

[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

To Our Shareholders and Investors

Business Report

Volume 53

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Ending December 31, 2016

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## TOP MESSAGE

### **Off to a strong start thanks to top-line growth in each of our businesses and positive one-off factors**

#### **Results for the first three months of the fiscal year ending December 31, 2016**

In the first three months of the fiscal year ending December 31, 2016, all of our businesses generated higher revenue despite adverse effects from foreign exchange, against a backdrop of robust business momentum. We got off to strong start toward achieving our forecasts for the full fiscal year, amid a scenario of top-line growth combined with positive one-off factors bringing about a 20.6% year-on-year increase in adjusted operating profit at constant rates of exchange, a key performance indicator across the Group.

The international tobacco business continued to face a severe business environment due to factors that included a trend of declining overall demand in many markets and negative effects of foreign exchange. Still, total and GFB\* shipment volume increased by 7.1% and 10.7%, respectively, due to robust momentum centered on the GFBs coupled with contributions of operating companies acquired, and one-off inventory enhancements in various markets. Adjusted operating profit at constant rates of exchange increased by 21.1% year on year, primarily as a result of our achieving an increase in shipment volume encompassing one-off factors, and implementing robust pricing.

The domestic tobacco business generated gains in both sales volume and market share. Primary factors attributable to the increases included a one-off increase in demand over the January to March period ahead of a retail price amendment of Mevius and six brands, including Wakaba and Echo, in April, coupled with the addition of the Natural American Spirit business outside the U.S. whose acquisition was completed in January. Adjusted operating profit increased by 15.4% due to the gains in sales volume and positive effects of measures to strengthen competitiveness which were implemented in March 2015.

The processed food business generated steady top-line growth, as did the pharmaceutical business which has now improved its earnings and begun contributing to Group-wide profits.

Although we are off to a strong start in the fiscal year ending December 31, 2016, we are likely to continue facing an increasingly challenging business environment ahead. Going forward, we will keep aiming to achieve our objectives for this fiscal year as we make progress in fortifying business investment geared to sustainable growth over the mid- to long-term, while developing our ability to adapt to changes, which is our strength.

Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director

<Photo>

- \* 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, Silk Cut, Sobranie and Natural American Spirit.

Results for the first three months of the fiscal year ending December 31, 2016\*

\* Results for the first three months of the fiscal year ended December 31, 2015, has been presented on a continuing operations basis for use as comparative data.

(Billions of yen)

	From January to March 2015	From January to March 2016	Year-on-year change
Revenue	516.7	534.1	+3.4%
Adjusted operating profit <sup>*1</sup>	159.2	164.4	+3.2%
Adjusted operating profit <sup>*1</sup> at constant rates of exchange	–	192.0	+20.6%
Profit attributable to owners of the parent company	105.1	145.4	+38.4%

\*1. Adjusted operating profit = operating profit + amortization cost of acquired intangibles + adjustment items (income and costs) \*

\* Adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

## International Tobacco Business

In the first three months of the fiscal year ending December 31, 2016, total shipment volume<sup>\*1</sup> increased by 7.1% and GFB shipment volume grew by 10.7%, despite a business environment that has remained challenging. These increases were mainly attributable to continued robust growth momentum, the effects of the acquisitions of Arian Tobacco Industry of Iran and the Natural American Spirit business outside the U.S., and positive trade inventory adjustments in various markets.

With respect to results on a U.S. dollar basis, adjusted operating profit at constant rates of exchange increased by 21.1% as a result of shipment volume growth and robust pricing. However, adjusted operating profit on a financial reporting basis decreased by 2.1% due to negative effects of foreign exchange amid depreciation of the Russian ruble and other local currencies. Yen-based adjusted operating profit also decreased, falling by 5.2% due to negative effects of yen appreciation.

### Shipment volume

(Billions of cigarettes)

	From January to March 2015	From January to March 2016	Year-on-year change
Total shipment volume	88.1	94.4	+7.1%
GFB shipment volume	60.0	66.4	+10.7%

\*1. Total shipment volume includes fine cut, cigars, pipe tobacco and snus but excludes contract manufactured products, waterpipe tobacco and emerging products.

### Market share (12 months moving average)

	March 2015	March 2016	Year-on-year change
France	21.0%	21.4% <sup>*2</sup>	+0.5%pt
Italy	19.7%	21.6%	+1.9%pt
Russia (GFB share)	34.5% (24.0%)	33.5% <sup>*2</sup> (24.2% <sup>*2</sup> )	-0.9%pt (+0.3%pt)
Spain	22.0%	22.4% <sup>*2</sup>	+0.4%pt
Taiwan	38.6%	39.3%	+0.7%pt
Turkey	30.1%	29.9%	-0.2%pt
U.K.	41.5%	42.1%	+0.6%pt

Figures in the “March 2016” column represent market share over the period from April 2015 to March 2016. However, figures marked by “\*2” represent market share over the period from March 2015 to February 2016.

## Results

(Millions of dollar)

	From January to March 2015	From January to March 2016	Year-on-year change
Core revenue <sup>*3</sup>	2,369	2,468	+4.2%
Core revenue <sup>*3</sup> at constant rates of exchange	–	2,696	+13.8%
Adjusted operating profit	881	863	-2.1%
Adjusted operating profit at constant rates of exchange	–	1,067	+21.1%
Yen-based adjusted operating profit	¥105.0 billion	¥99.5 billion	-5.2%

\*3. Includes revenue from waterpipe tobacco and emerging products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses

## Domestic Tobacco Business

JT's sales volume and market share increased year on year, as shown in the table below. This is mainly attributable to the effects of the acquisition of the Natural American Spirit business outside the U.S. and a one-off increase in demand ahead of a retail price amendment of Mevius and six brands, including Wakaba and Echo. Going forward, the Company will take steps to minimize any adverse effects on results subsequent to amendment of retail pricing by upgrading Mevius, Wakaba, Echo and other products.

Core revenue increased by 7.4% mainly due to sales volume growth, while adjusted operating profit increased by 15.4% due to the sales volume growth and positive effects of measures to strengthen competitiveness which were implemented in March 2015.

## Sales volume

(Billions of cigarettes)

	From January to March 2015	From January to March 2016	Year-on-year change
Total sales volume <sup>*1</sup>	25.5	27.2	+6.7%

\*1. Excludes sales volume of domestic duty free and the China business

## Trends in market share of JT and Mevius

(%)

	Jan. – Mar. 2015	Apr. – Jun. 2015	Jul. – Sep. 2015	Oct. – Dec. 2015	Jan. – Mar. 2016
Market share of JT	59.9	60.0	59.7	60.1	62.4
Market share of Mevius	32.1	32.3	31.9	32.0	33.2

## Results

(Billions of yen)

	From January to March 2015	From January to March 2016	Year-on-year change
Core revenue <sup>*2</sup>	149.6	160.6	+7.4%
Adjusted operating profit	57.0	65.7	+15.4%

\*2. Excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business, among others

## Pharmaceutical Business

The pharmaceutical business began contributing to Group-wide profits during the three months under review, having achieved an increase in revenue of ¥4.9 billion year on year and an improvement in operating profit of ¥4.0 billion. This is a result of the business generating a one-off milestone revenue related to R&D progress of an original JT compound that has been out-licensed, along with higher royalty revenue from Stribild<sup>®</sup> and other products.

## Results

(Billions of yen)

	From January to March 2015	From January to March 2016	Year-on-year change
Revenue	16.6	21.5	+4.9
Adjusted operating profit	-0.8	3.2	+4.0

Pharmaceutical business: Items in clinical development (as of May 2, 2016)

<In-house development>

Code (generic name)	Potential indication/ dosage form	Mechanism		Phase	Note
JTK-303 (elvitegravir)/ cobicistat/ emtricitabine/ tenofovir alafenamide fumarate	HIV infection/Oral	HIV integrase inhibitor/ Nucleoside reverse transcriptase inhibitor	Suppresses blood HIV levels by inhibiting the activities of integrase and reverse transcriptase, enzymes involved in the replication of HIV.	NDA filed (Japan)	JTK-303 (elvitegravir); In-house Cobicistat, Emtricitabine, Tenofovir Alafenamide; In-license (Gilead Sciences)
emtricitabine/ tenofovir alafenamide fumarate	HIV infection/Oral	Nucleoside reverse transcriptase inhibitor	Suppresses blood HIV levels by inhibiting the activity of reverse transcriptase, an enzyme involved in the replication of HIV.	Preparing to file (Japan)	In-license (Gilead Sciences)

Code (generic name)	Potential indication/ dosage form	Mechanism		Phase	Note
JTT-851	Type 2 diabetes mellitus/Oral	G protein-coupled receptor 40 agonist	Decreases blood glucose by stimulation of glucose-dependent insulin secretion.	Phase 2 (Japan) Phase 2 (Overseas)	In-house
JTZ-951	Anemia associated with chronic kidney disease/Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	Phase 2 (Japan) Phase 1 (Overseas)	In-house
JTE-052	Autoimmune/ allergic diseases/Oral, Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase 2 (Japan)	In-house
JTE-051	Autoimmune/ allergic diseases/Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase 1 (Overseas)	In-house
JTT-251	Type 2 diabetes mellitus/Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase 1 (Overseas)	In-house
JTK-351	HIV infection/Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV.	Phase 1 (Japan)	In-house

Note: Clinical trial phase presented above is based on the first dose.

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism	
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2).
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.
JTE-052	LEO Pharma	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.

Updates since the previous announcement on February 4, 2016:

<In-house development>

- elvitegravir/cobicistat/emtricitabine/tenofovir alafenamide fumarate (E/C/F/TAF): Filed NDA for marketing approval in Japan (March 4, 2016)
- JTE-151: Terminated

<Licensed compounds>

- Mekinist (trametinib):  
Novartis Pharma K.K. announced Mekinist has been approved in Japan, in combination with Tafinlar (dabrafenib), for the treatment of unresectable BRAF V600 mutation-positive malignant melanoma. (March 28, 2016)

## Processed Food Business

The processed food business achieved top-line growth and an increase in adjusted operating profit as a result of strong sales centered on frozen and ambient processed foods, and seasonings.

### Results

(Billions of yen)

	From January to March 2015	From January to March 2016	Year-on-year change
Revenue	38.9	39.4	+0.5
Adjusted operating profit	0.9	1.2	+0.3



## **FORWARD-LOOKING STATEMENTS**

This material contains forward-looking statements. These statements appear in a number of places in this presentation and include statements regarding the intent, belief, or current and future expectations of management with respect to business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which the Company operates, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) decrease in demand for tobacco products in key markets;
- (2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which the Company operates;
- (3) increases in excise, consumption or other taxes on tobacco products in markets in which the Company operates;
- (4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (5) ability of the Company to realize anticipated results of acquisition or other similar investments;
- (6) competition in markets in which the Company operates or into which the Company seeks to expand;
- (7) deterioration in economic conditions in areas that matter to the Company;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which the Company operates;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

## Consolidated Financial Statements

The Group classified the 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.”

Note: Yen amounts are rounded to the nearest million.

### Consolidated statement of financial position

(Millions of yen)

	As of December 31, 2015	As of March 31, 2016	Increase (Decrease)
<b>Assets</b>			
Current assets	1,798,217	1,495,713	(302,504) <sup>*1</sup>
Non-current assets	2,760,017	3,203,813	443,796
Property, plant and equipment	681,865	664,499	(17,366)
Goodwill	1,429,287	1,654,037	224,750 <sup>*2</sup>
Intangible assets	332,478	477,546	145,068 <sup>*2</sup>
Investment property	23,614	19,360	(4,254)
Retirement benefit assets	38,954	36,285	(2,669)
Investments accounted for using the equity method	59,523	59,686	164
Other financial assets	101,727	93,776	(7,951)
Deferred tax assets	92,570	198,624	106,054 <sup>*2</sup>
<b>Total assets</b>	<b>4,558,235</b>	<b>4,699,527</b>	<b>141,292</b>

(Millions of yen)

	As of December 31, 2015	As of March 31, 2016	Increase (Decrease)
Liabilities and equity			
Liabilities			
Current liabilities	1,265,920	1,515,510	249,590 <sup>*3</sup>
Non-current liabilities	770,790	742,678	(28,112)
Total liabilities	2,036,710	2,258,189	221,478
Equity			
Equity attributable to owners of the parent company	2,451,596	2,370,942	(80,654)
Share capital	100,000	100,000	—
Capital surplus	736,400	736,400	—
Treasury shares	(444,333)	(444,138)	196
Other components of equity	(137,122)	(235,631)	(98,509) <sup>*4</sup>
Retained earnings	2,196,651	2,214,310	17,659 <sup>*5</sup>
Non-controlling interests	69,929	70,396	467
Total equity	2,521,524	2,441,338	(80,187)
Total liabilities and equity	4,558,235	4,699,527	141,292

\*1. Current assets: Decreased due to the effect of lower cash and cash equivalents.

\*2. Goodwill, intangible assets and deferred tax assets: Increased due to the acquisition of the Natural American Spirit business outside the U.S.

\*3. Current liabilities: Increased due to bridge loans related to the acquisition of the Natural American Spirit business outside the U.S.

\*4. Other components of equity: Decreased due to the foreign exchange effects.

\*5. Retained earnings: Increased due to the inclusion of earnings from the parent company interests.

## Consolidated statement of income

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016	Increase (Decrease)
<b>Continuing operations</b>			
Revenue	516,651	534,088	17,437
Cost of sales	(202,062)	(214,671)	(12,609)
Gross profit	314,589	319,416	4,827
Other operating income	1,240	57,098	55,858
Share of profit in investments accounted for using the equity method	905	860	(45)
Selling, general and administrative expenses	(172,598)	(173,683)	(1,085)
Adjusted operating profit*	159,243	164,385	5,142
Operating profit	144,137	203,692	59,556
Financial income	4,312	2,183	(2,129)
Financial costs	(2,382)	(5,537)	(3,155)
Profit before income taxes	146,067	200,339	54,272
Income taxes	(40,320)	(53,936)	(13,616)
Profit for the period from continuing operations	105,747	146,403	40,656
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	(711)	–	–
<b>Company-wide basis</b> (Continuing and discontinued operations combined)			
Profit for the period	105,036	146,403	41,367
<b>Attributable to:</b>			
Owners of the parent company	104,195	145,445	41,250
Non-controlling interests	841	958	117
Profit for the period	105,036	146,403	41,367

Note: Adjusted operating profit = operating profit + amortization cost of acquired intangibles ± adjustment items (income and costs)\*

\* Adjustment items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

Consolidated statement of comprehensive income

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016	Increase (Decrease)
Profit for the period	105,036	146,403	41,367
Other comprehensive income	(178,123)	(112,865)	65,258
Comprehensive income for the period	(73,087)	33,538	106,625
Attributable to:			
Owners of the parent company	(73,502)	33,136	106,638
Non-controlling interests	415	402	(12)
Comprehensive income for the period	(73,087)	33,538	106,625

Consolidated statement of cash flows

(Millions of yen)

	Three months ended March 31, 2015	Three months ended March 31, 2016	Increase (Decrease)
Cash flows from operating activities	(140,326)	(172,299)	(31,973)
Cash flows from investing activities	(34,910)	(558,852)	(523,942) <sup>*6</sup>
Cash flows from financing activities	(12,230)	370,532	382,762 <sup>*7</sup>
Net increase (decrease) in cash and cash equivalents	(187,466)	(360,619)	(173,153)
Cash and cash equivalents at the beginning of the period	385,820	526,765	140,945
Effect of exchange rate changes on cash and cash equivalents	(3,172)	(6,910)	(3,739)
Cash and cash equivalents at the end of the period	195,182	159,235	(35,947)

\*6. Cash flows from investing activities:

Cash outflows increased due to acquisition of the Natural American Spirit business outside the U.S.

\*7. Cash flows from financing activities:

Increased due to bridge loans related to the acquisition of the Natural American Spirit business outside the U.S.

## JT NEWS

● April 1, 2016

### **Ceremonies for new employees held by JT Group companies**

The Company and JT Group companies held entrance ceremonies for the many new employees joining the JT Group again this year.

Newly graduated recruits and experienced mid-career employees enthusiastically took part in the Company's employee induction ceremony which was held at the Shinagawa Prince Hotel located in Tokyo's Minato Ward.

President and Chief Executive Officer Mitsuomi Koizumi delivered a message of encouragement, urging them to "take on challenges without fear of failure, while also pursuing self-development by engaging in extraneous learning opportunities."

<Photo>

President and Chief Executive Officer Mitsuomi Koizumi extending greetings to the new recruits

Numbers of new recruits at respective JT Group companies	
Japan Tobacco Inc.	168 newly graduated recruits and 10 experienced mid-career hires
JT Logistics Co., Ltd.	1 newly graduated recruit
Japan Filter Technology Co., Ltd.	15 newly graduated recruits
Fuji Flavor Co., Ltd.	2 newly graduated recruits
JT Plant Service Co., Ltd.	2 newly graduated recruits and 11 experienced mid-career hires
Torii Pharmaceutical Co., Ltd.	50 newly graduated recruits
TableMark Co., Ltd.	32 newly graduated recruits
Fuji Foods Corporation	17 newly graduated recruits
Saint-Germain Co., Ltd.	20 newly graduated recruits and 8 experienced mid-career hires
KS Frozen Foods Co., Ltd.	4 newly graduated recruits
TS Network Co., Ltd.	1 newly graduated recruit

<Photos>

● Mid-June, 2016

### **Upgrading four brands — Wakaba, Echo, Shinsei and Golden Bat**

The Company is upgrading the four brands Wakaba, Echo, Shinsei, and Golden Bat in order to provide quality that ensures even greater customer satisfaction, and will successively launch those products nationwide beginning in mid-June 2016.

The four brands will be improved through the use of packaging film like that of other cigarette products,

in order to ensure tobacco moisture retention and freshness. The two brands Shinsei and Golden Bat which have been available as filterless products will now have cigarette filters. The filters will alter the tar and nicotine levels of the two brands. A detailed description of the modifications is as follows.

■ Improvements

Name of brand	Film packaging	Filter	Changes in tar/nicotine levels (mg)
Wakaba	Yes	–	–
Echo	Yes	–	–
Shinsei	Yes	Yes	Yes Tar: 22mg => 15mg Nicotine: 1.4mg => 1.0mg
Golden Bat	Yes	Yes	Yes Tar: 18mg => 15mg Nicotine: 1.1mg => 1.0mg

■ Product information (after improvements)

Wakaba

Mildly soft flavor and aroma

Tar: 19mg

Nicotine: 1.4mg

Number of cigarettes: 20

Price: ¥290

Echo

Proper full-bodied taste of tobacco

Tar: 15mg

Nicotine: 1.0mg

Number of cigarettes: 20

Price: ¥280

Shinsei

Refreshing and light tobacco taste

Tar: 15mg

Nicotine: 1.0mg

Number of cigarettes: 20

Price: ¥280

Golden Bat

Refreshing smoking sensation

Tar: 15mg

Nicotine: 1.0mg

Number of cigarettes: 20

Price: ¥260

With the addition of filters, each of the brands maintains their distinctive flavors, while enabling smokers to enjoy taste and aroma with reduced off-flavor.

## JT Group Products

### Introducing New Tobacco Products

“Mevius” regular now available with built-in capsules

Introducing the new Mevius Option Rich Plus line

With “Mevius” celebrating its third anniversary in 2016, the Company is further improving the product and its services while hastening evolution of the brand, to deliver the feel of “Ever Evolving. Ever Surprising.” to our customers. Three new “Mevius Option Rich Plus” products went on sale nationwide in late May.

<Logo>

Mevius Option Rich Plus 10	Mevius Option Rich Plus 6	Mevius Option Rich Plus One 100's
Tar: 10mg	Tar: 6mg	Tar: 1mg
Nicotine: 0.8mg	Nicotine: 0.5mg	Nicotine: 0.1mg

Price: ¥440 each (containing 20 cigarettes)

Smooth and delicately aromatic tobacco taste

The three new products are the first offerings of the “Mevius” regular line to feature capsules. These products provide enjoyment of the distinctively smooth and clear flavor of “Mevius” before crushing the capsule, and a delicately aromatic and smooth taste delivered by crushing the capsule.

Comments from person in charge:

Akinori Yokosu, Brand Manager, Marketing Strategy Division, Japan Tobacco Inc.

In recent years, the menthol market segment has seen growth with respect to products with built-in capsules. However, the current market for regular cigarettes features very few products with built-in capsules that cause a change in flavor from one regular cigarette to that of another. As such, the launch of these new products enables consumers to gain a sense that our products are “Ever Evolving. Ever Surprising.”

With the “Mevius” brand, we will continue to roll out appealing initiatives going forward, including the launch of these new products, with the aims of bringing about greater customer satisfaction and renewed delight.

Topic:

Upgrading our standard products keeping their flavor and aroma unchanged

With respect to the 16 standard “Mevius” products, we will boost the quality of package designs and filters, while maintaining their flavor and aroma. Mevius packaging will now feature an arc-shaped design element in the center of each pack, and be designed to convey a sophisticated premium feel. As for the filters, we managed to improve filter hardness and the ease at which smokers can move them



away from their lips, with the aim of providing consumers with a more refined smoking experience.

\* This page is intended as an explanation of the Group's business for shareholders. As such, it is not intended to promote product sales to customers or to encourage them to smoke.

## Introducing New Food Products

<Photo>

Japanese-style rice

Ginger-flavored bonito rice

Size: 400g

- Recommended for hot summer days when appetites for meals subside.

Comments from person in charge:

Hiroyuki Oneda, Product Development Division, Marketing & Sales Division, TableMark Co., Ltd.

Available for a limited time only, this product combines fine strips of ginger with juices of ginger, and is a refreshing food that is easy to eat even on hot summer days. The rice is delicious when covered in a cold broth.

The premium main ingredients are densely flavored and include seasoned bonito fish from Japan's Yaizu region, which is a perfect complement to the product's rice. The product is made using a stringent production process that involves freezing the bonito to ensure firmness before subsequently adding the ingredients.

Seasoned in a manner that everyone finds palatable, it is a pleasing food item that can be eaten as is, or arranged to the consumer's liking. We highly recommend that consumers try this product.

<Photo>

<Photo>

*Bukkake Kitsune Udon*

Size: 1 serving/270g (Noodles 180g)

- Hassle-free food item that comes in a perforated container so that the noodles can be prepared simply by heating them in a microwave and placing them under running water.

<Photo>

Takitata-Gohan

*Nanatsuboshi* Rice, grown in Hokkaido (Divided) 4 packs

Size: 4 servings/600g (2 packs of 150g × 2 servings)

- This rice features a proper balance of luster, sweetness and stickiness, and even tastes delicious after it has cooled down.

## CSR initiatives of the JT Group

The JT Group is committed to resolving social issues in the communities in which it operates with the aim of realizing sustainable society on the basis of the management principles stating that “we will balance the interests of customers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.”

This page showcases some of the JT Group’s initiatives relating to corporate social responsibility (CSR) in Japan and abroad.

<Photo>

Rice field of “Takata no Yume” in Rikuzentakata City, Iwate Prefecture

### **JT supporting reconstruction in the aftermath of the Great East Japan Earthquake**

*Hand in hand toward a better future*

It has now been five years since the Great East Japan Earthquake inflicted enormous damage on the region.

The JT Group takes the position that assisting with reconstruction in the aftermath of the Great East Japan Earthquake is a matter of primary social importance, and has accordingly been engaging in various support initiatives in that regard.

The Group continues to engage in such support initiatives from a long-term perspective. So far this has included providing food and engaging in other volunteer activities immediately after the earthquake struck, and offering business grants that will help bring about reconstruction, restoration and vibrancy to local communities.

Over the last five years, seeds of reconstruction that we have sown in the disaster-afflicted areas have borne substantial fruit, and have helped bring about steady progress in restoring communities.

Still, much more support is needed along the long and precipitous path toward reconstruction.

#### **Our theme going forward is that of working “hand in hand toward a better future.”**

JT will engage in reconstruction support initiatives under the theme of working “hand in hand toward a better future,” in pursuing goals until the year 2021 which will mark 10 years since the Great East Japan Earthquake struck.

We will further promote efforts for reconstruction. To that end we will consider specific initiatives as needed, in a manner that addresses the needs of disaster-afflicted communities across three areas of assistance. This includes: “support for fostering connections” which entails assisting regional communities that act as the driving force behind reconstruction; “support for better livelihoods” which entails helping to create value in the agricultural sector, and; “support for community vibrancy” which entails providing support for making neighborhoods more vibrant.

We will work to connect people with people, and also to connect people with agriculture, and to connect

people with communities. We hope to play a hand in creating places, situations and occasions that make such connections possible.

### **Continuing to provide support across three areas of assistance**

Connecting people with people  
Support for fostering connections

JT NPO Support Project

As people go about their lives in the aftermath of the earthquake they have been reassessing the importance of their connections with others and their communities. At JT, we aim to provide a measure of support with respect to reconstructing, restoring and lending vibrancy to communities in Japan's Iwate, Miyagi and Fukushima prefectures which incurred particularly substantial damage, in order to back communities which act as the driving force behind reconstruction efforts. To that end, we have established the "JT NPO Support Project for Great East Japan Earthquake Reconstruction Assistance," by making financial contributions to the Japan Earthquake Local NPO Support Fund (specified grants) of the Japan NPO Center.

Since its establishment in 2013, the JT NPO Support Project has provided grants amounting to a total of around ¥210 million for 57 projects in all, as of February 2016. In 2016, the program is continuing to seek potential grant recipients and provide grants.

<Photo>

Connecting people with agriculture  
Support for better livelihoods

Support for Takata no Yume brand rice from Rikuzentakata City

Japan's disaster-stricken Tohoku region has long supported Japanese agriculture, and JT's origins also lie in agriculture given that tobacco is also a farm product.

Rikuzentakata City's Takata no Yume rice is an original brand of rice, formerly registered as the "Iwata 13" variety developed and formerly owned by JT, and donated to Rikuzentakata City located in Iwate Prefecture in 2012 to help restore the city.

Beginning in 2015, initiatives involving an experimental rice field were launched with the cooperation of rice growers. The JT Group will continue lending its support involving Rikuzentakata City and Takata no Yume rice.

<Photo>

Connecting people with communities  
Support for community vibrancy

RockCorps supported by JT 2016

The Tohoku region is taking steps to create new appeal in the area, under the notion of creative reconstruction. Meanwhile, efforts to attract people to communities make those communities more vibrant and breathe life into them. To such ends, at JT we have been sponsoring "RockCorps supported by JT" since 2014, and have decided to continue our sponsorship of the events into 2016 as well.

RockCorps acts as a project that involves proposing new formats for contributing to society by enabling

people to take part in four-hour long volunteer activities and to participate in spectacular live concerts. So far, more than 160,000 people from 10 countries worldwide have participated in the program. To mark the project's conclusion, people who have taken part in volunteer activities get together at concerts dubbed "Celebration" which are held at the Azuma General Gymnasium located in the city of Fukushima in Fukushima Prefecture.

<Photo>

Refer to the JT website for further details on the JT Group's CSR initiatives.

## CLOSE UP!

Introducing JT Group companies and divisions to our shareholders.

### JT Diversity Development Department

Promoting respect and acceptance of diversity in order to make workplaces that mobilize strengths of diversity a reality

The JT Group believes that sustainable growth of the company hinges on showing respect for differing backgrounds and values, while finding value in such differences, in terms of people's gender, age and nationality, and also in terms of their personalities, experiences, expertise and other attributes.

The Diversity Development Department engages in various initiatives geared to promoting diversity, a task which we regard as one of our managerial challenges.

<Photo>

Sayaka Kanayama, Vice President, Diversity Development Department

<Photo>

IkuBoss<sup>\*1</sup> practical seminar

### JT Diversity Development Department

Representative: Sayaka Kanayama

Number of staff: 8

Refer to the JT website for further details on the JT Group's initiatives for promoting diversity.

URL: [https://www.jti.co.jp/csr/policy/human\\_resources/diversification/index.html](https://www.jti.co.jp/csr/policy/human_resources/diversification/index.html)

The foundations of our growth derive from our capacity to act as an organization that enables diverse human resources to play active roles

The JT Group is committed to acting as an organization that generates value by drawing on diversity in order to enhance the competitive strengths of our operations and better address changes.

In order to develop greater acceptance and respect for diversity, we make opportunities available for employees to share and discuss matters involving people's experiences and lifestyles both inside and outside the company. For instance, we promote initiatives to create an organization that draws on diversity, through initiatives that include holding IkuBoss seminars for our officers and other managers to help employees achieve better work-life balance, and we also offer other seminars where participants develop basic knowledge regarding LGBT<sup>\*2</sup> issues.

### Actively promoting empowerment of women as one aspect of diversity promotion

We provide various forms of support geared to enabling further development of our female workforce. For instance, training and opportunities for interaction are provided within and outside the company in a manner appropriate to ages and employment positions of those involved. We also connect female employees with mentors and provide assistance for their career development. We also work to upgrade

programs that make it possible for women to balance their careers and personal lives.

The Company's ratio of female managers is on the rise\*. We have set milestones in that regard, thereby targeting about 5% female management by 2018, and around 10% by 2023.

JT's female workforce

● Women in managerial positions

(Persons)

2013	2014	2015	2016
18/1.5%	29/2.4%	37/3.9%	43/4.5%
(Total: 1,178)	(Total: 1,201)	(Total: 947)	(Total: 950)

● Women in division manager and higher ranking positions

(Persons)

2013	2014	2015	2016
0/0.0%	1/1.0%	2/2.1%	3/3.2%
(Total: 99)	(Total: 98)	(Total: 93)	(Total: 94)

\* Figures as of April 1 of respective years at Japan Tobacco Inc. (non-consolidated)

External recognition of JT initiatives

In recognition of the aforementioned efforts, on March 16 we were selected for dual honors, one being "New Diversity Management Selection 100" awarded by the Ministry of Economy, Trade and Industry (METI), and the other being "Nadeshiko Brand" upon joint selection by METI and Tokyo Stock Exchange. This was our first time ever to receive those awards.

Both commendations were in recognition of company-wide achievements, and involved judging criteria that obviously looked at our efforts to actively promote human resource diversity, and also considered other factors such as our business accomplishments and financial benchmarks.

Going forward, we will continue promoting initiatives to further empower diverse human resources with the aim of achieving sustainable growth.

<Photo>

President and Chief Executive Officer Mitsuomi Koizumi and Vice President, Diversity Development Department Sayaka Kanayama holding a trophy and award certificates of both commendations

<Logo><Logo>

\*1 The term "IkuBoss" refers to a boss who respects the notion of staff members in the workplace maintaining proper work-life balances and supports such employees' efforts involving career growth and their personal lives. At the same time, such bosses deliver positive results in the organization and are able to enjoy their own jobs and personal lives.

\*2 LGBT is an initialism for lesbian, gay, bisexual and transgender, and refers collectively to sexual minorities.

## The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Kokububa Shotokuhi monument [Kagoshima Prefecture]

<Photo>

Monument honoring the achievements of Muneshige Hattori who contributed to the introduction of Kokububa tobacco leaf

*“Beautiful flowers from Kirishima, tasty tobacco from Kokubu, and the volcano on Sakurajima is erupting”* (lyrics)

Leaf tobacco is one of the well-known local items of the Kagoshima region, so much so that Kokubu tobacco is referred to in the Kagoshima Ohara Bushi folk song that represents Kagoshima Prefecture. It is not known exactly when Kagoshima Ohara Bushi was first sung, but the Kokubu area of today’s Kirishima City, Kagoshima Prefecture was once famous as a tobacco growing area. The leaf tobacco produced there is referred to as “Kokububa,” which beginning in the Edo Era (1603–1868) was regarded as a signature tobacco leaf variety. There is a stone monument that conveys the history of Kokububa tobacco leaf situated in Shokakuji Park, which is located in the Kokubuchuo district of Kirishima City. The monument pays tribute to Muneshige Hattori who back in 1606 was the first to cultivate tobacco in the region, and carries the large inscription “*shotokuhi*” (monument eulogizing someone’s virtues) on its front side. The reverse side of the monument carries an inscription containing details on the origin of Kokububa tobacco leaf. For instance, the inscription notes that Muneshige, upon having successfully cultivated tobacco, conveyed such cultivation methods to the neighboring village.

The monument was erected in 1925 by the *Tabako Kosaku Rengo Kumiai* (tobacco cultivation allied union) of eight villages in the eastern part of Kagoshima’s Aira District, where the monument is located. At the time, tobacco cultivation was a thriving business in the Kagoshima Prefecture, where it is said that more than 7,000 hectares of land were under cultivation.

Although production of Kokububa tobacco leaf had come to an end in 1956, the Izumiba tobacco leaf variety which derived from Kokububa tobacco leaf is now grown in Izumi City, Kagoshima Prefecture. The taste of Izumiba tobacco differs from that of Kokububa, but the leaf itself has the distinctive heart shape inherited from the Kokububa strain.

<Photo>

The reverse side of the monument contains details regarding the history of Kokububa tobacco

<Photo>

Picture postcard depicting a former Kokububa tobacco field, taken sometime between the end of the Taisho Era (1912–1926) and the beginning of the Showa Era (1926–1989)



<Photo>

The shape of the Izumiba tobacco leaf which is still cultivated closely resembles that of the Kokububa tobacco leaf

<Photo>

These days, upon taking a stroll in the Kokubu area one will not come across any signs of the area's flourishing tobacco past. Kirishima City Kokubuchuo Senior High School's insignia depicting three tobacco leaves is among the few remnants visible today of the area's tobacco cultivation past. Some five minutes by car from the Kokububa Shotokuhi monument there is also a Kokubu tobacco monument, which was erected in 1977 by the board of education of Kokubu City at the time.

<Map>

■ Kokububa Shotokuhi monument

Location: Shokakuji Park  
6-1502-1 Kokubuchuo, Kirishima-shi, Kagoshima Prefecture, 899-4332, Japan

■ Kokubu tobacco monument

Location: Next to municipal Naba High Town Building No. 21  
11-21 Kokubunaba-cho, Kirishima-shi, Kagoshima Prefecture, 899-4311, Japan

## Company Profile

Trade name: Japan Tobacco Inc.

Location of head office: JT Building, 2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422, Japan

Tel.: +81-3-3582-3111 (Main)

Fax: +81-3-5572-1441

Established: April 1, 1985

Paid-in capital: ¥100 billion

## Ordinary Shares (as of March 31, 2016)

### Composition of shareholders

Public sector: 33.35%

Financial institutions: 16.60%

Individuals and others: 13.79%

Securities companies: 0.27%

Other institutions: 0.54%

Foreign institutions and others: 35.46%

Total number of shares authorized: 8,000,000,000 shares

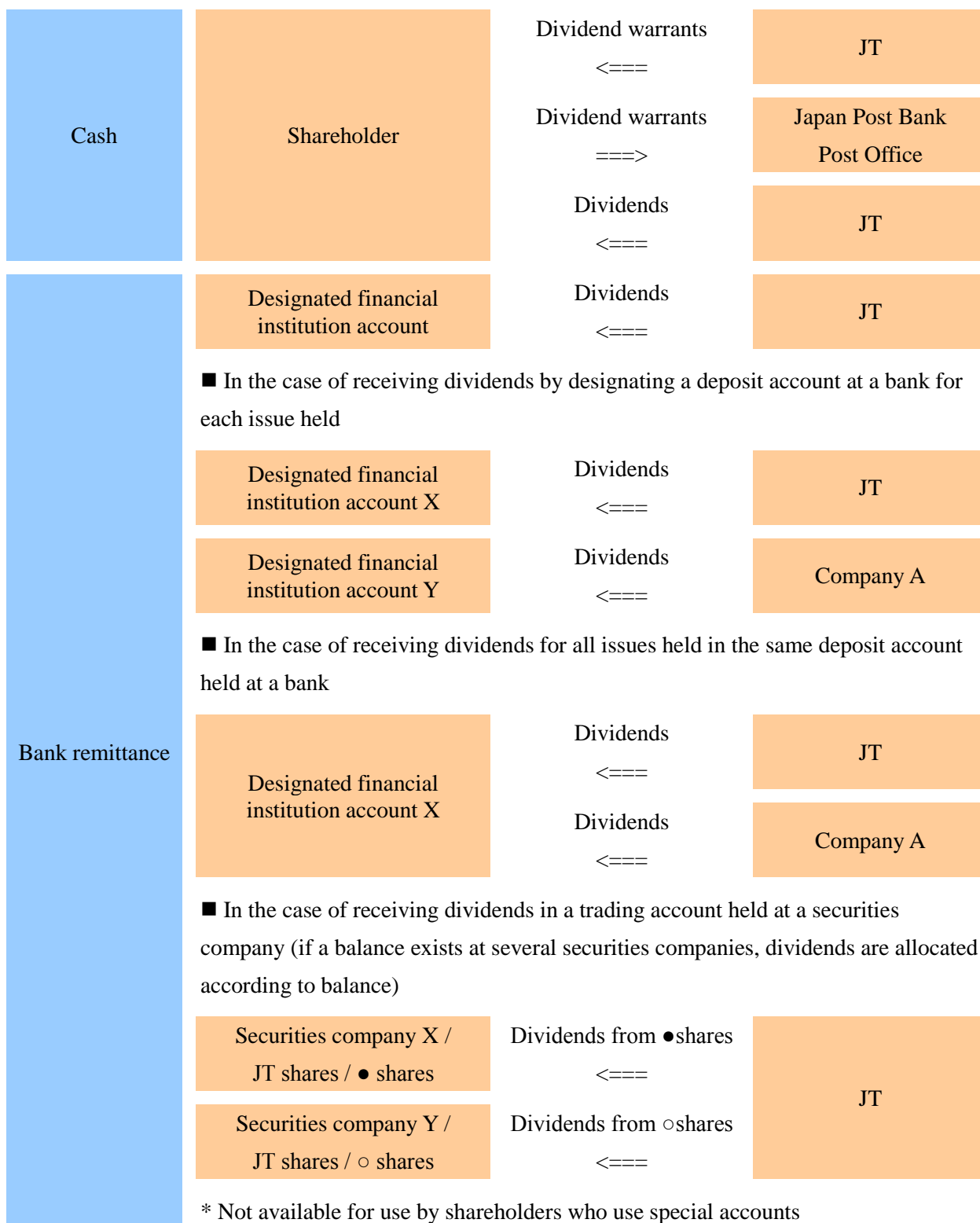
Total number of shares issued: 2,000,000,000 shares

(Number of treasury shares: 209,193,231 shares)

Number of shareholders: 110,474

## How to receive dividends

Shareholders can receive dividends safely and securely by opting to receive them by bank remittance.



Members of the Board, Audit & Supervisory Board Members, and Executive Officers  
(as of April 1, 2016)

■ Members of the Board

Chairman of the Board	Yasutake Tango
President and Representative Director	Mitsuomi Koizumi
Executive Vice President and Representative Director	Yasushi Shingai
Executive Vice President and Representative Director	Mutsuo Iwai
Executive Vice President, Member of the Board	Hideki Miyazaki
Member of the Board	Motoyuki Oka *
Member of the Board	Main Kohda *

\* Mr. Motoyuki Oka and Ms. Main Kohda are Outside Directors provided for in Article 2, item 15 of the Companies Act.

■ Audit & Supervisory Board Members

Standing Audit & Supervisory Board Member	Futoshi Nakamura
Standing Audit & Supervisory Board Member	Tomotaka Kojima
Audit & Supervisory Board Member	Yoshinori Imai *
Audit & Supervisory Board Member	Hiroshi Obayashi *

\* Mr. Yoshinori Imai and Mr. Hiroshi Obayashi are Outside Audit & Supervisory Board Members provided for in Article 2, item 16 of the Companies Act.

\* The Company has appointed Mr. Michio Masaki as a Substitute for Audit & Supervisory Board Member, in preparation against a situation where the number of Audit & Supervisory Board Members falls below the statutory required number.

■ Executive Officers

President, Chief Executive Officer	Mitsuomi Koizumi
Executive Vice President, Deputy Chief Executive Officer, Compliance, General Affairs, Legal, Corporate Strategy, IT, Business Development, HR and Operation Review & Business Assurance	Yasushi Shingai
Executive Vice President, President, Tobacco Business	Mutsuo Iwai
Executive Vice President, Finance, CSR and Communications	Hideki Miyazaki
Senior Vice President, Compliance and General Affairs	Ryoji Chijiiwa
Senior Vice President, Head of China Division, Tobacco Business	Kazuhito Yamashita
Senior Vice President, Chief Marketing & Sales Officer, Tobacco Business	Chito Sasaki
Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business	Kiyohide Hirowatari
Senior Vice President, Corporate, Scientific & Regulatory Affairs Division, Tobacco Business	Junichi Fukuchi

Senior Vice President, Head of Leaf Procurement Group, Tobacco Business	Yasushi Hasegawa
Senior Vice President, Chief R&D Officer, Tobacco Business	Takehisa Shibayama
Senior Vice President, Manufacturing Group, Tobacco Business	Hirakazu Otomo
Senior Vice President, President, Pharmaceutical Business	Muneaki Fujimoto
Senior Vice President, Deputy President, Pharmaceutical Business	Goichi Matsuda
Senior Vice President, Head of Central Pharmaceutical Research Institute, Pharmaceutical Business	Shigenori Ohkawa
Senior Vice President, Chief Financial Officer	Naohiro Minami
Senior Vice President, CSR	Ryoko Nagata
Senior Vice President, Legal	Haruhiko Yamada
Senior Vice President, Corporate Strategy and IT	Yuki Maeda
Senior Vice President, Business Development	Takehiko Tsutsui
Senior Vice President, Human Resources	Koji Shimayoshi
Senior Vice President, Communications	Kei Nakano

#### Trends in Share Price

Share prices of the Company, from IPO on October 27, 1994 to April 2016 (closing prices on the TSE, monthly basis)

<Chart of share price>

#### First sale

Sale by bidding

Contract price ¥1,362,000 to ¥2,110,000 (fixed date of the contract price August 29, 1994)

Sale without bidding

Sale price ¥1,438,000 (fixed date of the sale price August 31, 1994)

#### Second sale

Sale price ¥815,000 (fixed date of the sale price June 17, 1996)

#### Third sale

Sale price ¥843,000 (fixed date of the sale price June 7, 2004)

#### Fourth sale

Sale price ¥2,949 (fixed date of the sale price March 11, 2013)

\* Due to a stock split of 5-for-1 on April 1, 2006, and a stock split of 200-for-1 on July 1, 2012, stock prices reflect post-split levels.

## Memo for Shareholders

Closing date: December 31 of each year

Ordinary General Meeting of Shareholders: March of each year

Record date for year-end dividend: December 31 of each year

Record date for interim dividend: June 30 of each year

Share trading unit: 100 shares

Method of public notice:

Electronic public notice

Public notices will be posted on the Company's website: <https://www.jti.co.jp/>

\* If the Company is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in "The Nikkei" newspaper.

Shareholder registry administrator/special-account managing institution:

Mitsubishi UFJ Trust and Banking Corporation

■ Office for handling business

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

■ Inquiry/mailing address

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

■ Request for procedure forms related to special account

The special-account managing institution accepts requests for administrative procedure for shareholders using special accounts (including notification of change of address, forms for designation or change of direct deposit of dividends, and forms for requesting procedures for inheritance of shares) at

0120-244-479 (toll-free number available only in Japan) 24 hours a day.

Concerning share handling procedures:

Shareholders are asked to contact the securities company where they have accounts.

## Share Handling Procedures

### Shareholders holding accounts with securities companies

[Procedures and contents of inquiries]

- Change in registered address, name
- Change in method to receive dividends or remittance account
- Requests for purchase or sale of shares less than one unit
- Notification of My Number identification number of shareholders whose shares are managed by securities companies\* and similar matters

=> The securities company where the account is opened

- Shipment / return of mail items
- Dividends after the payment period has passed
- Problems including non-receipt of documents and loss of dividend warrants and similar matters

=> Mitsubishi UFJ Trust and Banking Corporation

### Shareholders using special accounts

[All procedures and inquiries]

- Change in registered address, name
- Change in method to receive dividends or remittance account
- Requests for purchase or sale of shares less than one unit
- Shipment / return of mail items
- Dividends after the payment period has passed
- Notification of My Number identification number of shareholders not transacting business with a securities company\*
- Other general inquiries on business concerning shares and similar matters

=> Inquiries

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

### Requests for procedure forms

- Requests by interactive voice response telephone service

0120-244-479 (toll-free number available only in Japan; 24 hours)

\* My Number identification number furnished by a shareholder's municipal government is required for tax-related procedures in relation to shareholdings. As such, we ask that shareholders provide their respective My Number identification number to securities companies and other entities handling transactions.

Japan Tobacco Inc.

JT Building

2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422, Japan

Tel.: +81-3-3582-3111

URL: <https://www.jt.com/>