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Date of filing:	May 6, 2016
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Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
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	Three months ended March 31, 2015	Three months ended March 31, 2016	31st term
Accounting period	From January 1, 2015 to March 31, 2015	From January 1, 2016 to March 31, 2016	From January 1, 2015 to December 31, 2015
Revenue (Millions of yen)	516,651	534,088	2,252,884
Profit before income taxes (Millions of yen)	146,067	200,339	565,113
Profit for the period (Millions of yen)	105,036	146,403	490,242
Profit attributable to owners of the parent company (Millions of yen)	104,195	145,445	485,691
Comprehensive income (loss) for the period (Millions of yen)	(73,087)	33,538	207,708
Total equity (Millions of yen)	2,356,900	2,441,338	2,521,524
Total assets (Millions of yen)	4,342,002	4,699,527	4,558,235
Basic earnings per share (Yen)	57.59	81.22	270.54
Diluted earnings per share (Yen)	57.56	81.17	270.37
Ratio of equity attributable to owners of the parent company to total assets (%)	52.33	50.45	53.78
Net cash flows from operating activities (Millions of yen)	(140,326)	(172,299)	468,432
Net cash flows from investing activities (Millions of yen)	(34,910)	(558,852)	(63,271)
Net cash flows from financing activities (Millions of yen)	(12,230)	370,532	(254,852)
Cash and cash equivalents at the end of the period (Millions of yen)	195,182	159,235	526,765

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 the Company prepares quarterly consolidated financial statements.
3. The yen amounts are rounded to the nearest million.
4. Revenue does not include consumption taxes.
5. In its 31st term the Group classified "Beverage Business" as discontinued operations and the figures presented for the three months ended March 31, 2015 have been restated. Consequently, only revenue and profit before income taxes from continuing operations are presented. Furthermore, the figures presented for the three months ended March 31, 2016 are for continuing operations only.

2. Business description

During the three months ended March 31, 2016, there were neither material changes in the business of the Group (the Company, 202 consolidated subsidiaries and 12 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

II. Review of operations

1. Business and other risks

During the three months ended March 31, 2016, 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

No important operational contracts were determined or entered into during the first quarter ended March 31, 2016.

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

Matters concerning the future in this document were determined by the Group as of March 31, 2016.

(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 the Company applies. These financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group's target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group's performance.

Core revenue from tobacco business

Regarding tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the revenue from the Domestic Tobacco Business is presented after deducting imported tobacco delivery charges, among others, while the revenue from the International Tobacco Business is presented after deducting the revenue from the distribution business and the contract manufacturing, among others.

Adjusted operating profit

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

Furthermore, adjusted operating profit (at constant rates of exchange) growth rate 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 year.

(1) Operating results

The Group classified “Beverage Business” as discontinued operations in the previous fiscal year. As a result, profit (loss) from discontinued operations for the three months ended March 31, 2015 is presented separately from that from continuing operations as “profit for the period from discontinued operations (attributable to owners of the parent company).”

<Revenue>

Revenue increased by ¥17.4 billion, or 3.4%, from the same period of the previous year to ¥534.1 billion. This was mainly the result of a one off increase in demand ahead of retail price amendment of certain products in April 2016 and the effects of the acquisition of the Natural American Spirit business outside the U.S. in the Domestic Tobacco Business, as well as a one off milestone revenue for out-licensed compounds and an increase in royalty income in the Pharmaceutical Business.

(Billions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Revenue	516.7	534.1	17.4	3.4%
Domestic Tobacco Business	157.8	168.4	10.6	6.7%
Of which, core revenue	149.6	160.6	11.0	7.4%
International Tobacco Business	299.9	301.8	2.0	0.7%
Of which, core revenue	282.3	284.7	2.4	0.9%
Pharmaceutical Business	16.6	21.5	4.9	29.5%
Processed Food Business	38.9	39.4	0.5	1.3%

* 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 rose by ¥5.1 billion, or 3.2%, from the same period of the previous year to ¥164.4 billion, with the increase in revenue and the effects of measures to strengthen the competitiveness of the Domestic Tobacco Business offsetting unfavorable foreign exchange effects on the International Tobacco Business. Adjusted operating profit at constant rates of exchange rose by 20.6% from the same period of the previous year.

In addition to growth in profit from business activities, operating profit benefited from gain on sales of real estate and the like, rising by ¥59.6 billion, or 41.3%, from the same period of the previous year to ¥203.7 billion. Profit for the period from continuing operations attributable to owners of the parent company increased by ¥40.4 billion, or 38.4%, from the same period of the previous year to ¥145.4 billion.

(Billions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Adjusted operating profit	159.2	164.4	5.1	3.2%
Domestic Tobacco Business	57.0	65.7	8.8	15.4%
International Tobacco Business	105.0	99.5	(5.5)	(5.2)%
Pharmaceutical Business	(0.8)	3.2	4.0	–
Processed Food Business	0.9	1.2	0.3	29.4%
Operating profit	144.1	203.7	59.6	41.3%
Profit for the period from continuing operations (attributable to owners of the parent company)	105.1	145.4	40.4	38.4%

	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Profit for the period from discontinued operations (attributable to owners of the parent company)	(0.9)	–	–	–
Profit attributable to owners of the parent company	104.2	145.4	41.2	39.6%

* 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 increased by 6.7% from the same period of the previous year due mainly to a one off increase in demand ahead of a retail price amendment of certain products in April 2016, as well as the effects of the acquisition of the Natural American Spirit business outside the U.S.. Market share came to 62.4% (compared with a share of 59.9% for the previous year).

(Billions of cigarettes)

Domestic Tobacco Business	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Sales volume	25.5	27.2	1.7	6.7%

* In addition to the figure stated above, during the three months ended March 31, 2016, 1.0 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 the Company's China Division (0.9 billion cigarettes in the same period of the previous year).

Due to rising sales volume and the like, core revenue rose by 7.4% over the same period of the previous year. Domestic cigarette revenue per 1,000 cigarettes came to ¥5,672.
Adjusted operating profit, helped by higher sales volume and the effects of measures to strengthen competitiveness, rose by 15.4% from the same period of the previous year.

(Billions of yen)

Domestic Tobacco Business	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Revenue	157.8	168.4	10.6	6.7%
Of which, core revenue	149.6	160.6	11.0	7.4%
Adjusted operating profit	57.0	65.7	8.8	15.4%

International Tobacco Business

In the three months ended March 31, 2016, despite factors including the impact of a decline in total demand in Russia, total shipment volume(Note 1) grew by 7.1% from the same period of the previous year, and GFB(Note 2) shipment volume increased by 10.7%. This mainly reflected market share gains in several countries, the effects of the acquisition of an operating company in Iran and the Natural American Spirit business outside the U.S., and positive one-off impacts from trade inventory adjustments.

(Billions of cigarettes)

International Tobacco Business	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Total shipment volume	88.1	94.4	6.3	7.1%
Of which, GFBs	60.0	66.4	6.4	10.7%

Despite favorable pricing in addition to the increase in shipment volume, dollar-based core revenue increased by 4.2% from the same period of the previous year, and adjusted operating profit decreased by 2.1%, due mainly to unfavorable foreign exchange effects on some local currencies, particularly the ruble. Adjusted operating profit at constant rates of exchange increased by 21.1%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Revenue	2,517	2,617	100	4.0%
Of which, core revenue	2,369	2,468	99	4.2%
Adjusted operating profit	881	863	(18)	(2.1)%

As a result of the effects of a strong yen when making conversions to that currency, yen-based core revenue increased by 0.9% from the same period of the previous year, and adjusted operating profit decreased by 5.2% from the same period of the previous year.

(Billions of yen)

International Tobacco Business	Three months ended March 31, 2015	Three months ended March 31, 2016	Change	
Revenue	299.9	301.8	2.0	0.7%
Of which, core revenue	282.3	284.7	2.4	0.9%
Adjusted operating profit	105.0	99.5	(5.5)	(5.2)%

Note 1: Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and emerging products.

Note 2: GFBs (Global Flagship Brands) consist of nine brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, Mevius, LD, Benson & Hedges, Glamour, Sobranie, Silk Cut and Natural American Spirit.

* The exchange rates of currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	Three months ended March 31, 2015	Three months ended March 31, 2016
Yen	119.16	115.35
Ruble	62.27	74.68
Pounds sterling	0.66	0.70
Euro	0.89	0.91

Pharmaceutical Business

The Company has been striving to make a stable contribution to the Group's profits by promoting R&D on next-generation strategic products and by maximizing the value of each product. In the area of product development, eight compounds are in clinical development.

During the three months ended March 31, 2016, the Company has filed a New Drug Application for an anti-HIV drug "elvitegravir/cobicistat/emtricitabine/tenofovir alafenamide fumarate" to the Japanese Ministry of Health, Labour and Welfare in March 2016.

For anti-HIV drug "emtricitabine/tenofovir alafenamide fumarate," the Company plans to submit a New Drug Application in the third quarter of FY2016, to the Japanese Ministry of Health, Labour and Welfare.

Revenue increased ¥4.9 billion, or 29.5%, from the same period of the previous year to ¥21.5 billion, due to a one off milestone revenue related to R&D progress of an original JT compound that has been out-licensed, and higher royalty revenue. Adjusted operating profit rose by ¥4.0 billion as a result of higher revenue to reach ¥3.2 billion (compared to adjusted operating loss of ¥0.8 billion in the same period of the previous year).

Processed Food Business

In the three months ended March 31, 2016, the Group worked to actively promote sales mainly in its priority areas of staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, while also launching new products and renewed products.

Revenue increased by ¥0.5 billion, or 1.3%, from the same period of the previous year to ¥39.4 billion, due to strong sales of frozen and ambient processed foods, as well as seasonings. Adjusted operating profit increased by ¥0.3 billion, or 29.4%, from the same period of the previous year to ¥1.2 billion, due mainly to the increase in revenue.

(2) Operational and financial issues to be addressed

During the three months ended March 31, 2016, 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 of the entire Group during the three months ended March 31, 2016, were ¥14.2 billion.

During the three months ended March 31, 2016, 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) 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 three months ended March 31, 2016 decreased by ¥367.5 billion from the end of the previous fiscal year to ¥159.2 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥195.2 billion.

Cash flows from (used in) operating activities

Net cash flows used in operating activities during the three months ended March 31, 2016 were ¥172.3 billion, compared with ¥140.3 billion used in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes despite the generation of a stable cash inflow from the tobacco business.

The last day of the previous fiscal year was a holiday for financial institutions. As a result, the amount of national tobacco excise tax payable for the three months ended March 31, 2016 is for four months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended March 31, 2016 were ¥558.9 billion, compared with ¥34.9 billion used in the same period of the previous year. This was mainly due to the acquisition of the Natural American Spirit business outside the U.S.

Cash flows from (used in) financing activities

Net cash flows from financing activities during the three months ended March 31, 2016 were ¥370.5 billion, compared with ¥12.2 billion used in the same period of the previous year. This was mainly due to the borrowings for the acquisition of the Natural American Spirit business outside the U.S., despite the payment of cash dividends.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2015 and as of March 31, 2016 accounted for ¥215.1 billion and ¥211.1 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥1.0 billion and ¥0.9 billion respectively. Long-term lease obligations totaled ¥7.8 billion as of December 31, 2015 and ¥7.4 billion as of March 31, 2016.

Short-term debt

Short-term borrowings from financial institutions totaled ¥30.8 billion as of December 31, 2015 and ¥496.9 billion as of March 31, 2016, respectively. There was no commercial paper outstanding as of December 31, 2015 and March 31, 2016. Short-term lease obligations totaled ¥0.6 billion as of December 31, 2015 and ¥0.5 billion as of March 31, 2016.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of March 31, 2016, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a domestic commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

III. Filing company

1. Information on the Company’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 March 31, 2016)	Number of shares issued (Share; as of the date of filing: May 6, 2016)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company 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 shares issued by the Company (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. The Company’s standard class of shares with no rights limitations. Its share trading unit is 100 shares.

(2) Status of subscription rights to shares

No items to report

(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)
January 1, 2016 to March 31, 2016	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

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

(7) Status of voting rights

a. Shares issued

(As of March 31, 2016)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 209,193,200	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,780,700	17,907,807	(Note 2)
Shares less than one unit	Ordinary shares 26,100	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,907,807	–

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

3. Includes 31 shares of treasury shares.

b. Treasury shares

(As of March 31, 2016)

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, Toranomon 2-chome, Minato-ku, Tokyo, Japan	209,193,200	–	209,193,200	10.46
Total	–	209,193,200	–	209,193,200	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 three months ended March 31, 2016.

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 the three months ended March 31, 2016 were reviewed by Deloitte Touche Tohmatsu LLC.

1. 【Condensed interim consolidated financial statements】

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

(Millions of yen)

	As of December 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and cash equivalents	526,765	159,235
Trade and other receivables	406,387	400,363
Inventories	563,820	555,101
Other financial assets	17,849	20,283
Other current assets	280,493	360,297
Subtotal	1,795,313	1,495,280
Non-current assets held-for-sale	2,904	433
Total current assets	1,798,217	1,495,713
Non-current assets		
Property, plant and equipment (Note 6)	681,865	664,499
Goodwill (Notes 6, 16)	1,429,287	1,654,037
Intangible assets (Note 6)	332,478	477,546
Investment property	23,614	19,360
Retirement benefit assets	38,954	36,285
Investments accounted for using the equity method	59,523	59,686
Other financial assets	101,727	93,776
Deferred tax assets	92,570	198,624
Total non-current assets	2,760,017	3,203,813
Total assets	4,558,235	4,699,527

	As of December 31, 2015	As of March 31, 2016
		(Millions of yen)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	373,032	332,047
Bonds and borrowings	30,980	497,011
Income tax payables	106,391	58,399
Other financial liabilities	6,459	7,207
Provisions	19,297	18,995
Other current liabilities	729,761	601,853
Total current liabilities	1,265,920	1,515,510
Non-current liabilities		
Bonds and borrowings	215,938	211,902
Other financial liabilities	10,143	9,126
Retirement benefit liabilities	333,562	336,286
Provisions	9,210	6,674
Other non-current liabilities	113,958	100,644
Deferred tax liabilities	87,979	78,046
Total non-current liabilities	770,790	742,678
Total liabilities	2,036,710	2,258,189
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(444,333)	(444,138)
Other components of equity	(137,122)	(235,631)
Retained earnings	2,196,651	2,214,310
Equity attributable to owners of the parent company	2,451,596	2,370,942
Non-controlling interests	69,929	70,396
Total equity	2,521,524	2,441,338
Total liabilities and equity	4,558,235	4,699,527

(2) 【Condensed interim consolidated statement of income】

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Continuing operations		
Revenue (Notes 5, 8)	516,651	534,088
Cost of sales	(202,062)	(214,671)
Gross profit	314,589	319,416
Other operating income (Note 9)	1,240	57,098
Share of profit in investments accounted for using the equity method	905	860
Selling, general and administrative expenses (Note 10)	(172,598)	(173,683)
Operating profit (Note 5)	144,137	203,692
Financial income (Note 11)	4,312	2,183
Financial costs (Note 11)	(2,382)	(5,537)
Profit before income taxes	146,067	200,339
Income taxes	(40,320)	(53,936)
Profit for the period from continuing operations	105,747	146,403
Discontinued operations		
Profit (loss) for the period from discontinued operations	(711)	—
Profit for the period	105,036	146,403
Attributable to:		
Owners of the parent company	104,195	145,445
Non-controlling interests	841	958
Profit for the period	105,036	146,403
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 13)	58.09	81.22
Discontinued operations (Note 13)	(0.49)	—
Total basic earnings per share for the interim period (Note 13)	57.59	81.22
Diluted (Yen)		
Continuing operations (Note 13)	58.05	81.17
Discontinued operations (Note 13)	(0.49)	—
Total diluted earnings per share for the interim period (Note 13)	57.56	81.17

Reconciliation from "Operating profit" to "Adjusted operating profit"

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Continuing operations		
Operating profit	144,137	203,692
Amortization cost of acquired intangibles	7,457	12,212
Adjustment items (income)	(65)	(56,298)
Adjustment items (costs)	7,714	4,779
Adjusted operating profit (Note 5)	159,243	164,385

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Profit for the period	105,036	146,403
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	6,672	(3,129)
Remeasurements of defined benefit plans (Note 12)	(14,541)	(13,170)
Total of items that will not be reclassified to profit or loss	(7,869)	(16,299)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(170,420)	(95,133)
Net gain (loss) on derivatives designated as cash flow hedges	166	(1,433)
Total of items that may be reclassified subsequently to profit or loss	(170,255)	(96,566)
Other comprehensive income (loss), net of taxes	(178,123)	(112,865)
Comprehensive income (loss) for the period	(73,087)	33,538
Attributable to:		
Owners of the parent company	(73,502)	33,136
Non-controlling interests	415	402
Comprehensive income (loss) for the period	(73,087)	33,538

(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 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)	—	—	—	—	(169,865)	166	6,564
Comprehensive income (loss) for the period	—	—	—	—	(169,865)	166	6,564
Acquisition of treasury shares	—	—	(100,000)	—	—	—	—
Disposal of treasury shares	—	5	11	(16)	—	—	—
Share-based payments	—	—	—	29	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(11)
Other increase (decrease)	—	—	—	—	—	(462)	—
Total transactions with the owners	—	5	(99,988)	13	—	(462)	(11)
As of March 31, 2015	100,000	736,405	(444,435)	1,644	(53,443)	919	29,710
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(94,663)	(1,433)	(3,041)
Comprehensive income (loss) for the period	—	—	—	—	(94,663)	(1,433)	(3,041)
Acquisition of treasury shares	—	—	—	—	—	—	—
Disposal of treasury shares	—	—	196	(170)	—	—	—
Share-based payments	—	—	—	44	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(134)
Other increase (decrease)	—	—	—	—	—	889	—
Total transactions with the owners	—	—	196	(127)	—	889	(134)
As of March 31, 2016	100,000	736,400	(444,138)	1,815	(267,135)	(420)	30,109

(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 January 1, 2015	–	142,425	1,902,460	2,536,838	85,665	2,622,503
Profit for the period	–	–	104,195	104,195	841	105,036
Other comprehensive income (loss)	(14,562)	(177,697)	–	(177,697)	(426)	(178,123)
Comprehensive income (loss) for the period	(14,562)	(177,697)	104,195	(73,502)	415	(73,087)
Acquisition of treasury shares	–	–	–	(100,000)	–	(100,000)
Disposal of treasury shares	–	(16)	–	0	–	0
Share-based payments	–	29	–	29	–	29
Dividends (Note 7)	–	–	(90,878)	(90,878)	(1,166)	(92,044)
Changes in the scope of consolidation	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	14,562	14,551	(14,551)	–	–	–
Other increase (decrease)	–	(462)	–	(462)	(38)	(500)
Total transactions with the owners	14,562	14,102	(105,429)	(191,311)	(1,204)	(192,515)
As of March 31, 2015	–	(21,171)	1,901,226	2,272,025	84,876	2,356,900
As of January 1, 2016	–	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	–	–	145,445	145,445	958	146,403
Other comprehensive income (loss)	(13,172)	(112,309)	–	(112,309)	(556)	(112,865)
Comprehensive income (loss) for the period	(13,172)	(112,309)	145,445	33,136	402	33,538
Acquisition of treasury shares	–	–	–	–	–	–
Disposal of treasury shares	–	(170)	(25)	0	–	0
Share-based payments	–	44	–	44	–	44
Dividends (Note 7)	–	–	(114,606)	(114,606)	(868)	(115,474)
Changes in the scope of consolidation	–	–	–	–	933	933
Changes in the ownership interest in a subsidiary without a loss of control	–	–	(117)	(117)	(0)	(117)
Transfer from other components of equity to retained earnings	13,172	13,038	(13,038)	–	–	–
Other increase (decrease)	–	889	–	889	–	889
Total transactions with the owners	13,172	13,800	(127,786)	(113,790)	65	(113,725)
As of March 31, 2016	–	(235,631)	2,214,310	2,370,942	70,396	2,441,338

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Cash flows from operating activities		
Profit before income taxes	146,067	200,339
Profit before income taxes from discontinued operations	(774)	—
Depreciation and amortization	35,080	36,406
Impairment losses	438	378
Interest and dividend income	(4,239)	(2,160)
Interest expense	921	1,969
Share of profit in investments accounted for using the equity method	(905)	(860)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	4,953	(27,129)
(Gains) losses on sale of investments in subsidiaries	—	(26,116)
(Increase) decrease in trade and other receivables	21,389	(4,999)
(Increase) decrease in inventories	4,290	(5,460)
Increase (decrease) in trade and other payables	(20,841)	(29,298)
Increase (decrease) in retirement benefit liabilities	(7,665)	(6,872)
(Increase) decrease in prepaid tobacco excise taxes	(56,829)	(83,689)
Increase (decrease) in tobacco excise tax payables	(118,226)	(100,793)
Increase (decrease) in consumption tax payables	(39,890)	(1,159)
Other	(57,280)	(18,565)
Subtotal	(93,511)	(68,009)
Interest and dividends received	4,377	1,421
Interest paid	(976)	(1,506)
Income taxes paid (Note 17)	(50,216)	(104,205)
Net cash flows from operating activities	(140,326)	(172,299)
Cash flows from investing activities		
Purchase of securities	(51)	(234)
Proceeds from sale and redemption of securities	86	644
Purchase of property, plant and equipment	(29,717)	(22,660)
Proceeds from sale of investment property	70	28,462
Purchase of intangible assets	(3,294)	(2,346)
Payments into time deposits	(193)	(195)
Proceeds from withdrawal of time deposits	162	187
Payments for business combinations (Note 16)	—	(586,796)
Proceeds from sale of investments in subsidiaries	—	26,989
Other	(1,974)	(2,901)
Net cash flows from investing activities	(34,910)	(558,852)

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 7)	(90,167)	(113,573)
Dividends paid to non-controlling interests	(522)	(479)
Increase (decrease) in short-term borrowings and commercial paper	179,720	484,785
Repayments of long-term borrowings	(63)	(62)
Repayments of finance lease obligations	(1,199)	(138)
Acquisition of treasury shares	(100,000)	―
Other	0	0
Net cash flows from financing activities	(12,230)	370,532
Net increase (decrease) in cash and cash equivalents	(187,466)	(360,619)
Cash and cash equivalents at the beginning of the period	385,820	526,765
Effect of exchange rate changes on cash and cash equivalents	(3,172)	(6,910)
Cash and cash equivalents at the end of the period	195,182	159,235

【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 (https://www.jti.co.jp).

The condensed interim consolidated financial statements for the three-month period ended March 31, 2016 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on May 2, 2016 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, 2015.

(Changes in method of presentation)

For the prior year, 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 three months ended March 31, 2015 have been accordingly changed.

For discontinued operations, please refer to "17. Discontinued operations."

"Purchase of investments in subsidiaries," which was presented in cash flows from investing activities for the prior year, has been presented as "Payments for business combinations" to appropriately reflect the substance of the transaction for the three months ended March 31, 2016.

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, 2015 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, 2016.

IFRS		Description of new standards and amendments
IAS 19	Employee Benefits	Clarifying the method of determining the discount rate for post-employment benefit obligations

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

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, 2015.

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” was classified as discontinued operations in the prior year.

For discontinued operations, please refer to “17. 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 three months ended March 31, 2015

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	157,818	299,868	16,637	38,893	513,217	3,434	－	516,651
Intersegment revenue	5,628	10,200	－	7	15,836	2,594	(18,429)	－
Total revenue	163,446	310,069	16,637	38,900	529,052	6,028	(18,429)	516,651
Segment profit (loss)								
Adjusted operating profit (Note 1)	56,954	104,972	(837)	899	161,988	(2,554)	(191)	159,243

For the three months ended March 31, 2016

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	168,370	301,843	21,549	39,415	531,177	2,911	－	534,088
Intersegment revenue	5,699	8,803	－	5	14,507	2,297	(16,804)	－
Total revenue	174,068	310,647	21,549	39,420	545,684	5,208	(16,804)	534,088
Segment profit (loss)								
Adjusted operating profit (Note 1)	65,747	99,508	3,185	1,164	169,604	(5,017)	(202)	164,385

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

For the three months ended March 31, 2015

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	56,954	104,972	(837)	899	161,988	(2,554)	(191)	159,243
Amortization cost of acquired intangibles	—	(7,457)	—	—	(7,457)	—	—	(7,457)
Adjustment items (income) (Note 4)	40	—	—	25	65	—	—	65
Adjustment items (costs) (Note 4)	(1,239)	(486)	—	(2)	(1,727)	(5,987)	—	(7,714)
Operating profit (loss)	55,755	97,029	(837)	922	152,868	(8,541)	(191)	144,137
Financial income								4,312
Financial costs								(2,382)
Profit before income taxes								146,067

For the three months ended March 31, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	65,747	99,508	3,185	1,164	169,604	(5,017)	(202)	164,385
Amortization cost of acquired intangibles	(4,061)	(8,151)	—	—	(12,212)	—	—	(12,212)
Adjustment items (income) (Note 4)	1	—	—	—	1	56,297	—	56,298
Adjustment items (costs) (Note 4)	185	(738)	—	(1)	(554)	(4,225)	—	(4,779)
Operating profit (loss)	61,872	90,619	3,185	1,163	156,839	47,055	(202)	203,692
Financial income								2,183
Financial costs								(5,537)
Profit before income taxes								200,339

(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) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 3) Core revenue as part of the "Domestic Tobacco Business" and the "International Tobacco Business" is as follows:

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Domestic Tobacco	149,578	160,593
International Tobacco	282,266	284,669

(Note 4) "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 "9. Other operating income." Restructuring costs included in "Cost of sales" were ¥47 million for the three months ended March 31, 2015. Restructuring costs included in "Selling, general and administrative expenses" were ¥7,666 million and ¥4,779 million for the three months ended March 31, 2015 and 2016, respectively. The breakdown of restructuring costs is described in "10. Selling, general and administrative expenses."

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Restructuring costs	7,714	4,779
Adjustment items (costs)	7,714	4,779

Restructuring costs for the three months ended March 31, 2015 and 2016 mainly relate to disposal of real estate.

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:

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2016	681,865	1,429,287	332,478
Individual acquisition	16,254	—	2,616
Acquisition through business combinations	959	287,590	180,304
Transfer to investment property	(1,970)	—	—
Depreciation or amortization	(19,969)	—	(16,253)
Impairment losses	(368)	—	—
Sale or disposal	(1,049)	—	(28)
Exchange differences on translation of foreign operations	(14,703)	(62,288)	(21,596)
Other	3,479	(553)	24
As of March 31, 2016	664,499	1,654,037	477,546

7. Dividends

Dividends paid for each interim period are as follows:

For the three months ended March 31, 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

For the three months ended March 31, 2016

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders’ Meeting (March 23, 2016)	Ordinary shares	114,606	64	December 31, 2015	March 24, 2016

8. Revenue

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Gross turnover	1,701,211	1,724,535
Tobacco excise taxes and agency transaction amount	(1,184,560)	(1,190,447)
Revenue	516,651	534,088

9. Other operating income

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	198	30,442
Gain on sale of investments in subsidiaries (Note)	－	26,116
Other (Note)	1,042	541
Total	1,240	57,098

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Gain on sale of property, plant and equipment, intangible assets and investment property	53	30,106
Gain on sale of investments in subsidiaries	－	26,116
Other	12	76
Total	65	56,298

10. 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)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Advertising expenses	4,496	5,529
Promotion expenses	19,256	20,812
Shipping, warehousing expenses	6,423	6,432
Commission	10,814	10,675
Employee benefit expenses (Note)	62,700	60,852
Research and development expenses	13,496	14,207
Depreciation and amortization	15,854	20,671
Impairment losses on other than financial assets (Note)	438	378
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	7,193	5,402
Other (Note)	31,928	28,725
Total	172,598	173,683

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

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Employee benefit expenses	(164)	24
Impairment losses on other than financial assets	433	17
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property	5,622	4,094
Other	1,774	645
Total	7,666	4,779

11. Financial income and financial costs

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

(Millions of yen)

Financial income	Three months ended March 31, 2015	Three months ended March 31, 2016
Dividend income	1,056	940
Interest income	3,180	1,220
Other	76	23
Total	4,312	2,183

(Millions of yen)

Financial costs	Three months ended March 31, 2015	Three months ended March 31, 2016
Interest expenses (Note 2)	875	1,969
Foreign exchange losses (Note 1)	144	2,404
Employee benefit expenses (Note 3)	965	889
Other	398	274
Total	2,382	5,537

(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.

12. Other comprehensive income

“Remeasurements of defined benefit plans” for the three months ended March 31, 2016 include remeasurements arising from the effects of significant market fluctuations in relation to retirement benefit assets or liabilities.

13. Interim earnings per share

(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 March 31, 2015	Three months ended March 31, 2016
Profit for the period attributable to owners of the parent company	104,195	145,445
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	104,195	145,445
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(895)	–
Profit for the period from continuing operations used for calculation of basic interim earnings per share	105,090	145,445

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

(Thousands of shares)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Weighted-average number of shares during the period	1,809,191	1,790,800

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Profit for the period used for calculation of basic interim earnings per share	104,195	145,445
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	104,195	145,445
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(895)	–
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	105,090	145,445

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

(Thousands of shares)

	Three months ended March 31, 2015	Three months ended March 31, 2016
Weighted-average number of ordinary shares during the period	1,809,191	1,790,800
Increased number of ordinary shares under subscription rights to shares	1,067	1,046
Weighted-average number of diluted ordinary shares during the period	1,810,258	1,791,846

14. 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, 2015		As of March 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	1,014	1,014	901	901
Bonds	215,072	217,215	211,143	214,502

(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 inputs that are not based on observable market data

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

As of December 31, 2015

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	7,106	—	7,106
Equity securities	67,557	—	5,239	72,795
Other	319	—	1,727	2,046
Total	67,876	7,106	6,966	81,948
Derivative liabilities	—	5,595	—	5,595
Total	—	5,595	—	5,595

As of March 31, 2016

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	8,422	—	8,422
Equity securities	61,969	—	4,833	66,802
Other	321	—	1,635	1,956
Total	62,290	8,422	6,468	77,180
Derivative liabilities	—	6,592	—	6,592
Total	—	6,592	—	6,592

15. Commitments

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

(Millions of yen)

	As of December 31, 2015	As of March 31, 2016
Acquisition of property, plant and equipment	41,879	46,043

16. Business combinations

Acquisition of the Natural American Spirit Business outside the United States

(1) Summary of business combinations

On January 13, 2016, the Group acquired from the Reynolds American Inc. group (“RAI”) 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, Santa Fe Natural Tobacco Company Japan K.K. (Note) and eight other subsidiaries.

Natural American Spirit, the tobacco brand that Santa Fe Natural Tobacco Company, Inc. launched in the U.S. in 1982, has established a unique brand positioning due to its additive-free tobacco products that abundantly use high quality leaf tobacco. The brand has steadily increased the sales volume in the U.S., Japan, Germany, Switzerland, Italy, Spain, the U.K. and others.

The purpose of this acquisition is that Natural American Spirit, which has a strong presence in a premium priced category, allows the Group to further extend its brand portfolio and strengthen the business foundation.

Notably in Japan, which accounts for the majority of the sales volume worldwide excluding the U.S., the brand has enjoyed broad support of consumers and experienced significant growth in sales volume. This acquisition is positioned as part of business investments to underpin the Group’s sustainable long-term profit growth in Japan, which is one of the Group’s most significant markets.

(Note) Santa Fe Natural Tobacco Company Japan K.K. changed its name to TRUE SPIRIT TOBACCO COMPANY on May 1, 2016.

(2) Financial impact on the Group

Since the acquisition date, the acquired business has contributed to total revenue and operating loss of ¥5,957 million and ¥3,760 million, respectively.

The amortization of trademarks acquired from the business combinations included in the above operating loss is ¥4,507 million.

(3) Consideration and details (Total of the acquisition)

The consideration is ¥588,991 million and all is paid in cash.

(4) Cash out for the business combinations (Total of the acquisition)

(Millions of yen)

	Net cash outflow for the business combinations
Cash consideration	588,991
Cash and cash equivalents in subsidiaries acquired	(4,273)
Net cash outflow for the business combinations	584,718

(5) Fair values of the assets acquired and liabilities assumed

(Millions of yen)

	Fair value
Current assets	20,929
Trademarks	179,882
Deferred tax assets	113,055
Other non-current assets	942
Total assets	314,808
Current liabilities	11,236
Non-current liabilities	249
Total liabilities	11,486
Goodwill	285,668

Goodwill represents future economic benefits for integration synergies including enhanced business scale in each market, and it is expected that most of the trademarks and goodwill are deductible for tax purposes.
Fair values of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and may change during the measurement period (one year from the acquisition date).
Transaction costs of ¥287 million are expensed as incurred and recognized in “Selling, general and administrative expense.”

Other acquisition
In addition to the above, the Group acquired other entities through business combinations for the three months ended March 31, 2016, which are omitted as they are immaterial both individually and in aggregate.

17. 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 on July 31, 2015 and the manufacture and sale of JT beverage products were discontinued at the end of September, 2015. Accordingly, in the prior year, “Beverage Business” was classified as discontinued operations and presented separately from continuing operations. Income taxes paid of ¥36,494 million related to the transfer of subsidiaries for the prior year are included in the condensed interim consolidated statement of cash flows for the three months ended March 31, 2016.

18. Contingencies

As of March 31 2016, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2015.

19. Subsequent events

The Company issued Straight Bonds in USD on April 13, 2016 as follows:

<u>The Straight Bonds in USD with General Mortgage (Five Years)</u>

1.	Total amount of issue:	$0.75 billion
2.	Interest rate:	2.00% per annum
3.	Issue price:	$100 per face value of $99.976
4.	Redemption price:	$100 per face value of $100
5.	Issue date:	April 13, 2016
6.	Maturity date:	April 13, 2021
7.	Redemption:	The Bonds will be redeemed in full upon maturity. The Company may, at any time after the date of payment, purchase the Bonds and have such purchased Bonds cancelled.
8.	Mortgage:	General mortgage under the Japan Tobacco Inc. Act
9.	Use of proceeds:	Refinance of the bridge loans for acquisition of the Natural American Spirit business outside the United States

<u>The Straight Bonds in USD with General Mortgage (Ten Years)</u>

1.	Total amount of issue:	$0.5 billion
2.	Interest rate:	2.80% per annum
3.	Issue price:	$100 per face value of $99.879
4.	Redemption price:	$100 per face value of $100
5.	Issue date:	April 13, 2016
6.	Maturity date:	April 13, 2026
7.	Redemption:	The Bonds will be redeemed in full upon maturity. The Company may, at any time after the date of payment, purchase the Bonds and have such purchased Bonds cancelled.
8.	Mortgage:	General mortgage under the Japan Tobacco Inc. Act
9.	Use of proceeds:	Refinance of the bridge loans for acquisition of the Natural American Spirit business outside the United States

2. Other

No items to report

B. Information on Guarantee Companies, etc. of Filing Company

No items to report

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

May 2, 2016

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masahiko Tezuka (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 March 31, 2016, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-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 Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the three-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.