurred or suffered by JT and/or its affiliates, including the Canadian subsidiary, arising out of this matter. JT will be exercising this right
- In July, 2004, the distribution subsidiary of JTI in Russia, JTI Marketing & Sales (JTI M&S), received a tax assessment claiming approximately 2.4 billion rubles for the year 2000 from the Russian tax authority. JTI M&S believes the Tax Authority's assessment is based on an erroneous interpretation of the facts and of the law, thus the company has been challenging the assessment in the courts. JTI M&S will continue to vigorously present its argument to protect the company's interests.

➤ **Pharmaceutical Business**

Units: Billions of Yen

	1H FY03/2005	1H FY03/2006	Difference	Net change (%)
Net sales	25.6	25.4	-0.2	-0.8
EBITDA	-1.0	0.0	1.0	-
Operating income	-2.8	-1.6	1.2	42.6

The company's new compound "JTT-305" entered into the clinical development stage in the first fiscal quarter and the pharmaceutical business achieved its target, "to place three compounds with the potential to become world-class drugs in clinical development during the period," as set forth under "JT PLAN-V."

JT's net sales for the pharmaceutical business decreased 0.8 percent to ¥25.4 billion compared to the same period last year. This was mainly due to a sales decrease at Torii Pharmaceutical Co., Ltd. (Torii), JT's pharmaceutical business subsidiary and a decline in royalty income from "Viracept<sup>®</sup>," despite a one-time sales income increase through the licensing of "JTK-303."

In addition to the reasons above, due to the decline of R&D expenses, operating losses for the business improved to ¥1.6 billion from ¥2.8 billion. EBITDA for the business also improved by ¥1.0 billion to break even.



- In July 2003, JT signed a licensing agreement with Gilead Sciences, Inc. for the commercialization of three anti-HIV drugs in Japan. JT and Torii launched Viread<sup>®</sup> in April 2004, and on April 19, 2005 another two drugs, Emtriva<sup>®</sup> and Truvada<sup>®</sup> were also launched.
- On April 22, 2005, JT and Torii announced that the companies would merge JT's pharmaceutical production factory in Hofu, Yamaguchi prefecture, and Torii's factory in Sakura, Chiba prefecture. The Hofu factory will be closed at the end of March 2006. Upon the full implementation of the amended Pharmaceutical Affairs Law in April 2005, the JT group decided to merge the two entities, further boosting efficiency.

### ➤ Foods Business

Units: Billions of Yen

	1H FY03/2005	1H FY03/2006	Difference	Net change (%)
Net sales	134.8	141.0	6.2	4.6
EBITDA	4.4	5.8	1.3	30.5
Operating income	1.6	3.1	1.5	93.9

In the last fiscal year, JT's foods business saw operating income in the black, one year ahead of the target outlined in "JT PLAN-V." In order to further boost this profit position while increasing business value, the foods business continued to make efforts in the development and launching of distinctive and value-added new products along with the strengthening of sales channels.

Net sales from the foods business increased 4.6 percent to ¥141.0 billion. This was mainly due to growth of commercial frozen foods in the processed foods business, as well as the strong performance of the company's flagship coffee brand, "Roots," in the beverage business.

In addition to the reasons above, due to the increase of profit margins led by the expansion of the business scale and decreases of fixed costs by the effective execution of expenditures, operating income for this business increased by 93.9 percent to ¥3.1 billion and EBITDA also increased ¥1.3 billion to ¥5.8 billion.

### ➤ Other Businesses

Units: Billions of Yen

	1H FY03/2005	1H FY03/2006	Difference	Net change (%)
Net sales	30.0	11.6	-18.4	-61.4
EBITDA	14.3	11.0	-3.3	-23.1
Operating income	5.9	4.0	-1.9	-32.3



Net sales for other businesses decreased by 61.4 percent to ¥11.6 billion compared to the same period last year, mainly due to the decrease of the number of consolidated subsidiaries.

Operating income and EBITDA for other businesses were ¥4.0 billion and ¥11.0 billion, respectively.

#### **4. Important Subsequent Events after September 30 to Date**

None

#### **5. Revised Outlook for the Fiscal Year Ending March 31, 2006 (Consolidated)**

JT management updated its forecasts for annual net sales and earnings for the fiscal year ending March 31, 2006, which was initially issued on April 27, 2005.

The company expects that it will achieve another record high in operating income, EBITDA, recurring profit and net income.

Units: Billions of Yen, Percent, Percentage point

	FY03/2005 (A)	FY03/2006 Revised Forecast (B)	Difference (B-A)	FY03/2006 Initial Forecast
Net 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
FCF	269.4	106.0	-163.4	108.0
ROE	4.2%	11.9%	7.7	11.4%

The updated net sales forecast for the full fiscal year decreased to ¥4.620 trillion, down ¥20.0 billion from the original April 2005 forecast.

Operating income was revised upward to ¥298.0 billion, as strong performance in the international tobacco business offset the sales decrease in the domestic tobacco business.



Revised EBITDA and recurring profit are ¥424.0 billion and ¥291.0 billion, respectively.

As a result, updated net income is ¥189.0 billion, up ¥9.0 billion compared to the initial forecast. This is mainly due to the increased extraordinary profit related to the sales and disposal of fixed assets.

(Reference: Based assumption for the updated forecasts)

Units: Billions of cigarettes, Yen

	FY03/2005 (A)	FY03/2006 Updated Forecast (B)	Difference (B-A)	FY03/2006 Initial Forecast
Domestic Cigarette Sales volume	213.2	191.0	-22.2	195.0
International Cigarettes Sales volume	212.4	219.0	6.6	222.0
GFB Sales volume	131.4	134.0	2.6	137.0
JPY/USD	108.23	108.00	-0.23	105.00

## 6. Annual Dividend

JT's annual dividend per share for the fiscal year ending March 31, 2006, is expected to be ¥14,000, including ¥7,000 for the first half of the fiscal year. The year-end dividend is subject to shareholder approval at the ordinary general meeting of shareholders, which is usually held in June each year.

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*Japan Tobacco Inc. is the world's third largest international manufacturer of tobacco products. The company manufactures internationally recognized cigarette brands including Camel, Winston, Mild Seven and Salem. Since its privatization in 1985, JT has actively diversified its operations into pharmaceuticals and foods. The company's net sales were ¥4.664 trillion in the fiscal year ended March 31, 2005.*



## **FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

This document contains forward-looking statements about our industry, business, plans and objectives, financial condition and results of operations that are based on our current expectations, assumptions, estimates and projections. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of operations or of our financial condition or 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 materially 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.

## 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.