

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

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Company name (Japanese):	日本たばこ産業株式会社 (<i>Nihon Tabako Sangyo Kabushiki-Kaisha</i>)
Company name (English):	JAPAN TOBACCO INC.
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Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Nine months ended September 30, 2015	30th term
Accounting period	From January 1, 2015 to September 30, 2015	From April 1, 2014 to December 31, 2014
Revenue [Third quarter] (Millions of yen)	1,688,468 [593,247]	2,019,745
Profit before income taxes (Millions of yen)	457,340	502,526
Profit for the period [Third quarter] (Millions of yen)	407,872 [194,195]	368,626
Profit attributable to owners of the parent company (Millions of yen)	404,395	362,919
Comprehensive income (loss) for the period (Millions of yen)	195,471	244,868
Total equity (Millions of yen)	2,509,204	2,622,503
Total assets (Millions of yen)	4,404,511	4,704,706
Basic earnings per share [Third quarter] (Yen)	225.07 [107.74]	199.67
Diluted earnings per share (Yen)	224.93	199.56
Ratio of equity attributable to owners of the parent company to total assets (%)	55.41	53.92
Net cash flows from (used in) operating activities (Millions of yen)	200,056	543,696
Net cash flows from (used in) investing activities (Millions of yen)	(33,896)	(49,110)
Net cash flows from (used in) financing activities (Millions of yen)	(203,057)	(388,859)
Cash and cash equivalents at the end of the period (Millions of yen)	336,126	385,820

Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

2. Filing company's trends in principal management benchmarks are not disclosed as JT prepares quarterly consolidated financial statements.

3. The yen amounts are rounded to the nearest million.

4. Revenue does not include consumption taxes.

5. JT changed its fiscal year end from March 31 to December 31 effective from the 30th term. The same change was made to consolidated subsidiaries with fiscal year ends other than December 31. As a consequence of this change, the period of consolidation of the 30th term was the period from April 1, 2014 to December 31, 2014, for JT and its main consolidated subsidiaries that do not belong to the international tobacco business segment. For consolidated subsidiaries that belong to the international tobacco business segment, the period of consolidation was the period from January 1, 2014 to December 31, 2014.

6. Owing to the change in the fiscal year end in the 30th term, the first nine months of the 31st term comprised the period from January 1, 2015 to September 30, 2015.

7. Owing to the change in the fiscal year end, the condensed interim consolidated financial statements for the nine months ended December 31, 2014 were not prepared. Accordingly, the trends in principal management benchmarks are not disclosed for the first nine months of the 30th term or the third quarter of the 30th term.

8. The Group classified "Beverage Business" as discontinued operations from the first nine month of the 31st term, and the figures presented for the 30th term have been restated. Consequently, only revenue and profit before income taxes from continuing operations are presented.

2. Business description

During the nine months ended September 30, 2015, material changes in the business of the Group (JT, 194 consolidated subsidiaries and 12 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report are as follows.

We withdrew from manufacture and sale of JT beverage products in the Beverage Business at the end of September 2015. In addition, on July 31, 2015, we transferred shares we held in our subsidiaries conducting vending machine operation business, Japan Beverage Holdings Inc. and JT A-Star Co., Ltd., and JT beverage brands "Roots" and "Momono Tennensui," to Suntory Beverage & Food Limited. Accordingly, the Group classified "Beverage Business" as discontinued operations from the nine months ended September 30, 2015.

Moreover, effective July 31, 2015, JT transferred Japan Beverage Holdings Inc., JT A-star Co., Ltd. and 14 other companies. This constitutes a change in principal subsidiaries and affiliates in the Beverage Business.

II. Review of operations

1. Business and other risks

During the nine months ended September 30, 2015, there were no new businesses or other risks.

There were no material changes to the items regarding business and other risks mentioned in the previous fiscal year's Annual Securities Report.

2. Important operational contracts

Important operational contracts determined or entered into during the third quarter ended September 30, 2015, are as follows.

The Company decided by resolution at a meeting of the Board of Directors held on May 25, 2015 to enter into a basic agreement with Suntory Beverage & Food Limited ("SBF") to transfer all shares the Company held in its subsidiaries conducting vending machine operation business - Japan Beverage Holdings Inc. and JT A-star Co., Ltd. The agreement also includes the transfer of JT beverage brands "Roots" and "Momono Tennensui." Based on the basic agreement, the Company and SBF concluded a definitive agreement on July 7, 2015 and completed the transfer of the above-mentioned shares and brands on July 31, 2015. Transfer value is approximately ¥150.0 billion.

Moreover, on September 29, 2015, the JT Group decided to acquire the Natural American Spirit tobacco business outside the U.S., which includes the trademarks related to the Natural American Spirit tobacco business outside the United States and all the outstanding shares of Reynolds American Inc. ("RAI")'s subsidiaries outside the U.S. that sell the aforesaid brand tobacco products, and on the same date, the JT Group reached an agreement with the RAI group of companies and concluded a contractual agreement in relation to this. The business transfer date is planned to be early 2016 and the planned price is approximately ¥600.0 billion.

3. Analysis of financial position, operating results and cash flow position

JT changed its fiscal year end from March 31 to December 31 from the previous fiscal year. The same change was made to consolidated subsidiaries with fiscal year ends other than December 31.

As a consequence of this change, the statement of the previous fiscal year is as follows. Because the condensed interim consolidated financial statements for the first nine months of the previous fiscal year were not prepared, the operating results of the previous fiscal year are stated. The period of consolidation of the previous fiscal year was the period from April 1, 2014 to December 31, 2014, for JT and its main consolidated subsidiaries that do not belong to the international tobacco business segment. For consolidated subsidiaries that belong to the international tobacco business segment, the period of consolidation was the period from January 1, 2014 to December 31, 2014.

In the following information, in order to provide a basis to enable comparisons that contribute to investment decisions, some figures provided may have been calculated on the assumption that the accounting period for comparisons for JT and all of its consolidated subsidiaries is the 9-month period from January 2014 through September 2014. However, in cases where there is no statement to that effect, the figures provided are based on the accounting periods and accounting period ends under the accounting system.

Revenue, operating profit, adjusted operating profit from continuing operations and profit attributable to owners of the parent company for all companies in the period from January through September 2014 will be provided in IV. Accounting.

Matters concerning the future in this document were determined by the Group as of September 30, 2015.

(Non-GAAP financial measures)

The Group also discloses certain additional financial measures that are not required or defined under IFRS, which is the accounting standard JT applies. These financial measures are used internally to manage each of our business operations to understand their underlying performance, in view of our target for mid- to long-term sustainable growth, and we believe that they provide useful information for users of our financial statements to assess the Group's performance.

Core revenue

For tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the revenue for the domestic tobacco business is presented after deducting imported tobacco delivery charges, among others, while the revenue for the international tobacco business is presented after deducting the revenue accounted for in distribution business and contract manufacturing, among others.

Adjusted operating profit

Adjusted operating profit comprised of operating profit less amortization cost of acquired intangibles and adjustment items (income and costs) is presented. Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

Furthermore, adjusted operating profit (at constant rates of exchange) growth rate in the consolidated performance is also presented as additional information. This is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the international tobacco business using the foreign exchange rates of the same period of the previous fiscal year.

(1) Operating results

In "(1) Operating results," figures have been calculated on the assumption that the accounting period for comparisons for JT and all of its consolidated subsidiaries is the 9-month period from January 2014 through September 2014.

The Group classified "Beverage Business" as discontinued operations from the nine months ended September 30, 2015. As a result, profit (loss) from discontinued operations is presented separately from that from continuing operations as "profit for the period from discontinued operations (attributable to owners of the parent)." The result for the same period of the previous fiscal year has also been reclassified in the same manner.

<Revenue>

Although revenue decreased because of declines in total demand in the Domestic Tobacco Business, profit increased by ¥11.5 billion or 0.7%, from the same period of the previous fiscal year to ¥1,688.5 billion because of an increase in revenue in other businesses.

(Billions of yen)

	January through September 2014	Nine months ended September 30, 2015	Change	
Revenue	1677.0	1688.5	11.5	0.7%
Domestic Tobacco Business	511.2	504.8	(6.4)	(1.2)%
Of which, core revenue	483.5	478.2	(5.3)	(1.1)%
International Tobacco Business	990.0	995.5	5.6	0.6%
Of which, core revenue	936.9	946.9	10.0	1.1%
Pharmaceutical Business	46.7	53.4	6.7	14.5%
Beverage Business	116.2	120.5	4.3	3.7%

* Figures exclude intersegment revenue.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above.

<Operating profit, adjusted operating profit and profit attributable to owners of the parent company>

Adjusted operating profit decreased by ¥13.6 billion or 2.6%, from the same period of the previous fiscal year to ¥510.3 billion mainly because of unfavorable foreign exchange effects on local currencies in the International Tobacco Business. Adjusted operating profit at constant rates of exchange increased by 11.6% from the same period of the previous fiscal year. Operating profit declined by ¥35.2 billion, or 7.2%, from the same period of the previous fiscal year to ¥455.9 billion due to the recording of loss on disposal of real estate and the like and decreased gain on sales of real estate in relation to the measures to strengthen the competitiveness of the Domestic Tobacco Business.

Profit for the period from continuing operations (attributable to owners of the parent) decreased by ¥17.4 billion, or 5.2%, from the same period of the previous fiscal year to ¥317.1 billion, due to operating profit declines despite a decrease in income taxes and others. Profit for the period from discontinued operations (attributable to owners of the parent) was ¥87.3 billion (loss of ¥1.5 billion for the same period of the previous fiscal year). This was due to gains relating to the transfer of shares the Company held in its subsidiaries conducting the vending machine operation business, despite expenses relating to the withdrawal from the manufacture and sale of JT beverage products.

Profit attributable to owners of the parent company increased by ¥71.4 billion, or 21.5%, from the same period of the previous fiscal year to ¥404.4 billion.

(Billions of yen)

	January through September 2014	Nine months ended September 30, 2015	Change	
Adjusted operating profit	523.9	510.3	(13.6)	(2.6)%
Domestic Tobacco Business	187.9	197.6	9.7	5.1%
International Tobacco Business	355.7	328.5	(27.2)	(7.7)%
Pharmaceutical Business	(6.8)	(3.3)	3.5	–
Processed Food Business	(0.1)	1.3	1.4	–
Operating profit	491.1	455.9	(35.2)	(7.2)%
Profit for the period from continuing operations attributable to owners of the parent company	334.4	317.1	(17.4)	(5.2)%
Profit for the period from discontinued operations attributable to owners of the parent company	(1.5)	87.3	88.8	–

	January through September 2014	Nine months ended September 30, 2015	Change	
Profit attributable to owners of the parent company	333.0	404.4	71.4	21.5%

* Operating profit and adjusted operating profit include business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

Operating results by segment are as follows.

Domestic Tobacco Business

Sales volume in the nine months ended September 30, 2015, decreased by 3.1% from the same period of the previous fiscal year. This mainly reflected a decline in total demand due to a trend toward decline and the impact of the consumption tax hike implemented in April 2014.

Market share was 59.9% (compared with a share of 60.4% in January through December 2014). Amid intensifying competition reflecting such factors as new product launches by competitor companies, market share for Mevius was firm, driven by the “Mevius Premium Menthol Option” series. The Company will continue to focus its efforts on Mevius and proactively launch new products in Winston with which brands were integrated in August to further strengthen brand equity.

(Billions of cigarettes)

Domestic Tobacco Business	January through September 2014	Nine months ended September 30, 2015	Change	
Sales volume	83.9	81.3	(2.6)	(3.1)%

* In addition to the figure stated above, during the nine months ended September 30, 2015, 2.9 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of JT's China Division (2.5 billion cigarettes in the same period of the previous fiscal year).

The decline in sales volume was partially offset by favorable pricing, increased sales volume at duty-free shops in Japan and the like, and core revenue decreased by 1.1% from the same period of the previous fiscal year. Domestic cigarette revenue per 1,000 cigarettes was ¥5,666.

Adjusted operating profit increased by 5.1% from the same period of the previous fiscal year due to favorable pricing effects and other factors such as the effects of measures to strengthen competitiveness and decreases in temporary costs incurred in the same period of the previous fiscal year.

(Billions of yen)

Domestic Tobacco Business	January through September 2014	Nine months ended September 30, 2015	Change	
Revenue	511.2	504.8	(6.4)	(1.2)%
Of which, core revenue	483.5	478.2	(5.3)	(1.1)%
Adjusted operating profit	187.9	197.6	9.7	5.1%

International Tobacco Business

Among GFBs^(Note 1) for the nine months ended September 30, 2015, the shipment volume in Turkey was strong, reflecting a review of sales prices for Camel and there was market share growth in several major markets in Europe. As a result, shipment volume among GFBs increased by 5.7% from the same period of the previous fiscal year. Despite the declines in total demand mainly in Russia, total shipment volume^(Note 2) remained at the same level of increase in the same period of the previous fiscal year, owing to growth in GFBs.

(Billions of cigarettes)

International Tobacco Business	January through September 2014	Nine months ended September 30, 2015	Change	
Total shipment volume	296.6	295.6	(1.1)	(0.4)%
Of which, GFBs	194.3	205.4	11.0	5.7%

Despite favorable pricing effects, dollar-based core revenue decreased by 14.0% and adjusted operating profit decreased by 21.4%, due mainly to unfavorable foreign exchange effects on some local currencies, particularly the ruble. Adjusted operating profit at constant rates of exchange increased by 13.3%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	January through September 2014	Nine months ended September 30, 2015	Change	
Revenue	9,617	8,225	(1,392)	(14.5)%
Of which, core revenue	9,101	7,823	(1,279)	(14.0)%
Adjusted operating profit	3,454	2,715	(740)	(21.4)%

Yen-based core revenue increased by 1.1% and adjusted operating profit decreased by 7.7% as a result of the impact of a weaker yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	January through September 2014	Nine months ended September 30, 2015	Change	
Revenue	990.0	995.5	5.6	0.6%
Of which, core revenue	936.9	946.9	10.0	1.1%
Adjusted operating profit	355.7	328.5	(27.2)	(7.7)%

Note 1: We have identified eight brands which serve as flagships of the Group's brand portfolio, Winston, Camel, Mevius, LD, Benson & Hedges, Glamour, Silk Cut, and Sobranie, which we collectively call the Global Flagship Brands (GFBs).

Note 2: Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and Emerging Products.

* In the nine months ended September 30, 2015, the exchange rates of currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	January through September 2014	Nine months ended September 30, 2015
Yen	102.93	120.98
Ruble	35.39	59.32
Pounds sterling	0.60	0.65
Euro	0.74	0.90

Pharmaceutical Business

In the pharmaceutical business, we are striving to establish a stronger profit platform by maximizing the value of each product and promoting R&D on next-generation strategic products. In the area of product development, the number of compounds developed in-house that are under clinical development is now nine.

During the nine months ended September 30, 2015, Torii Pharmaceutical Co., Ltd., which is a company of the Group, obtained approval in September 2015 for manufacturing and distributing "MITICURE House Dust Mite Sublingual Tablets" (TO-203) in Japan, which is an allergen immunotherapy tablet for house dust mite allergy, for the indication of allergic rhinitis.

Revenue in the nine months ended September 30, 2015, increased by ¥6.7 billion, or 14.5%, from the same period of the previous fiscal year to ¥53.4 billion, reflecting increased royalty income and increased revenue at Torii Pharmaceutical Co., Ltd. Adjusted operating loss improved by ¥3.5 billion to adjusted operating loss of ¥3.3 billion (compared to adjusted operating loss of ¥6.8 billion in the same period of the previous fiscal year) due to the increase in revenue, etc.

Processed Food Business

In the Processed Food Business, we continued working to expand sales of staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread in the nine months ended September 30, 2015. Specifically, we conducted vigorous sales promotions for "Bishoku Seikatsu, Niigata-kensan Koshihikari, Shokumotsu Seniiri Gohan", etc., which is a new product of packed rice approaching the 20th

year since its launch.

Revenue in the nine months ended September 30, 2015, increased by ¥4.3 billion, or 3.7%, from the same period of the previous fiscal year to ¥120.5 billion, due mainly to strong sales centered on frozen and room-temperature processed foods. Adjusted operating profit increased by ¥1.4 billion to ¥1.3 billion (compared to adjusted operating loss of ¥0.1 billion in the same period of the previous fiscal year), due mainly to the increase in revenue.

We withdrew from manufacture and sale of JT beverage products in the Beverage Business at the end of September 2015. In addition, on July 31, 2015, we transferred shares we held in our subsidiaries conducting vending machine operation business, Japan Beverage Holdings Inc. and JT A-Star Co., Ltd., and JT beverage brands “Roots” and “Momono Tennensui,” to Suntory Beverage & Food Limited.

(2) Operational and financial issues to be addressed

During the nine months ended September 30, 2015, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year’s Annual Securities Report.

(3) Research and development activities

Research and development expenses for the continuing operations of the Group during the nine months ended September 30, 2015, were ¥42.2 billion.

During the nine months ended September 30, 2015, there were no material changes in the status of the Group’s research and development activities mentioned in the previous fiscal year’s Annual Securities Report.

(4) Number of employees

As of September 30, 2015, the number of employees of the Group was 43,483 employees, 7,858 employees less than at the end of December 31, 2014. The main factors behind this were the execution of a voluntary retirement program as part of measures to further strengthen the competitiveness of the Domestic Tobacco Business and the transfer of Japan Beverage Holdings Inc., JT A-star Co., Ltd. and 14 other subsidiaries in the Beverages Business. The number of employees of the Company was 7,445 employees, 1,470 employees less than at the end of December 31, 2014.

(5) Main facilities

In the nine months ended September 30, 2015, in conjunction with the transfer of the shares the Company held in Japan Beverage Holdings Inc., the sales and distribution facilities including the head office and other business locations have been removed from the main facilities of the Group.

(6) Analysis of capital resources and liquidity of funds

a. Funding requirements

Funds are allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, loans from financial institutions and bond and commercial paper issuances.

<Cash flows>

Cash and cash equivalents at the end of the third quarter ended September 30, 2015 decreased by ¥49.7 billion from the end of the previous fiscal year to ¥336.1 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥385.8 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the nine months ended September 30, 2015 were ¥200.1 billion, compared with ¥543.7 billion from the previous fiscal year. This was mainly due to payments of national tobacco excise tax and income taxes despite the generation of a stable cash inflow from the tobacco business.

As a result of a holiday for financial institutions, the amount of national tobacco excise tax payable for the current period is for ten months, while the amount for the previous fiscal year is for eight months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the nine months ended September 30, 2015 were ¥33.9 billion, compared with ¥49.1 billion used in the previous fiscal year. This was mainly due to the purchase of property, plant and equipment and purchase of investments in subsidiaries despite proceeds from sale of investments in subsidiaries.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the nine months ended September 30, 2015 were ¥203.1 billion, compared with ¥388.9 billion used in the previous fiscal year. This was mainly due to the payment of cash dividends and the acquisition of treasury shares, despite proceeds from issuance of bonds.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2014 and as of September 30, 2015 accounted for ¥140.0 billion and ¥254.7 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥41.0 billion and ¥1.0 billion respectively. Long-term lease obligations totaled ¥15.3 billion as of December 31, 2014 and ¥7.1 billion as of September 30, 2015.

Short-term debt

Short-term borrowings from financial institutions totaled ¥27.6 billion as of December 31, 2014 and ¥41.3 billion as of September 30, 2015, respectively. There was no commercial paper outstanding as of December 31, 2014 and September 30, 2015. Short-term lease obligations totaled ¥4.3 billion as of December 31, 2014 and ¥0.6 billion as of September 30, 2015.

c. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. On September 30, 2015, we had committed lines of credit from major financial institutions both domestic and international. In addition, we have a domestic commercial paper program, uncommitted lines of credit, and a domestic bond shelf registration.

III. Filing company

1. Information on the Company (JT)'s shares

(1) Total number of shares authorized

a. Total number of shares authorized

Class	Total number of shares authorized (Share)
Ordinary shares	8,000,000,000
Total	8,000,000,000

b. Number of shares issued

Class	Number of shares issued (Share; as of September 30, 2015)	Number of shares issued (Share; as of the date of filing: November 5, 2015)	Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	—	—

Notes: 1. The provisions of Article 2 of the Act on Japan Tobacco Inc. prescribe that the Japanese government must continue to hold more than one-third of all JT shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the shareholders meeting).

2. JT's standard class of shares with no rights limitations. Its share trading unit is 100 shares.

(2) Status of subscription rights to shares

Subscription rights to shares issued during the third quarter ended September 30, 2015 are as follows.

Resolution date	July 17, 2015
Number of subscription rights to shares	576
Of which, the number of treasury subscription rights to shares	—
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (JT's standard class of shares with no rights limitations and the share trading unit is 100 shares.)
Number of shares to be issued upon exercise of subscription rights to shares	115,200 shares ^(Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share
Exercise period of subscription rights to shares	From August 4, 2015 to August 3, 2015
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥711,200 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	<p>a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen.</p> <p>b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.</p>

Conditions for exercising subscription rights to shares	<p>a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, “Subscription rights to shares Holder”) may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as Director (including sikkoyaku at a company with committees), Audit & Supervisory Board Member and Executive Officer (sikkoyakuin) of JT.</p> <p>b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.</p>
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.
Matters regarding surrogate payments	–
Provisions for acquiring subscription rights to shares	(Note 2)
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)

Notes: 1. The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter, “Number of Shares Granted”) shall be 200. However, in cases where JT conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of JT after the date on which JT allots subscription rights to shares (hereinafter, “Allotment Date”), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \frac{\text{Number of Shares Granted before adjustment}}{\text{Ratio of stock split or stock consolidation}} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of JT and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders. In addition, in cases where the adjustment of the Number of Shares Granted is proper, JT shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, JT shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, JT shall later do so as soon as possible.

2. In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of JT (if a resolution by the General Meeting of Shareholders is not necessary, it is read as “in cases where the resolution of a meeting of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made”), JT may acquire subscription rights to shares on the date separately provided for by the Board of Directors. In this case, JT shall, in exchange for acquiring each stock acquisition right, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

Value per share = Closing price for regular transactions of ordinary shares of JT on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of JT (if a resolution by the General Meeting of Shareholders is not necessary, it is read as “the resolution of a meeting of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made”) – ¥1

- Proposal to ask approval of a contract of merger where JT is not to be the surviving company
- Proposal to ask approval of a contract or plan of company split where JT would be the split company
- Proposal to ask approval of a share exchange contract or share transfer plan where JT becomes a wholly-owned subsidiary

3. In cases where JT merges (limited to cases where JT is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where JT becomes the split company in either case), or exchanges or transfers shares (limited to cases where JT becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, “Reorganization”), JT shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the “Company Subject to Reorganization”) to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, “Remaining Subscription rights to shares”). However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.
- Number of subscription rights to shares to be delivered of the Company Subject to Reorganization

- Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
- b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
Ordinary shares of the Company Subject to Reorganization
 - c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
 - d. Value of property to be contributed when subscription rights to shares are exercised
The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to be issued upon exercise of each stock acquisition right, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.
 - e. Period during which subscription rights to shares can be exercised
From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in “Exercise period of subscription rights to shares” mentioned above.
 - f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as “Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares” mentioned above.
 - g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.
 - h. Provisions for acquiring subscription rights to shares
To be determined in the same manner as Note 2 above.
 - i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as “Conditions for exercising subscription rights to shares” mentioned above.

(3) Exercise of bond certificates with subscription rights to shares with exercise price amendment clause

No items to report

(4) Details of rights plan

No items to report

(5) Trends in total number of shares issued, capital stock

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2015 to September 30, 2015	-	2,000,000	-	100,000	-	736,400

(6) Status of major shareholders

As the current quarterly accounting period is the third quarter, there are no items to report.

(7) Status of voting rights

a. Shares issued

(As of September 30, 2015)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	-	-	-
Shares with restricted voting rights (Treasury stock)	-	-	-
Shares with restricted voting rights (Other)	-	-	-
Shares with full voting rights (Treasury stock)	Ordinary shares 209,290,400	-	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,685,900	17,906,859	(Note 2)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares less than one unit	Ordinary shares 23,700	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,906,859	–

Notes: 1. The number of “Shares with full voting rights (Other)” includes 33,600 shares in the name of Japan Securities Depository Center, Inc. “Number of voting rights” includes 336 units of voting rights related to shares with full voting rights in its name.
2. JT’s standard class of shares with no rights limitations. Its share trading unit is 100 shares.
3. 31 shares of treasury stock are included.

b. Treasury stock

(As of September 30, 2015)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
Japan Tobacco Inc.	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan	209,290,400	–	209,290,400	10.46
Total	–	209,290,400	–	209,290,400	10.46

2. Status of officers

After filing of the previous fiscal year’s Annual Securities Report, there were no personnel changes of officers during the nine months ended September 30, 2015.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the “Company”) are prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (hereinafter referred to as “IAS 34”) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the “Ordinance on QCFS”).

Figures stated in the condensed interim consolidated financial statements are rounded to the nearest million yen.

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for this third quarter period (from July 1, 2015 to September 30, 2015) and for the nine months ended September 30, 2015 were reviewed by Deloitte Touche Tohmatsu LLC.

1. 【Condensed interim consolidated financial statements】

(1) 【Condensed interim consolidated statement of financial position】

(Millions of yen)

	<u>As of December 31, 2014</u>	<u>As of September 30, 2015</u>
Assets		
Current assets		
Cash and cash equivalents	385,820	336,126
Trade and other receivables	448,402	423,616
Inventories	587,849	544,827
Other financial assets	43,907	20,857
Other current assets	230,530	250,327
Subtotal	<u>1,696,507</u>	<u>1,575,753</u>
Non-current assets held-for-sale	367	2,805
Total current assets	<u>1,696,874</u>	<u>1,578,559</u>
Non-current assets		
Property, plant and equipment (Note 6)	756,127	684,168
Goodwill (Notes 6, 17)	1,539,376	1,461,764
Intangible assets (Note 6)	364,912	343,823
Investment property	17,870	24,198
Retirement benefit assets	35,402	38,629
Investments accounted for using the equity method	76,825	66,061
Other financial assets	91,959	99,563
Deferred tax assets	125,361	107,747
Total non-current assets	<u>3,007,832</u>	<u>2,825,952</u>
Total assets	<u><u>4,704,706</u></u>	<u><u>4,404,511</u></u>

	(Millions of yen)	
	As of December 31, 2014	As of September 30, 2015
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	419,764	331,847
Bonds and borrowings	107,562	81,450
Income tax payables	54,942	104,020
Other financial liabilities	14,463	5,415
Provisions	9,200	25,789
Other current liabilities	754,169	573,677
Total current liabilities	1,360,098	1,122,198
Non-current liabilities		
Bonds and borrowings (Note 7)	101,001	215,625
Other financial liabilities	18,617	9,747
Retirement benefit liabilities	351,915	332,303
Provisions	25,425	12,059
Other non-current liabilities	121,792	114,619
Deferred tax liabilities	103,356	88,756
Total non-current liabilities	722,106	773,109
Total liabilities	2,082,204	1,895,306
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(344,447)	(444,344)
Other components of equity	142,425	(69,683)
Retained earnings	1,902,460	2,118,263
Equity attributable to owners of the parent company	2,536,838	2,440,636
Non-controlling interests	85,665	68,568
Total equity	2,622,503	2,509,204
Total liabilities and equity	4,704,706	4,404,511

(2) 【Condensed interim consolidated statement of income】

(For the nine-month period)

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Continuing operations		
Revenue (Notes 5, 9)	2,019,745	1,688,468
Cost of sales	(822,538)	(680,011)
Gross profit	1,197,208	1,008,457
Other operating income (Note 10)	47,419	3,942
Share of profit in investments accounted for using the equity method	7,812	4,869
Selling, general and administrative expenses (Note 11)	(752,559)	(561,368)
Operating profit (Note 5)	499,880	455,901
Financial income (Note 12)	13,808	12,706
Financial costs (Note 12)	(11,162)	(11,268)
Profit before income taxes	502,526	457,340
Income taxes	(132,811)	(137,077)
Profit for the period from continuing operations	369,715	320,263
Discontinued operations		
Profit for the period from discontinued operations (Note 18)	(1,088)	87,609
Profit for the period	368,626	407,872
Attributable to:		
Owners of the parent company	362,919	404,395
Non-controlling interests	5,708	3,477
Profit for the period	368,626	407,872
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 14)	200.55	176.46
Discontinued operations (Note 14)	(0.87)	48.60
Total basic earnings per share for the interim period (Note 14)	199.67	225.07
Diluted (Yen)		
Continuing operations (Note 14)	200.43	176.35
Discontinued operations (Note 14)	(0.87)	48.57
Total diluted earnings per share for the interim period (Note 14)	199.56	224.93

Reconciliation from “Operating profit” to “Adjusted operating profit”

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Continuing operations		
Operating profit	499,880	455,901
Amortization cost of acquired intangibles	29,465	23,398
Adjustment items (income)	(44,302)	(614)
Adjustment items (costs)	103,641	31,650
Adjusted operating profit (Note 5)	<u>588,684</u>	<u>510,334</u>

(For the three-month period)

(Millions of yen)

	Three months ended December 31, 2014	Three months ended September 30, 2015
Continuing operations		
Revenue (Note 5)	935,373	593,247
Cost of sales	(391,399)	(240,430)
Gross profit	543,974	352,817
Other operating income	37,143	1,507
Share of profit in investments accounted for using the equity method	4,294	2,025
Selling, general and administrative expenses	(392,863)	(199,240)
Operating profit (Note 5)	192,548	157,108
Financial income	10,892	4,007
Financial costs	(4,203)	(3,955)
Profit before income taxes	199,237	157,160
Income taxes	(53,043)	(50,590)
Profit for the period from continuing operations	146,194	106,569
Discontinued operations		
Profit for the period from discontinued operations	(717)	87,626
Profit for the period	145,477	194,195
Attributable to:		
Owners of the parent company	143,578	192,929
Non-controlling interests	1,899	1,266
Profit for the period	145,477	194,195
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 14)	79.49	58.87
Discontinued operations (Note 14)	(0.49)	48.87
Total basic earnings per share for the interim period (Note 14)	79.00	107.74
Diluted (Yen)		
Continuing operations (Note 14)	79.44	58.83
Discontinued operations (Note 14)	(0.49)	48.84
Total diluted earnings per share for the interim period (Note 14)	78.95	107.67

Reconciliation from “Operating profit” to “Adjusted operating profit”

(Millions of yen)

	Three months ended December 31, 2014	Three months ended September 30, 2015
Continuing operations		
Operating profit	192,548	157,108
Amortization cost of acquired intangibles	14,761	8,165
Adjustment items (income)	(35,578)	(221)
Adjustment items (costs)	88,381	16,430
Adjusted operating profit (Note 5)	<u>260,112</u>	<u>181,482</u>

(3) 【Condensed interim consolidated statement of comprehensive income】

(For the nine-month period)

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Profit for the period	368,626	407,872
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	3,725	9,396
Remeasurements of defined benefit plans (Note 13)	(14,164)	(1,400)
Total of items that will not be reclassified to profit or loss	(10,439)	7,996
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(114,242)	(220,654)
Net gain (loss) on derivatives designated as cash flow hedges	922	256
Total of items that may be reclassified subsequently to profit or loss	(113,319)	(220,398)
Other comprehensive income (loss), net of taxes	(123,759)	(212,401)
Comprehensive income (loss) for the period	244,868	195,471
Attributable to:		
Owners of the parent company	240,363	192,337
Non-controlling interests	4,505	3,133
Comprehensive income (loss) for the period	244,868	195,471

(For the three-month period)

	Three months ended December 31, 2014	(Millions of yen) Three months ended September 30, 2015
Profit for the period	145,477	194,195
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(1,737)	(1,037)
Remeasurements of defined benefit plans (Note 13)	7,910	13,234
Total of items that will not be reclassified to profit or loss	6,173	12,197
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	573	(168,038)
Net gain (loss) on derivatives designated as cash flow hedges	760	(179)
Total of items that may be reclassified subsequently to profit or loss	1,333	(168,217)
Other comprehensive income (loss), net of taxes	7,506	(156,019)
Comprehensive income (loss) for the period	152,983	38,176
Attributable to:		
Owners of the parent company	152,371	36,994
Non-controlling interests	612	1,181
Comprehensive income (loss) for the period	152,983	38,176

(4) 【Condensed interim consolidated statement of changes in equity】

(Millions of yen)

	Equity attributable to owners of the parent company			Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of April 1, 2014	100,000	736,400	(344,463)	1,443	229,990	293	19,380
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(112,972)	922	3,753
Comprehensive income (loss) for the period	—	—	—	—	(112,972)	922	3,753
Acquisition of treasury shares	—	—	—	—	—	—	—
Disposal of treasury shares	—	—	16	(14)	—	—	—
Share-based payments	—	—	—	202	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	(597)	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	23
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	—	16	188	(597)	—	23
As of December 31, 2014	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
As of January 1, 2015	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(220,135)	256	9,242
Comprehensive income (loss) for the period	—	—	—	—	(220,135)	256	9,242
Acquisition of treasury shares	—	—	(100,000)	—	—	—	—
Disposal of treasury shares	—	—	103	(80)	—	—	—
Share-based payments	—	—	—	292	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	(140)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(283)
Other increase (decrease)	—	—	—	—	—	(1,261)	—
Total transactions with the owners	—	—	(99,897)	213	—	(1,261)	(423)
As of September 30, 2015	100,000	736,400	(444,344)	1,844	(103,713)	211	31,975

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non- controlling interests	Total equity
As of April 1, 2014	—	251,107	1,762,566	2,505,610	90,481	2,596,091
Profit for the period	—	—	362,919	362,919	5,708	368,626
Other comprehensive income (loss)	(14,259)	(122,556)	—	(122,556)	(1,203)	(123,759)
Comprehensive income (loss) for the period	(14,259)	(122,556)	362,919	240,363	4,505	244,868
Acquisition of treasury shares	—	—	—	—	—	—
Disposal of treasury shares	—	(14)	(3)	0	—	0
Share-based payments	—	202	—	202	—	202
Dividends (Note 8)	—	—	(181,755)	(181,755)	(2,736)	(184,491)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	(597)	(26,985)	(27,581)	(7,623)	(35,204)
Transfer from other components of equity to retained earnings	14,259	14,282	(14,282)	—	—	—
Other increase (decrease)	—	—	—	—	1,039	1,039
Total transactions with the owners	14,259	13,874	(223,025)	(209,135)	(9,321)	(218,455)
As of December 31, 2014	—	142,425	1,902,460	2,536,838	85,665	2,622,503
As of January 1, 2015	—	142,425	1,902,460	2,536,838	85,665	2,622,503
Profit for the period	—	—	404,395	404,395	3,477	407,872
Other comprehensive income (loss)	(1,421)	(212,057)	—	(212,057)	(344)	(212,401)
Comprehensive income (loss) for the period	(1,421)	(212,057)	404,395	192,337	3,133	195,471
Acquisition of treasury shares	—	—	—	(100,000)	—	(100,000)
Disposal of treasury shares	—	(80)	(23)	0	—	0
Share-based payments	—	292	—	292	—	292
Dividends (Note 8)	—	—	(187,574)	(187,574)	(13,809)	(201,383)
Changes in the scope of consolidation	—	(140)	140	—	(6,044)	(6,044)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	4	4	(321)	(318)
Transfer from other components of equity to retained earnings	1,421	1,137	(1,137)	—	—	—
Other increase (decrease)	—	(1,261)	—	(1,261)	(57)	(1,318)
Total transactions with the owners	1,421	(51)	(188,591)	(288,539)	(20,230)	(308,769)
As of September 30, 2015	—	(69,683)	2,118,263	2,440,636	68,568	2,509,204

(5) 【Condensed interim consolidated statement of cash flows】

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Cash flows from operating activities		
Profit before income taxes	502,526	457,340
Profit before income taxes from discontinued operations (Note 18)	(227)	119,076
Depreciation and amortization	122,171	105,105
Impairment losses	21,877	9,267
Interest and dividend income	(13,560)	(12,511)
Interest expense	4,651	3,063
Share of profit in investments accounted for using the equity method	(7,812)	(4,869)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(31,315)	9,603
(Gains) losses on sale of investments in subsidiaries	—	(133,619)
(Increase) decrease in trade and other receivables	(12,130)	(10,204)
(Increase) decrease in inventories	(16,808)	20,496
Increase (decrease) in trade and other payables	83,885	(47,922)
Increase (decrease) in retirement benefit liabilities	(25,736)	(8,709)
(Increase) decrease in prepaid tobacco excise taxes	(23,963)	(19,772)
Increase (decrease) in tobacco excise tax payables	103,651	(124,233)
Increase (decrease) in consumption tax payables	37,550	(39,976)
Other	(37,055)	(17,631)
Subtotal	707,703	304,505
Interest and dividends received	22,569	16,792
Interest paid	(7,050)	(2,831)
Income taxes paid	(179,526)	(118,410)
Net cash flows from operating activities	543,696	200,056
Cash flows from investing activities		
Purchase of securities	(3,280)	(1,211)
Proceeds from sale and redemption of securities	4,769	2,793
Purchase of property, plant and equipment	(106,655)	(82,017)
Proceeds from sale of investment property	85,653	707
Purchase of intangible assets	(7,749)	(10,296)
Payments into time deposits	(852)	(765)
Proceeds from withdrawal of time deposits	778	716
Purchase of investments in subsidiaries (Note 17)	(20,977)	(67,639)
Proceeds from sale of investments in subsidiaries (Note 19)	—	126,107
Other	(800)	(2,290)
Net cash flows from investing activities	(49,110)	(33,896)

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(181,635)	(187,501)
Dividends paid to non-controlling interests	(2,663)	(13,342)
Capital contribution from non-controlling interests	44	—
Increase (decrease) in short-term borrowings and commercial paper	6,373	16,352
Repayments of long-term borrowings	(1,225)	(30,139)
Proceeds from issuance of bonds	—	114,724
Redemption of bonds	(170,670)	—
Repayments of finance lease obligations	(3,837)	(2,833)
Acquisition of treasury shares	—	(100,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(35,246)	(318)
Other	0	0
Net cash flows from financing activities	(388,859)	(203,057)
Net increase (decrease) in cash and cash equivalents	105,727	(36,896)
Cash and cash equivalents at the beginning of the period	253,219	385,820
Effect of exchange rate changes on cash and cash equivalents	26,874	(12,797)
Cash and cash equivalents at the end of the period	385,820	336,126

【Notes to condensed interim consolidated financial statements】

1. Reporting entity

The Company is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (<http://www.jti.co.jp>).

The condensed interim consolidated financial statements for the three-month period ended September 30, 2015 and for the nine-month period ended September 30, 2015 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on November 4, 2015 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of preparation

The Group's condensed interim consolidated financial statements, which satisfy all the requirements concerning the "Specified Company" prescribed in Article 1-2 of the Ordinance on QCFS, are prepared in conformity with International Financial Reporting Standards pursuant to the provision of Article 93 of the Ordinance on QCFS.

The condensed interim consolidated financial statements are prepared in conformity with IAS 34 and do not include all information required for the consolidated financial statements for the fiscal year. They should be read along with the consolidated financial statements for the fiscal year ended December 31, 2014.

The Company and its subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31 since fiscal year 2014.

As a consequence of this change of fiscal year end, the condensed interim consolidated financial statements for the nine months ended December 31, 2014 were not prepared and the consolidated financial statements for the fiscal year ended December 31, 2014 were presented as the comparative information instead. The comparable period was the period from April 1, 2014 to December 31, 2014, and the third quarter of fiscal year 2015 was the period from January 1, 2015 to September 30, 2015.

In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries which operate the Group's international tobacco business (hereinafter referred to as the "JTIH" Group), continues to be December 31 as before, hence the Group consolidated the financial results of the JTIH Group for the twelve-month period from January 1, 2014 to December 31, 2014, and for the six-month period from July 1, 2014 to December 31, 2014 into the Group's consolidated financial results for the nine months ended December 31, 2014, and for the three months ended December 31, 2014, respectively.

Assuming that the comparable period of the Group had been the nine-month period from January 1, 2014 to September 30, 2014, revenue from continuing operations, operating profit from continuing operations, adjusted operating profit from continuing operations, and profit for the period attributable to owners of the parent company would have been ¥1,677,012 million, ¥491,149 million, ¥523,941 million, and ¥332,951 million, respectively.

(Changes in method of presentation)

For the nine months ended September 30, 2015, continuing operations and discontinued operations have been presented separately. To reflect the changes in method of presentation, the condensed interim consolidated statement of income, the condensed interim consolidated statement of cash flows and relevant notes to the condensed interim consolidated financial statements for the nine months ended December 31, 2014 have been accordingly changed.

For discontinued operations, please refer to "18. Discontinued operations."

3. Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2014 except the following items.

The Group computes income taxes for the interim period based on the estimated average annual effective tax rate.

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and interpretations from the quarter ended March 31, 2015.

	IFRS	Description of new standards and amendments
IFRS 9	Financial Instruments (Amended in November 2013)	Amendments to hedge accounting
IAS 19	Employee Benefits	Clarifying the accounting treatment for contributions from employees or third parties set out in the formal terms of defined benefit plans.

The effect of the above standards and interpretations on the condensed interim consolidated financial statements is immaterial.

IFRS 9 mentioned above has been early adopted.

4. Significant accounting estimates and judgments

Preparation of condensed interim consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the interim period end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the interim period end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the fiscal year ended December 31, 2014.

5. Operating segments

(1) Outline of reportable segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.” They are determined by types of products, characteristics, and markets.

The “Domestic Tobacco Business” manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company’s China Division operates). The “International Tobacco Business” manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The “Pharmaceutical Business” consists of research and development, and the manufacture and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and room-temperature processed foods, bakery products and seasonings.

In addition, “Beverage Business” has been classified to discontinued operations from the nine months ended September 30, 2015.

For discontinued operations, please refer to “18. Discontinued operations.”

(2) Revenues and performances of reportable segments

Revenues and performances of reportable segments from continuing operations are as follows. The Board of Directors assesses the segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expenses are excluded from segment performance. Transactions within the segments are based mainly on prevailing market prices.

For the nine months ended December 31, 2014

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 4)	506,725	1,328,005	47,555	123,351	2,005,637	14,108	—	2,019,745
Intersegment revenue	12,776	39,445	—	21	52,242	4,046	(56,288)	—
Total revenue	<u>519,501</u>	<u>1,367,450</u>	<u>47,555</u>	<u>123,373</u>	<u>2,057,879</u>	<u>18,154</u>	<u>(56,288)</u>	<u>2,019,745</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>172,235</u>	<u>447,053</u>	<u>(6,914)</u>	<u>1,259</u>	<u>613,634</u>	<u>(25,266)</u>	<u>317</u>	<u>588,684</u>

For the nine months ended September 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 4)	504,775	995,537	53,410	120,464	1,674,186	14,282	—	1,688,468
Intersegment revenue	15,237	35,237	—	28	50,501	7,450	(57,951)	—
Total revenue	<u>520,011</u>	<u>1,030,774</u>	<u>53,410</u>	<u>120,492</u>	<u>1,724,687</u>	<u>21,732</u>	<u>(57,951)</u>	<u>1,688,468</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>197,617</u>	<u>328,498</u>	<u>(3,260)</u>	<u>1,306</u>	<u>524,161</u>	<u>(13,465)</u>	<u>(362)</u>	<u>510,334</u>

Reconciliation from “Adjusted operating profit” to “Profit before income taxes”

For the nine months ended December 31, 2014

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	172,235	447,053	(6,914)	1,259	613,634	(25,266)	317	588,684
Amortization cost of acquired intangibles	—	(29,465)	—	—	(29,465)	—	—	(29,465)
Adjustment items (income) (Note 5)	76	4,221	—	3	4,300	40,002	—	44,302
Adjustment items (costs) (Note 5)	(56,680)	(42,351)	—	(2,215)	(101,246)	(2,395)	—	(103,641)
Operating profit (loss)	115,631	379,458	(6,914)	(953)	487,222	12,341	317	499,880
Financial income								13,808
Financial costs								(11,162)
Profit before income taxes								502,526

For the nine months ended September 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	197,617	328,498	(3,260)	1,306	524,161	(13,465)	(362)	510,334
Amortization cost of acquired intangibles	—	(23,398)	—	—	(23,398)	—	—	(23,398)
Adjustment items (income) (Note 5)	91	—	—	226	318	297	—	614
Adjustment items (costs) (Note 5)	(3,067)	(15,272)	—	(10)	(18,349)	(13,300)	—	(31,650)
Operating profit (loss)	194,641	289,828	(3,260)	1,523	482,732	(26,469)	(362)	455,901
Financial income								12,706
Financial costs								(11,268)
Profit before income taxes								457,340

- (Note 1) For adjusted operating profit, amortization cost of acquired intangibles, and adjustment items (income and costs) are excluded from operating profit (loss).
- (Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the “International Tobacco Business” segment, continues to have December 31 as its fiscal year end date as before, and the profit or loss for the period from January 1, 2014 to December 31, 2014 is included in the nine months ended December 31, 2014.
- (Note 3) “Other” includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.
- (Note 4) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Domestic Tobacco	478,692	478,234
International Tobacco	1,258,176	946,950

- (Note 5) “Adjustment items (income)” include restructuring income of gain on sale of real estate. “Adjustment items (costs)” include restructuring costs of the closing down of a factory. The breakdown of restructuring income is described in “10. Other operating income.” Restructuring costs included in “Cost of sales” were ¥70 million and ¥57 million for the nine months ended December 31, 2014 and September 30, 2015, respectively. Restructuring costs included in “Selling, general and administrative expenses” were ¥100,335 million and ¥31,592 million for the nine months ended December 31, 2014 and September 30, 2015, respectively. The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.” The breakdown of “Adjustment items (costs)” is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Restructuring costs	100,405	31,650
Other	3,236	—
Adjustment items (costs)	103,641	31,650

Restructuring costs for the nine months ended December 31, 2014 mainly relate to costs of measures to strengthen the competitiveness of “Domestic Tobacco Business” and restructuring of manufacturing facilities in Europe in the “International Tobacco Business.” Restructuring costs for the nine months ended September 30, 2015 mainly relate to rationalization of distribution system and factory platform in some markets in the “International Tobacco Business” and disposal of real estate.

For the three months ended December 31, 2014

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 4)	176,208	688,753	19,139	46,052	930,153	5,220	—	935,373
Intersegment revenue	4,888	20,900	—	8	25,796	1,367	(27,164)	—
Total revenue	<u>181,097</u>	<u>709,653</u>	<u>19,139</u>	<u>46,060</u>	<u>955,949</u>	<u>6,588</u>	<u>(27,164)</u>	<u>935,373</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>50,781</u>	<u>227,131</u>	<u>(489)</u>	<u>1,529</u>	<u>278,951</u>	<u>(18,954)</u>	<u>115</u>	<u>260,112</u>

For the three months ended September 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 4)	175,119	353,375	18,634	40,921	588,049	5,198	—	593,247
Intersegment revenue	4,617	11,713	—	10	16,340	2,312	(18,652)	—
Total revenue	<u>179,736</u>	<u>365,088</u>	<u>18,634</u>	<u>40,930</u>	<u>604,389</u>	<u>7,511</u>	<u>(18,652)</u>	<u>593,247</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>71,810</u>	<u>115,567</u>	<u>(1,136)</u>	<u>200</u>	<u>186,440</u>	<u>(4,964)</u>	<u>6</u>	<u>181,482</u>

Reconciliation from “Adjusted operating profit” to “Profit before income taxes”

For the three months ended December 31, 2014

(Millions of yen)

	Reportable Segments				Total	Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	50,781	227,131	(489)	1,529	278,951	(18,954)	115	260,112
Amortization cost of acquired intangibles	—	(14,761)	—	—	(14,761)	—	—	(14,761)
Adjustment items (income) (Note 5)	31	3,931	—	(409)	3,553	32,025	—	35,578
Adjustment items (costs) (Note 5)	(45,571)	(38,575)	—	(2,202)	(86,348)	(2,033)	—	(88,381)
Operating profit (loss)	5,241	177,726	(489)	(1,083)	181,396	11,038	115	192,548
Financial income								10,892
Financial costs								(4,203)
Profit before income taxes								199,237

For the three months ended September 30, 2015

(Millions of yen)

	Reportable Segments				Total	Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	71,810	115,567	(1,136)	200	186,440	(4,964)	6	181,482
Amortization cost of acquired intangibles	—	(8,165)	—	—	(8,165)	—	—	(8,165)
Adjustment items (income) (Note 5)	20	—	—	202	221	—	—	221
Adjustment items (costs) (Note 5)	(1,241)	(13,083)	—	(8)	(14,332)	(2,098)	—	(16,430)
Operating profit (loss)	70,589	94,318	(1,136)	394	164,165	(7,062)	6	157,108
Financial income								4,007
Financial costs								(3,955)
Profit before income taxes								157,160

- (Note 1) For adjusted operating profit, amortization cost of acquired intangibles, and adjustment items (income and costs) are excluded from operating profit (loss).
- (Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the “International Tobacco Business” segment, continues to have December 31 as its fiscal year end date as before, and the profit or loss for the period from July 1, 2014 to December 31, 2014 is included in the three months ended December 31, 2014.
- (Note 3) “Other” includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.
- (Note 4) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

	(Millions of yen)	
	Three months ended December 31, 2014	Three months ended September 30, 2015
Domestic Tobacco	166,274	166,028
International Tobacco	656,144	337,724

- (Note 5) “Adjustment items (income)” include restructuring income of gain on sale of real estate. “Adjustment items (costs)” include restructuring costs of the closing down of a factory. Restructuring costs included in “Cost of sales” were ¥70 million and ¥6 million for the three months ended December 31, 2014 and September 30, 2015, respectively. Restructuring costs included in “Selling, general and administrative expenses” were ¥85,074 million and ¥16,423 million for the three months ended December 31, 2014 and September 30, 2015, respectively.

The breakdown of “Adjustment items (costs)” is as follows:

	(Millions of yen)	
	Three months ended December 31, 2014	Three months ended September 30, 2015
Restructuring costs	85,145	16,430
Other	3,236	—
Adjustment items (costs)	88,381	16,430

Restructuring costs for the three months ended December 31, 2014 mainly relate to costs of measures to strengthen the competitiveness of “Domestic Tobacco Business” and restructuring of manufacturing facilities in Europe in the “International Tobacco Business.” Restructuring costs for the three months ended September 30, 2015 mainly relate to rationalization of distribution system and factory platform in some markets in the “International Tobacco Business.”

6. Property, plant and equipment, goodwill and intangible assets

The schedule of the carrying amounts of “Property, plant and equipment,” “Goodwill” and “Intangible assets” is as follows:

Carrying Amount	(Millions of yen)		
	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2015	756,127	1,539,376	364,912
Individual acquisition	84,425	—	11,230
Acquisition through business combinations	4,075	57,076	20,499
Transfer to investment property	(17,334)	—	—
Transfer to non-current assets held-for-sale	(89)	—	—
Depreciation or amortization	(68,806)	—	(35,692)
Impairment losses	(6,041)	—	(621)
Reversal of impairment loss	222	—	—
Sale or disposal	(7,208)	—	(332)
Decrease resulting from transfer of subsidiaries	(24,407)	(882)	(3,215)
Exchange differences on translation of foreign operations	(35,814)	(133,863)	(14,584)
Other	(983)	57	1,626
As of September 30, 2015	684,168	1,461,764	343,823

7. Bonds

For the nine months ended September 30, 2015, Ninth Series Straight Bond (carrying amount: ¥60.0 billion, interest rate: 0.217% per annum, maturity date: July 15, 2020), Tenth Series Straight Bond (carrying amount: ¥30.0 billion, interest rate: 0.358% per annum, maturity date: July 15, 2022), and Eleventh Series Straight Bond (carrying amount: ¥25.0 billion, interest rate: 0.599% per annum, maturity date: July 15, 2025) have been issued.

8. Dividends

Dividends paid for each interim period are as follows:

For the nine months ended December 31, 2014

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (June 24, 2014)	Ordinary shares	90,877	50	March 31, 2014	June 25, 2014
Board of Directors (October 30, 2014)	Ordinary shares	90,878	50	September 30, 2014	December 1, 2014

For the nine months ended September 30, 2015

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 20, 2015)	Ordinary shares	90,878	50	December 31, 2014	March 23, 2015
Board of Directors (August 3, 2015)	Ordinary shares	96,696	54	June 30, 2015	September 1, 2015

Dividends, for which the effective date falls in the following quarter period, are as follows:

For the nine months ended December 31, 2014

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 20, 2015)	Ordinary shares	90,878	50	December 31, 2014	March 23, 2015

9. Revenue

The reconciliation from “Gross turnover” to “Revenue” from continuing operations for each interim period is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Gross turnover	6,443,768	5,577,058
Tobacco excise taxes and agency transaction amount	(4,424,023)	(3,888,590)
Revenue	<u>2,019,745</u>	<u>1,688,468</u>

10. Other operating income

The breakdown of “Other operating income” from continuing operations for each interim period is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	40,917	823
Other (Note)	6,502	3,119
Total	<u>47,419</u>	<u>3,942</u>

(Note) The amount of restructuring income included in each account is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Gain on sale of property, plant and equipment, intangible assets and investment property	40,005	390
Other	669	224
Total	<u>40,674</u>	<u>614</u>

11. Selling, general and administrative expenses

The breakdown of “Selling, general and administrative expenses” from continuing operations for each interim period is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Advertising expenses	20,501	15,924
Promotion expenses	108,032	75,568
Shipping, warehousing expenses	18,765	19,941
Commission	44,090	35,431
Employee benefit expenses (Note)	297,551	195,305
Research and development expenses	44,008	42,240
Depreciation and amortization	55,015	48,793
Impairment losses on other than financial assets (Note)	21,877	6,128
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	14,061	14,364
Other (Note)	128,658	107,674
Total	752,559	561,368

(Note) The amount of restructuring costs included in each account is as follows:

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Employee benefit expenses	66,814	3,208
Impairment losses on other than financial assets	18,078	4,600
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property	5,111	10,937
Other	10,333	12,847
Total	100,335	31,592

12. Financial income and financial costs

The breakdown of “Financial income” and “Financial costs” from continuing operations for each interim period is as follows:

Financial income	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Dividend income	652	1,449
Interest income	12,869	11,034
Other	287	224
Total	13,808	12,706

Financial costs	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Interest expenses (Note 2)	4,524	2,931
Foreign exchange losses (Note 1)	426	3,896
Employee benefit expenses (Note 3)	5,397	2,889
Other	815	1,552
Total	11,162	11,268

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.

(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses.

(Note 3) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

13. Other comprehensive income

“Remeasurements of defined benefit plans” for the nine months ended September 30, 2015 include remeasurements arising from the effects of significant market fluctuations in relation to retirement benefit assets or liabilities.

14. Interim earnings per share

(For the nine-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Profit for the period attributable to owners of the parent company	362,919	404,395
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	362,919	404,395
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(1,583)	87,331
Profit for the period from continuing operations used for calculation of basic interim earnings per share	364,502	317,064

b. Weighted-average number of ordinary shares outstanding during the period

	(Thousands of shares)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Weighted-average number of shares during the period	1,817,553	1,796,784

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

	(Millions of yen)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Profit for the period used for calculation of basic interim earnings per share	362,919	404,395
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	362,919	404,395
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(1,583)	87,331
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	364,502	317,064

b. Weighted-average number of diluted ordinary shares outstanding during the period

	(Thousands of shares)	
	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Weighted-average number of ordinary shares during the period	1,817,553	1,796,784
Increased number of ordinary shares under subscription rights to share	1,048	1,113
Weighted-average number of diluted ordinary shares during the period	1,818,601	1,797,897

(For the three-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

	(Millions of yen)	
	Three months ended December 31, 2014	Three months ended September 30, 2015
Profit for the period attributable to owners of the parent company	143,578	192,929
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	143,578	192,929
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(895)	87,508
Profit for the period from continuing operations used for calculation of basic interim earnings per share	144,473	105,421

b. Weighted-average number of ordinary shares outstanding during the period

	(Thousands of shares)	
	Three months ended December 31, 2014	Three months ended September 30, 2015
Weighted-average number of shares during the period	1,817,556	1,790,695

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

	(Millions of yen)	
	Three months ended December 31, 2014	Three months ended September 30, 2015
Profit for the period used for calculation of basic interim earnings per share	143,578	192,929
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	143,578	192,929
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(895)	87,508
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	144,473	105,421

b. Weighted-average number of diluted ordinary shares outstanding during the period

	(Thousands of shares)	
	Three months ended December 31, 2014	Three months ended September 30, 2015
Weighted-average number of ordinary shares during the period	1,817,556	1,790,695
Increased number of ordinary shares under subscription rights to share	1,063	1,118
Weighted-average number of diluted ordinary shares during the period	1,818,619	1,791,813

15. Financial instruments

(Fair value of financial instruments)

The carrying amount and fair value of financial instruments measured at amortized cost are as follows:

	(Millions of yen)			
	As of December 31, 2014		As of September 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	40,976	40,976	1,050	1,050
Bonds (Note)	139,954	142,586	254,726	257,053
(Note) Current portion is included.				

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value of bonds issued by the Group is based on the market price for those having market prices, and based on the present value that is obtained by discounting the total of principal and interest by the interest rate, for which the remaining period and credit risk of such bonds are taken into consideration.

The fair value hierarchy of financial instruments is categorized as follows from Level 1 to Level 3:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include input that is not based on observable market data

The fair value hierarchy of financial instruments measured at fair value is as follows:

As of December 31, 2014				(Millions of yen)
	Level 1	Level 2	Level 3	Total
Derivative assets	—	31,837	—	31,837
Equity securities	55,499	—	3,856	59,355
Other	279	—	1,555	1,834
Total	<u>55,778</u>	<u>31,837</u>	<u>5,411</u>	<u>93,025</u>
Derivative liabilities	—	10,010	—	10,010
Total	<u>—</u>	<u>10,010</u>	<u>—</u>	<u>10,010</u>
As of September 30, 2015				(Millions of yen)
	Level 1	Level 2	Level 3	Total
Derivative assets	—	9,325	—	9,325
Equity securities	65,947	—	4,876	70,823
Other	300	—	1,743	2,043
Total	<u>66,248</u>	<u>9,325</u>	<u>6,618</u>	<u>82,191</u>
Derivative liabilities	—	4,528	—	4,528
Total	<u>—</u>	<u>4,528</u>	<u>—</u>	<u>4,528</u>

16. Commitments

Commitments for the acquisition of assets after each closing date are as follows:

	(Millions of yen)	
	As of December 31, 2014	As of September 30, 2015
Acquisition of property, plant and equipment	64,832	60,168

17. Business combinations

For the nine months ended September 30, 2015, the Group has made several acquisitions. As none of them is material to the condensed interim consolidated financial statements, the description for each acquisition is omitted.

The total considerations for the acquisitions and the breakdown are as follows:

	(Millions of yen)	
	Considerations paid	
Cash	66,768	
Consideration adjustments	12,963	
Total considerations	79,730	

	(Millions of yen)	
	Net cash outflow for the acquisitions of subsidiaries	
Cash consideration	66,768	
Cash and cash equivalents in subsidiaries acquired	(102)	
Net cash outflow for the acquisitions of subsidiaries	66,666	

Total fair values of the assets acquired and liabilities assumed from the acquisitions are as follows:

	(Millions of yen)	
	Fair value	
Current assets	4,934	
Non-current assets	25,326	
Total assets	30,260	
Current liabilities	4,107	
Non-current liabilities	2,402	
Total liabilities	6,509	
Goodwill	55,979	

Goodwill reflects integration synergies including future economic benefits from enhanced business scale in each market. Fair values of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and will change during the measurement period (one year from the acquisition date).

On September 29, 2015, the Group entered into an agreement with the Reynolds American Inc. group (“RAI”) to acquire the Natural American Spirit business outside the United States which included the non-U.S. trademarks and all outstanding shares of RAI’s subsidiaries outside the U.S. which sold the brand. The transaction is expected to be completed by early 2016 after completing necessary procedures and the acquisition price would be approximately ¥600 billion.

18. Discontinued operations

(1) General information of discontinued operations

The Group classifies continuing operations and discontinued operations based on operating segments. As a result, for a business not managed as an independent operating segment, it will not be classified as discontinued operations when sold or discontinued and its operating income (loss) and cash flows will be included in the operating income (loss) and cash flows of continuing operations.

Shares of Japan Beverage Holdings Inc., JT A-star Co., Ltd. and other subsidiaries conducting vending machine operation business were transferred to Suntory Beverage & Food Limited (“SBF”) on July 31, 2015 and the manufacture and sale of JT beverage products was discontinued at the end of September, 2015. Accordingly, for the nine months ended September 30, 2015, “Beverage Business” has been classified as discontinued operations and presented separately from continuing operations.

(2) Profit and loss of discontinued operations

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Profit and loss of discontinued operations		
Revenue	134,225	88,607
Cost of sales	(63,729)	(40,526)
Gross profit	70,495	48,081
Other operating income (Note 1)	232	134,406
Selling, general and administrative expenses (Note 2)	(70,850)	(63,289)
Operating profit	(123)	119,198
Financial income	39	28
Financial costs	(143)	(150)
Profit before income taxes	(227)	119,076
Income taxes (Note 3)	861	(31,467)
Profit for the period from discontinued operations	(1,088)	87,609
Attributable to:		
Owners of the parent company	(1,583)	87,331
Non-controlling interests	495	278
Profit for the period from discontinued operations	(1,088)	87,609

(Note 1) Gain of ¥133,619 million arising from sale of subsidiaries conducting vending machine operation business is included in the nine months ended September 30, 2015.

(Note 2) Impairment losses of ¥3,138 million are included in the nine months ended September 30, 2015.

(Note 3) Tax expense of ¥36,258 million related to transfer of subsidiaries is included in the nine months ended September 30, 2015.

(3) Cash flows of discontinued operations

(Millions of yen)

	Nine months ended December 31, 2014	Nine months ended September 30, 2015
Cash flows of discontinued operations		
Cash flows from operating activities	3,297	3,717
Cash flows from investing activities (Note)	(5,571)	123,092
Cash flows from financing activities	(1,903)	(13,197)
Total	<u>(4,177)</u>	<u>113,612</u>

(Note) Proceeds from sale of investments in subsidiaries conducting vending machine operation business are included in the nine months ended September 30, 2015.

19. Transfer of subsidiaries

On July 31, 2015, shares of Japan Beverage Holdings Inc., JT A-star Co., Ltd., and other fourteen subsidiaries conducting vending machine operation business were transferred to SBF.

The consideration is ¥147,770 million and all is received in cash.

	(Millions of yen)
	Net cash inflow from transfer of subsidiaries
Cash consideration received	147,770
Cash and cash equivalents in subsidiaries transferred	(21,664)
Net cash inflow from transfer of subsidiaries	126,107

The breakdown for assets and liabilities transferred is as follows:

	(Millions of yen)
	Book value
Current assets	40,047
Non-current assets	32,001
Total assets	72,048
Current liabilities	35,716
Non-current liabilities	16,137
Total liabilities	51,853

20. Contingencies

Significant changes to the contingent liabilities described in the consolidated financial statements for the fiscal year ended December 31, 2014 are as follows:

Canada Quebec Class Action (Cecilia Letourneau):

In respect of the class action brought in September 1998, against the three Canadian tobacco manufacturers including JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”), the Company’s Canadian subsidiary, the Quebec Superior Court rendered the first instance judgment in May 2015 (publicly released in June 2015), ordering the punitive damage award against the defendants of approximately ¥11.7 billion (CAD 131 million), in which the total damage award against JTI-Mac is approximately ¥1.1 billion (approximately CAD 13 million). Although the Court found that the defendants had all committed some faults, it refused to award moral damages because the evidence did not establish the total amount of the claims of class members.

In June 2015, JTI-Mac appealed the said judgment to the Quebec Court of Appeal. Moreover, although the Quebec Superior Court granted provisional execution of the judgment, ordering the defendants to pay the said damage award within 60 days of the judgment, the Quebec Court of Appeal granted JTI-Mac’s motion to cancel the provisional execution order and cancelled the said order in July 2015.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):

In respect of the class action brought in November 1998, against the three Canadian tobacco manufacturers including JTI-Mac, the Quebec Superior Court rendered the first instance judgment in May 2015 (publicly released in June 2015), ordering the joint and several damage award against the defendants of approximately ¥1,384.8 billion (CAD 15.5 billion) in compensatory damages, in which the total damage award against JTI-Mac is approximately ¥180.0 billion (CAD 2.015 billion). Given the enormity of the said damage award, the Court granted a symbolic amount of punitive damages of approximately ¥3 million (CAD 30,000) per defendant.

In June 2015, JTI-Mac appealed the said judgment to the Quebec Court of Appeal. Moreover, although the Quebec Superior Court granted provisional execution of the judgment, ordering the defendants to pay a portion of said damage award within 60 days of the judgment, the Quebec Court of Appeal granted JTI-Mac’s motion to cancel the provisional execution order and cancelled the said order in July 2015.

21. Subsequent events

No items to report

2. Other

(1) Dividends

The Board of Directors, at a meeting held on August 3, 2015, declared the following interim dividends for the current fiscal year.

- | | |
|---|-------------------|
| (a) Total amount of interim dividends | ¥96,696 million |
| (b) Amount per share | ¥54.00 |
| (c) Effective date of requests for payment, and commencement date of payments | September 1, 2015 |

Note: Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2015.

(2) Significant lawsuits

The significant lawsuits against the Group are as stated in “20. Contingencies” in the notes to condensed interim consolidated financial statements.

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

November 4, 2015

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Koji Ishikawa (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Takenao Ohashi (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of September 30, 2015, and the related condensed interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the nine-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan.

A review consists primarily of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical procedures and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that we have obtained the evidence to provide a basis for our conclusion.

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of September 30, 2015, and the consolidated results of their operations for the three-month and nine-month periods then ended, and their cash flows for the nine-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.