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

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Nine months ended September 30, 2015	Nine months ended September 30, 2016	31st term
Accounting period	From January 1, 2015 to September 30, 2015	From January 1, 2016 to September 30, 2016	From January 1, 2015 to December 31, 2015
Revenue [Third quarter] (Millions of yen)	1,688,468 [593,247]	1,618,537 [541,658]	2,252,884
Profit before income taxes (Millions of yen)	457,340	484,275	565,113
Profit for the period (Millions of yen)	407,872	353,253	490,242
Profit attributable to owners of the parent company [Third quarter] (Millions of yen)	404,395 [192,929]	350,008 [102,914]	485,691
Comprehensive income (loss) for the period (Millions of yen)	195,471	(25,874)	207,708
Total equity (Millions of yen)	2,509,204	2,267,386	2,521,524
Total assets (Millions of yen)	4,404,511	4,257,997	4,558,235
Basic earnings per share [Third quarter] (Yen)	225.07 [107.74]	195.44 [57.47]	270.54
Diluted earnings per share (Yen)	224.93	195.33	270.37
Ratio of equity attributable to owners of the parent company to total assets (%)	55.41	51.59	53.78
Net cash flows from operating activities (Millions of yen)	200,056	79,716	468,432
Net cash flows from investing activities (Millions of yen)	(33,896)	(655,745)	(63,271)
Net cash flows from financing activities (Millions of yen)	(203,057)	236,805	(254,852)
Cash and cash equivalents at the end of the period (Millions of yen)	336,126	164,238	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 therefore, the figures of continuing operations and discontinued operations for the nine months ended September 30, 2015 were presented separately. Consequently, only revenue and profit before income taxes from continuing operations are presented. Furthermore, the figures presented for the nine months ended September 30, 2016 are for continuing operations only.

2. Business description

During the nine months ended September 30, 2016, there were neither material changes in the business of the Group (the Company, 200 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 nine months ended September 30, 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 third quarter ended September 30, 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 September 30, 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 Domestic Tobacco Business includes revenue from the domestic duty-free market as well as from markets in China, Hong Kong and Macau that are under the control of the Company's China Division, in addition to revenue related to emerging products, but it excludes revenue related to imported tobacco delivery charges, among others. In addition, the International Tobacco Business includes revenue related to waterpipe tobacco products and emerging products, but excludes revenue related to the distribution business and 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 nine months ended September 30, 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 decreased by ¥69.9 billion, or 4.1%, from the same period of the previous year to ¥1,618.5 billion due to unfavorable foreign exchange effects on the International Tobacco Business despite increases in revenue in the Pharmaceutical Business and the Domestic Tobacco Business.

(Billions of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Revenue	1,688.5	1,618.5	(69.9)	(4.1)%
Domestic Tobacco Business	504.8	511.5	6.7	1.3%
Of which, core revenue	478.2	485.5	7.3	1.5%
International Tobacco Business	995.5	919.2	(76.4)	(7.7)%
Of which, core revenue	946.9	873.1	(73.9)	(7.8)%
Pharmaceutical Business	53.4	60.7	7.3	13.7%
Processed Food Business	120.5	120.1	(0.4)	(0.3)%

* 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 decreased by ¥33.8 billion, or 6.6%, from the same period of the previous year to ¥476.5 billion, due to unfavorable foreign exchange effects on the International Tobacco Business.

Operating profit benefited from gain on sales of real estate and the like, rising by ¥38.7 billion, or 8.5%, from the same period of the previous year to ¥494.6 billion.

Profit for the period from continuing operations attributable to owners of the parent company increased by ¥32.9 billion, or 10.4%, from the same period of the previous year to ¥350.0 billion. Profit attributable to owners of the parent company decreased by ¥54.4 billion, or 13.4%, from the same period of the previous year. However, this was a consequence mainly of the inclusion in the aforementioned profit for the same period of the previous year of gains from the transfer of shares of subsidiaries conducting the vending machine operation business.

Adjusted operating profit at constant rates of exchange, a key performance indicator across the Group, rose by 11.8% from the same period of the previous year.

(Billions of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Adjusted operating profit	510.3	476.5	(33.8)	(6.6)%
Domestic Tobacco Business	197.6	199.0	1.4	0.7%
International Tobacco Business	328.5	285.0	(43.5)	(13.2)%
Pharmaceutical Business	(3.3)	4.2	7.5	–
Processed Food Business	1.3	3.7	2.4	184.0%
Operating profit	455.9	494.6	38.7	8.5%
Profit for the period from continuing operations (attributable to owners of the parent company)	317.1	350.0	32.9	10.4%
Profit for the period from discontinued operations (attributable to owners of the parent company)	87.3	–	–	–
Profit attributable to owners of the parent company	404.4	350.0	(54.4)	(13.4)%

* 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^(Note 1) was affected by the declining total demand and by retail price amendments of certain products, but this was partially offset by the impact of the acquisition of the Natural American Spirit business outside the U.S. As a result, sales volume fell by 1.9% from the same period of the previous year. Market share, helped by the aforementioned acquisition, was 61.0% (compared with a share of 59.9% for the previous year).

(Billions of cigarettes)

Domestic Tobacco Business	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Sales volume	81.3	79.7	(1.6)	(1.9)%

Core revenue rose by 1.5% from the same period of the previous year, driven by the impacts of the acquisition of the Natural American Spirit business outside the U.S. and the retail price amendments of certain products.

Despite an increase in promotion expenses, adjusted operating profit rose by 0.7% from the same period of the previous year, due mainly to higher core revenue and the effects of measures to strengthen competitiveness.

(Billions of yen)

Domestic Tobacco Business	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Revenue	504.8	511.5	6.7	1.3%
Of which, core revenue	478.2	485.5	7.3	1.5%
Adjusted operating profit	197.6	199.0	1.4	0.7%

Note: 1 In addition to the figure stated above for sales volume, during the nine months ended September 30, 2016, 3.0 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 (2.9 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with emerging products.

International Tobacco Business

In the nine months ended September 30, 2016, despite factors including the impact of a decline in total demand in Russia, total shipment volume^(Note 2) grew by 2.9% from the same period of the previous year, and GFB^(Note 3) shipment volume increased by 5.3%. This mainly reflected market share gains in emerging markets and major European markets, the effects of the acquisition of an operating company in Iran and the Natural American Spirit business outside the U.S., and positive impacts from trade inventory adjustments primarily in the first quarter ended March 31, 2016.

(Billions of cigarettes)

International Tobacco Business	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Total shipment volume	295.6	304.2	8.6	2.9%
Of which, GFBs	205.4	216.3	10.9	5.3%

Despite favorable pricing in addition to the increase in shipment volume, dollar-based core revenue increased by 3.1% from the same period of the previous year, and adjusted operating profit decreased by 3.3%, due mainly to unfavorable foreign exchange effects on some local currencies, particularly the ruble.

Adjusted operating profit at constant rates of exchange increased by 15.4%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Revenue	8,225	8,485	261	3.2%
Of which, core revenue	7,823	8,062	239	3.1%
Adjusted operating profit	2,715	2,626	(89)	(3.3)%

As a result of the effects of a strong yen when making conversions to that currency, yen-based core revenue decreased by 7.8% from the same period of the previous year, and adjusted operating profit decreased by 13.2% from the same period of the previous year.

(Billions of yen)

International Tobacco Business	Nine months ended September 30, 2015	Nine months ended September 30, 2016	Change	
Revenue	995.5	919.2	(76.4)	(7.7)%
Of which, core revenue	946.9	873.1	(73.9)	(7.8)%
Adjusted operating profit	328.5	285.0	(43.5)	(13.2)%

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

Note: 3 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	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Yen	120.98	108.57
Ruble	59.32	68.40
Pounds sterling	0.65	0.72
Euro	0.90	0.90

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, nine compounds are in clinical development. Among items in clinical development, for anti-HIV drug "emtricitabine/tenofovir alafenamide fumarate," the Company submitted a New Drug Application in August 2016, to the Japanese Ministry of Health, Labour and Welfare.

In the nine months ended September 30, 2016, revenue increased ¥7.3 billion, or 13.7%, from the same period of the previous year to ¥60.7 billion, driven by higher royalty revenue and a one off milestone revenue related to R&D progress of an original JT compound that has been out-licensed. Adjusted operating profit rose by ¥7.5 billion as a result of higher revenue to reach ¥4.2 billion (compared to adjusted operating loss of ¥3.3 billion in the same period of the previous year).

Processed Food Business

In the third quarter ended September 30, 2016, the Group continued 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 renewing existing products.

In the nine months ended September 30, 2016, despite growth in sales of staple food products and seasonings, revenue decreased by ¥0.4 billion, or 0.3%, from the same period of the previous year to ¥120.1 billion, due to a decline in sales of other products. On the other hand, adjusted operating profit rose by ¥2.4 billion, or 184.0%, from the same period of the previous year to ¥3.7 billion, due to improvements in the sales product mix, as well as declining raw material costs caused by the stronger yen, and cost-reduction efforts.

(2) Operational and financial issues to be addressed

During the nine months ended September 30, 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 nine months ended September 30, 2016, were ¥42.1 billion.

During the nine months ended September 30, 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 nine months ended September 30, 2016 decreased by ¥362.5 billion from the end of the previous fiscal year to ¥164.2 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥336.1 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the nine months ended September 30, 2016 were ¥79.7 billion, compared with ¥200.1 billion provided 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 nine months ended September 30, 2016 is for ten months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the nine months ended September 30, 2016 were ¥655.7 billion, compared with ¥33.9 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 nine months ended September 30, 2016 were ¥236.8 billion, compared with ¥203.1 billion used in the same period of the previous year. This was mainly due to short-term borrowings for the acquisition of the Natural American Spirit business outside the U.S. and the issuance of bonds with the aim of refinancing of part of said short-term borrowings, 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 September 30, 2016 accounted for ¥215.1 billion and ¥331.3 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥1.0 billion and ¥1.5 billion respectively. Long-term lease obligations totaled ¥7.8 billion as of December 31, 2015 and ¥6.8 billion as of September 30, 2016.

Short-term debt

Short-term borrowings from financial institutions totaled ¥30.8 billion as of December 31, 2015 and ¥292.7 billion as of September 30, 2016. There was no commercial paper outstanding as of December

31, 2015, but as of September 30, 2016, the outstanding balance was ¥10.0 billion. Short-term lease obligations totaled ¥0.6 billion as of December 31, 2015 and ¥0.4 billion as of September 30, 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 September 30, 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 September 30, 2016)	Number of shares issued (Share; as of the date of filing: November 1, 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

Subscription rights to shares issued during the third quarter ended September 30, 2016 are as follows.

Resolution date	June 17, 2016
Number of subscription rights to shares	430
Of which, the number of treasury subscription rights to shares	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (The Company's standard class of shares with no rights limitations and the share trading unit is 100 shares.)
Number of shares to be issued upon exercise of subscription rights to shares	86,000 shares ^(Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share
Exercise period of subscription rights to shares	From July 5, 2016 to July 4, 2046
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥572,600 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	<p>a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen.</p> <p>b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.</p>

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

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

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

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

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

In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date.

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

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

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

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

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

the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.

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

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2016 to September 30, 2016	-	2,000,000	-	100,000	-	736,400

(6) Status of major shareholders

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

(7) Status of voting rights

a. Shares issued

(As of September 30, 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 209,096,000	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,875,800	17,908,758	(Note 2)
Shares less than one unit	Ordinary shares 28,200	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,908,758	–

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 67 shares of treasury shares.

b. Treasury shares

(As of September 30, 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, Toranomom 2-chome, Minato-ku, Tokyo, Japan	209,096,000	–	209,096,000	10.45
Total	–	209,096,000	–	209,096,000	10.45

2. Status of officers

After filing of the previous fiscal year’s Annual Securities Report, there were no personnel changes of officers during the nine months ended September 30, 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 this third quarter period (from July 1, 2016 to September 30, 2016) and for the nine months ended September 30, 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 September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	526,765	164,238
Trade and other receivables	406,387	361,354
Inventories	563,820	500,764
Other financial assets	17,849	9,357
Other current assets	280,493	267,519
Subtotal	1,795,313	1,303,233
Non-current assets held-for-sale	2,904	2,386
Total current assets	1,798,217	1,305,619
Non-current assets		
Property, plant and equipment (Note 6)	681,865	636,406
Goodwill (Notes 6, 17)	1,429,287	1,487,876
Intangible assets (Note 6)	332,478	410,205
Investment property	23,614	17,622
Retirement benefit assets	38,954	20,536
Investments accounted for using the equity method	59,523	107,017
Other financial assets	101,727	97,707
Deferred tax assets	92,570	175,009
Total non-current assets	2,760,017	2,952,378
Total assets	4,558,235	4,257,997

	As of December 31, 2015	(Millions of yen) As of September 30, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	373,032	297,084
Bonds and borrowings	30,980	303,174
Income tax payables	106,391	58,139
Other financial liabilities	6,459	6,319
Provisions	19,297	11,292
Other current liabilities	729,761	479,868
Total current liabilities	1,265,920	1,155,876
Non-current liabilities		
Bonds and borrowings (Note 7)	215,938	332,314
Other financial liabilities	10,143	8,488
Retirement benefit liabilities	333,562	334,994
Provisions	9,210	5,025
Other non-current liabilities	113,958	91,035
Deferred tax liabilities	87,979	62,877
Total non-current liabilities	770,790	834,735
Total liabilities	2,036,710	1,990,611
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(444,333)	(443,931)
Other components of equity	(137,122)	(478,840)
Retained earnings	2,196,651	2,283,005
Equity attributable to owners of the parent company	2,451,596	2,196,633
Non-controlling interests	69,929	70,753
Total equity	2,521,524	2,267,386
Total liabilities and equity	4,558,235	4,257,997

(2) 【Condensed interim consolidated statement of income】

(For the nine-month period)

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Continuing operations		
Revenue (Notes 5, 9)	1,688,468	1,618,537
Cost of sales	(680,011)	(652,015)
Gross profit	1,008,457	966,523
Other operating income (Note 10)	3,942	66,225
Share of profit in investments accounted for using the equity method	4,869	4,834
Selling, general and administrative expenses (Note 11)	(561,368)	(543,001)
Operating profit (Note 5)	455,901	494,580
Financial income (Note 12)	12,706	5,143
Financial costs (Note 12)	(11,268)	(15,448)
Profit before income taxes	457,340	484,275
Income taxes	(137,077)	(131,022)
Profit for the period from continuing operations	320,263	353,253
Discontinued operations		
Profit (loss) for the period from discontinued operations (Note 18)	87,609	—
Profit for the period	407,872	353,253
Attributable to:		
Owners of the parent company	404,395	350,008
Non-controlling interests	3,477	3,245
Profit for the period	407,872	353,253
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 14)	176.46	195.44
Discontinued operations (Note 14)	48.60	—
Total basic earnings per share for the interim period (Note 14)	225.07	195.44
Diluted (Yen)		
Continuing operations (Note 14)	176.35	195.33
Discontinued operations (Note 14)	48.57	—
Total diluted earnings per share for the interim period (Note 14)	224.93	195.33

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

	Nine months ended September 30, 2015	(Millions of yen) Nine months ended September 30, 2016
Continuing operations		
Operating profit	455,901	494,580
Amortization cost of acquired intangibles	23,398	35,270
Adjustment items (income)	(614)	(62,568)
Adjustment items (costs)	31,650	9,262
Adjusted operating profit (Note 5)	<u>510,334</u>	<u>476,544</u>

(For the three-month period)

	Three months ended September 30, 2015	(Millions of yen) Three months ended September 30, 2016
Continuing operations		
Revenue (Note 5)	593,247	541,658
Cost of sales	(240,430)	(218,302)
Gross profit	352,817	323,356
Other operating income	1,507	6,320
Share of profit in investments accounted for using the equity method	2,025	2,184
Selling, general and administrative expenses	(199,240)	(182,301)
Operating profit (Note 5)	157,108	149,560
Financial income	4,007	1,280
Financial costs	(3,955)	(5,930)
Profit before income taxes	157,160	144,911
Income taxes	(50,590)	(40,938)
Profit for the period from continuing operations	106,569	103,973
Discontinued operations		
Profit (loss) for the period from discontinued operations (Note 18)	87,626	—
Profit for the period	194,195	103,973
Attributable to:		
Owners of the parent company	192,929	102,914
Non-controlling interests	1,266	1,058
Profit for the period	194,195	103,973
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 14)	58.87	57.47
Discontinued operations (Note 14)	48.87	—
Total basic earnings per share for the interim period (Note 14)	107.74	57.47
Diluted (Yen)		
Continuing operations (Note 14)	58.83	57.43
Discontinued operations (Note 14)	48.84	—
Total diluted earnings per share for the interim period (Note 14)	107.67	57.43

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

(Millions of yen)

	Three months ended September 30, 2015	Three months ended September 30, 2016
Continuing operations		
Operating profit	157,108	149,560
Amortization cost of acquired intangibles	8,165	11,189
Adjustment items (income)	(221)	(4,408)
Adjustment items (costs)	16,430	1,871
Adjusted operating profit (Note 5)	<u>181,482</u>	<u>158,212</u>

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

(For the nine-month period)

	Nine months ended September 30, 2015	(Millions of yen) Nine months ended September 30, 2016
Profit for the period	407,872	353,253
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	9,396	(2,342)
Remeasurements of defined benefit plans (Note 13)	(1,400)	(34,578)
Total of items that will not be reclassified to profit or loss	7,996	(36,921)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(220,654)	(339,896)
Net gain (loss) on derivatives designated as cash flow hedges	256	(2,310)
Total of items that may be reclassified subsequently to profit or loss	(220,398)	(342,206)
Other comprehensive income (loss), net of taxes	(212,401)	(379,127)
Comprehensive income (loss) for the period	195,471	(25,874)
Attributable to:		
Owners of the parent company	192,337	(27,506)
Non-controlling interests	3,133	1,632
Comprehensive income (loss) for the period	195,471	(25,874)

(For the three-month period)

	Three months ended September 30, 2015	(Millions of yen) Three months ended September 30, 2016
Profit for the period	194,195	103,973
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(1,037)	(274)
Remeasurements of defined benefit plans (Note 13)	13,234	(21,408)
Total of items that will not be reclassified to profit or loss	12,197	(21,682)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(168,038)	(32,385)
Net gain (loss) on derivatives designated as cash flow hedges	(179)	(212)
Total of items that may be reclassified subsequently to profit or loss	(168,217)	(32,597)
Other comprehensive income (loss), net of taxes	(156,019)	(54,280)
Comprehensive income (loss) for the period	38,176	49,693
Attributable to:		
Owners of the parent company	36,994	48,726
Non-controlling interests	1,181	967
Comprehensive income (loss) for the period	38,176	49,693

(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)	—	—	—	—	(220,135)	256	9,242
Comprehensive income (loss) for the period	—	—	—	—	(220,135)	256	9,242
Acquisition of treasury shares	—	—	(100,000)	—	—	—	—
Disposal of treasury shares	—	—	103	(80)	—	—	—
Share-based payments	—	—	—	292	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	(140)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(283)
Other increase (decrease)	—	—	—	—	—	(1,261)	—
Total transactions with the owners	—	—	(99,897)	213	—	(1,261)	(423)
As of September 30, 2015	<u>100,000</u>	<u>736,400</u>	<u>(444,344)</u>	<u>1,844</u>	<u>(103,713)</u>	<u>211</u>	<u>31,975</u>
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)	—	—	—	—	(338,383)	(2,310)	(2,240)
Comprehensive income (loss) for the period	—	—	—	—	(338,383)	(2,310)	(2,240)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	402	(350)	—	—	—
Share-based payments	—	—	—	204	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
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	—	—	—	—	—	—	(317)
Other increase (decrease)	—	—	—	—	—	1,679	—
Total transactions with the owners	—	—	402	(146)	—	1,679	(317)
As of September 30, 2016	<u>100,000</u>	<u>736,400</u>	<u>(443,931)</u>	<u>1,795</u>	<u>(510,856)</u>	<u>(506)</u>	<u>30,727</u>

(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	—	—	404,395	404,395	3,477	407,872
Other comprehensive income (loss)	(1,421)	(212,057)	—	(212,057)	(344)	(212,401)
Comprehensive income (loss) for the period	(1,421)	(212,057)	404,395	192,337	3,133	195,471
Acquisition of treasury shares	—	—	—	(100,000)	—	(100,000)
Disposal of treasury shares	—	(80)	(23)	0	—	0
Share-based payments	—	292	—	292	—	292
Dividends (Note 8)	—	—	(187,574)	(187,574)	(13,809)	(201,383)
Changes in the scope of consolidation	—	(140)	140	—	(6,044)	(6,044)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	4	4	(321)	(318)
Transfer from other components of equity to retained earnings	1,421	1,137	(1,137)	—	—	—
Other increase (decrease)	—	(1,261)	—	(1,261)	(57)	(1,318)
Total transactions with the owners	1,421	(51)	(188,591)	(288,539)	(20,230)	(308,769)
As of September 30, 2015	—	(69,683)	2,118,263	2,440,636	68,568	2,509,204
As of January 1, 2016	—	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	—	—	350,008	350,008	3,245	353,253
Other comprehensive income (loss)	(34,581)	(377,514)	—	(377,514)	(1,613)	(379,127)
Comprehensive income (loss) for the period	(34,581)	(377,514)	350,008	(27,506)	1,632	(25,874)
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(350)	(52)	0	—	0
Share-based payments	—	204	—	204	3	207
Dividends (Note 8)	—	—	(229,223)	(229,223)	(2,039)	(231,261)
Changes in the scope of consolidation	—	—	—	—	1,212	1,212
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(117)	(117)	16	(101)
Transfer from other components of equity to retained earnings	34,581	34,263	(34,263)	—	—	—
Other increase (decrease)	—	1,679	—	1,679	—	1,679
Total transactions with the owners	34,581	35,796	(263,655)	(227,457)	(808)	(228,265)
As of September 30, 2016	—	(478,840)	2,283,005	2,196,633	70,753	2,267,386

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

(Millions of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Cash flows from operating activities		
Profit before income taxes	457,340	484,275
Profit before income taxes from discontinued operations	119,076	—
Depreciation and amortization	105,105	105,601
Impairment losses	9,267	1,477
Interest and dividend income	(12,511)	(5,143)
Interest expense	3,063	6,339
Share of profit in investments accounted for using the equity method	(4,869)	(4,834)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	9,603	(33,225)
(Gains) losses on sale of investments in subsidiaries	(133,619)	(26,106)
(Increase) decrease in trade and other receivables	(10,204)	(7,843)
(Increase) decrease in inventories	20,496	12,568
Increase (decrease) in trade and other payables	(47,922)	(47,123)
Increase (decrease) in retirement benefit liabilities	(8,709)	(4,990)
(Increase) decrease in prepaid tobacco excise taxes	(19,772)	(19,213)
Increase (decrease) in tobacco excise tax payables	(124,233)	(180,915)
Increase (decrease) in consumption tax payables	(39,976)	(2,645)
Other	(17,631)	(30,080)
Subtotal	304,505	248,141
Interest and dividends received	16,792	10,013
Interest paid	(2,831)	(3,440)
Income taxes paid (Note 18)	(118,410)	(174,998)
Net cash flows from operating activities	200,056	79,716
Cash flows from investing activities		
Purchase of securities	(1,211)	(1,452)
Proceeds from sale and redemption of securities	2,793	2,739
Purchase of property, plant and equipment	(82,017)	(69,746)
Proceeds from sale of investment property	707	38,630
Purchase of intangible assets	(10,296)	(6,911)
Payments into time deposits	(765)	(207)
Proceeds from withdrawal of time deposits	716	201
Payments for business combinations (Note 17)	(67,639)	(587,173)
Proceeds from sale of investments in subsidiaries	126,107	26,979
Purchase of investments in associates	—	(52,291)
Other	(2,290)	(6,513)
Net cash flows from investing activities	(33,896)	(655,745)

	Nine months ended September 30, 2015	(Millions of yen) Nine months ended September 30, 2016
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(187,501)	(229,125)
Dividends paid to non-controlling interests	(13,342)	(1,652)
Capital contribution from non-controlling interests	—	16
Increase (decrease) in short-term borrowings and commercial paper	16,352	331,075
Proceeds from long-term borrowings	—	841
Repayments of long-term borrowings	(30,139)	(126)
Proceeds from issuance of bonds	114,724	136,181
Repayments of finance lease obligations	(2,833)	(405)
Acquisition of treasury shares	(100,000)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(318)	—
Other	0	0
Net cash flows from financing activities	(203,057)	236,805
Net increase (decrease) in cash and cash equivalents	(36,896)	(339,223)
Cash and cash equivalents at the beginning of the period	385,820	526,765
Effect of exchange rate changes on cash and cash equivalents	(12,797)	(23,303)
Cash and cash equivalents at the end of the period	336,126	164,238

【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 September 30, 2016 and for the nine-month period ended September 30, 2016 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on October 31, 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)

"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 nine months ended September 30, 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 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 ambient processed foods, bakery products and seasonings.

(2) Revenues and performances of reportable segments

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

For the nine months ended September 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	504,775	995,537	53,410	120,464	1,674,186	14,282	—	1,688,468
Intersegment revenue	15,237	35,237	—	28	50,501	7,450	(57,951)	—
Total revenue	<u>520,011</u>	<u>1,030,774</u>	<u>53,410</u>	<u>120,492</u>	<u>1,724,687</u>	<u>21,732</u>	<u>(57,951)</u>	<u>1,688,468</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>197,617</u>	<u>328,498</u>	<u>(3,260)</u>	<u>1,306</u>	<u>524,161</u>	<u>(13,465)</u>	<u>(362)</u>	<u>510,334</u>

For the nine months ended September 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	511,491	919,183	60,720	120,096	1,611,489	7,048	—	1,618,537
Intersegment revenue	15,864	22,770	—	18	38,653	7,217	(45,869)	—
Total revenue	<u>527,355</u>	<u>941,953</u>	<u>60,720</u>	<u>120,114</u>	<u>1,650,142</u>	<u>14,265</u>	<u>(45,869)</u>	<u>1,618,537</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>198,977</u>	<u>284,996</u>	<u>4,227</u>	<u>3,709</u>	<u>491,908</u>	<u>(15,697)</u>	<u>333</u>	<u>476,544</u>

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

For the nine months ended September 30, 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)	197,617	328,498	(3,260)	1,306	524,161	(13,465)	(362)	510,334
Amortization cost of acquired intangibles	—	(23,398)	—	—	(23,398)	—	—	(23,398)
Adjustment items (income) (Note 4)	91	—	—	226	318	297	—	614
Adjustment items (costs) (Note 4)	(3,067)	(15,272)	—	(10)	(18,349)	(13,300)	—	(31,650)
Operating profit (loss)	194,641	289,828	(3,260)	1,523	482,732	(26,469)	(362)	455,901
Financial income								12,706
Financial costs								(11,268)
Profit before income taxes								457,340

For the nine months ended September 30, 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)	198,977	284,996	4,227	3,709	491,908	(15,697)	333	476,544
Amortization cost of acquired intangibles	(12,184)	(23,086)	—	—	(35,270)	—	—	(35,270)
Adjustment items (income) (Note 4)	39	—	—	—	39	62,529	—	62,568
Adjustment items (costs) (Note 4)	137	(3,653)	—	(5)	(3,521)	(5,741)	—	(9,262)
Operating profit (loss)	186,969	258,256	4,227	3,704	453,156	41,091	333	494,580
Financial income								5,143
Financial costs								(15,448)
Profit before income taxes								484,275

- (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)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Domestic Tobacco	478,234	485,487
International Tobacco	946,950	873,089

- (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 “10. Other operating income.” Restructuring costs included in “Cost of sales” were ¥57 million for the nine months ended September 30, 2015. Restructuring costs included in “Selling, general and administrative expenses” were ¥31,592 million and ¥9,262 million for the nine months ended September 30, 2015 and 2016, respectively. The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

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

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Restructuring costs	31,650	9,262
Adjustment items (costs)	31,650	9,262

Restructuring costs for the nine months ended September 30, 2015 mainly relate to rationalization of distribution system and factory platform in some markets in the “International Tobacco Business” and disposal of real estate. Restructuring costs for the nine months ended September 30, 2016 mainly relate to disposal of real estate.

For the three months ended September 30, 2015

(Millions of yen)

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

For the three months ended September 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	175,580	303,201	20,425	40,154	539,360	2,298	—	541,658
Intersegment revenue	4,608	6,889	—	6	11,504	2,388	(13,892)	—
Total revenue	<u>180,187</u>	<u>310,091</u>	<u>20,425</u>	<u>40,160</u>	<u>550,864</u>	<u>4,687</u>	<u>(13,892)</u>	<u>541,658</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>69,353</u>	<u>91,882</u>	<u>1,461</u>	<u>561</u>	<u>163,257</u>	<u>(5,119)</u>	<u>74</u>	<u>158,212</u>

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

For the three months ended September 30, 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)	71,810	115,567	(1,136)	200	186,440	(4,964)	6	181,482
Amortization cost of acquired intangibles	—	(8,165)	—	—	(8,165)	—	—	(8,165)
Adjustment items (income) (Note 4)	20	—	—	202	221	—	—	221
Adjustment items (costs) (Note 4)	(1,241)	(13,083)	—	(8)	(14,332)	(2,098)	—	(16,430)
Operating profit (loss)	70,589	94,318	(1,136)	394	164,165	(7,062)	6	157,108
Financial income								4,007
Financial costs								(3,955)
Profit before income taxes								157,160

For the three months ended September 30, 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)	69,353	91,882	1,461	561	163,257	(5,119)	74	158,212
Amortization cost of acquired intangibles	(4,061)	(7,127)	—	—	(11,189)	—	—	(11,189)
Adjustment items (income) (Note 4)	22	—	—	—	22	4,385	—	4,408
Adjustment items (costs) (Note 4)	(1)	(1,120)	—	(4)	(1,124)	(746)	—	(1,871)
Operating profit (loss)	65,313	83,634	1,461	557	150,966	(1,480)	74	149,560
Financial income								1,280
Financial costs								(5,930)
Profit before income taxes								144,911

- (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 September 30, 2015	Three months ended September 30, 2016
Domestic Tobacco	166,028	166,873
International Tobacco	337,724	289,030

- (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. Restructuring costs included in “Cost of sales” were ¥6 million for the three months ended September 30, 2015. Restructuring costs included in “Selling, general and administrative expenses” were ¥16,423 million and ¥1,871 million for the three months ended September 30, 2015 and 2016, respectively.

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

	(Millions of yen)	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Restructuring costs	16,430	1,871
Adjustment items (costs)	16,430	1,871

Restructuring costs for the three months ended September 30, 2015 mainly relate to rationalization of distribution system and factory platform in some markets in the “International Tobacco Business.”

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

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

Carrying Amount	(Millions of yen)		
	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2016	681,865	1,429,287	332,478
Individual acquisition	64,377	—	7,687
Acquisition through business combinations	1,576	287,680	180,304
Transfer to investment property	(4,088)	—	—
Transfer to non-current assets held-for-sale	(180)	—	—
Depreciation or amortization	(57,947)	—	(47,148)
Impairment losses	(910)	—	(7)
Reversal of impairment losses	22	—	—
Sale or disposal	(2,861)	—	(107)
Exchange differences on translation of foreign operations	(49,913)	(226,907)	(63,218)
Other	4,466	(2,184)	214
As of September 30, 2016	<u>636,406</u>	<u>1,487,876</u>	<u>410,205</u>

7. Bonds

The Company issued straight bonds in USD (outstanding amount: \$750 million, carrying amount: ¥75,603 million, interest rate: 2.00%, issuance date: April 13, 2016, maturity date: April 13, 2021) and straight bonds in USD (outstanding amount: \$500 million, carrying amount: ¥50,292 million, interest rate: 2.80%, issuance date: April 13, 2016, maturity date: April 13, 2026) for the nine months ended September 30, 2016.

8. Dividends

Dividends paid for each interim period are as follows:

For the nine months ended September 30, 2015

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

For the nine months ended September 30, 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
Board of Directors (August 1, 2016)	Ordinary shares	114,617	64	June 30, 2016	September 1, 2016

9. Revenue

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

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Gross turnover	5,577,058	5,320,574
Tobacco excise taxes and agency transaction amount	(3,888,590)	(3,702,037)
Revenue	<u>1,688,468</u>	<u>1,618,537</u>

10. Other operating income

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

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	823	38,272
Gain on sale of investments in subsidiaries (Note)	—	26,106
Other (Note)	3,119	1,847
Total	<u>3,942</u>	<u>66,225</u>

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

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Gain on sale of property, plant and equipment, intangible assets and investment property	390	36,364
Gain on sale of investments in subsidiaries	—	26,106
Other	224	98
Total	<u>614</u>	<u>62,568</u>

11. Selling, general and administrative expenses

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

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Advertising expenses	15,924	17,847
Promotion expenses	75,568	82,921
Shipping, warehousing expenses	19,941	19,969
Commission	35,431	34,058
Employee benefit expenses (Note)	195,305	183,804
Research and development expenses	42,240	42,143
Depreciation and amortization	48,793	59,664
Impairment losses on other than financial assets (Note)	6,128	1,477
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	14,364	7,709
Other (Note)	107,674	93,409
Total	561,368	543,001

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

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Employee benefit expenses	3,208	845
Impairment losses on other than financial assets	4,600	287
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property	10,937	4,444
Other	12,847	3,685
Total	31,592	9,262

12. Financial income and financial costs

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

Financial income	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Dividend income	1,449	1,375
Interest income	11,034	3,768
Other	224	—
Total	12,706	5,143

Financial costs	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Interest expenses (Note 2)	2,931	6,339
Foreign exchange losses (Note 1)	3,896	5,560
Employee benefit expenses (Note 3)	2,889	2,605
Other	1,552	944
Total	11,268	15,448

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

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

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

13. Other comprehensive income

“Remeasurements of defined benefit plans” for the nine months ended September 30, 2016 include remeasurements arising from the effects of significant market fluctuations in relation to retirement benefit assets or liabilities.

14. Interim earnings per share

(For the nine-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Profit for the period attributable to owners of the parent company	404,395	350,008
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	404,395	350,008
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	87,331	—
Profit for the period from continuing operations used for calculation of basic interim earnings per share	317,064	350,008

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

	(Thousands of shares)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Weighted-average number of shares during the period	1,796,784	1,790,860

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

	(Millions of yen)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Profit for the period used for calculation of basic interim earnings per share	404,395	350,008
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	404,395	350,008
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	87,331	—
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	317,064	350,008

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

	(Thousands of shares)	
	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Weighted-average number of ordinary shares during the period	1,796,784	1,790,860
Increased number of ordinary shares under subscription rights to shares	1,113	1,032
Weighted-average number of diluted ordinary shares during the period	1,797,897	1,791,892

(For the three-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

	(Millions of yen)	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Profit for the period attributable to owners of the parent company	192,929	102,914
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	192,929	102,914
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	87,508	—
Profit for the period from continuing operations used for calculation of basic interim earnings per share	105,421	102,914

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

	(Thousands of shares)	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Weighted-average number of shares during the period	1,790,695	1,790,894

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

	(Millions of yen)	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Profit for the period used for calculation of basic interim earnings per share	192,929	102,914
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	192,929	102,914
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	87,508	—
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	105,421	102,914

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

	(Thousands of shares)	
	Three months ended September 30, 2015	Three months ended September 30, 2016
Weighted-average number of ordinary shares during the period	1,790,695	1,790,894
Increased number of ordinary shares under subscription rights to shares	1,118	1,018
Weighted-average number of diluted ordinary shares during the period	1,791,813	1,791,911

15. Financial instruments

(Fair value of financial instruments)

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

	(Millions of yen)			
	As of December 31, 2015		As of September 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	1,014	1,014	1,522	1,522
Bonds	215,072	217,215	331,315	338,604
(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	<u>67,876</u>	<u>7,106</u>	<u>6,966</u>	<u>81,948</u>
Derivative liabilities	—	5,595	—	5,595
Total	<u>—</u>	<u>5,595</u>	<u>—</u>	<u>5,595</u>
As of September 30, 2016				(Millions of yen)
	Level 1	Level 2	Level 3	Total
Derivative assets	—	3,803	—	3,803
Equity securities	62,024	—	5,407	67,431
Other	310	—	1,557	1,868
Total	<u>62,334</u>	<u>3,803</u>	<u>6,964</u>	<u>73,101</u>
Derivative liabilities	—	5,737	—	5,737
Total	<u>—</u>	<u>5,737</u>	<u>—</u>	<u>5,737</u>

16. Commitments

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

	(Millions of yen)	
	As of December 31, 2015	As of September 30, 2016
Acquisition of property, plant and equipment	41,879	51,638

17. 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 ¥20,669 million and ¥10,103 million, respectively.

The amortization of trademarks acquired from the business combinations included in the above operating loss is ¥13,444 million.

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

The consideration is ¥582,115 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	582,115	
Cash and cash equivalents in subsidiaries acquired	(4,083)	
Net cash outflow for the business combinations	578,032	

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

	(Millions of yen)
	Fair value
Current assets	19,367
Trademarks	178,093
Deferred tax assets	112,657
Other non-current assets	7,971
Total assets	318,088
Current liabilities	10,732
Non-current liabilities	7,250
Total liabilities	17,982
Goodwill	282,008

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 ¥291 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 nine months ended September 30, 2016, which are omitted as they are immaterial both individually and in aggregate.

18. 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. ¥133,619 million of gain on sale of investments in subsidiaries and ¥36,258 million of income taxes related to the transfer of subsidiaries are included in profit (loss) for the period from discontinued operations in the condensed interim consolidated statement of income for the nine months ended September 30, 2015. ¥36,494 million of income taxes paid related to the transfer of subsidiaries for the prior year are included in the condensed interim consolidated statement of cash flows for the nine months ended September 30, 2016.

19. Contingencies

As of September 30 2016, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2015.

20. Subsequent events

No items to report

2. Other

(Dividends)

The Board of Directors, at a meeting held on August 1, 2016, declared the following interim dividends for the current fiscal year.

- | | |
|---|-------------------|
| (a) Total amount of interim dividends | ¥114,617 million |
| (b) Amount per share | ¥64.00 |
| (c) Effective date of requests for payment, and commencement date of payments | September 1, 2016 |

Note: Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2016.

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

No items to report

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

October 31, 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 September 30, 2016, and the related condensed interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the nine-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

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

Accountant's Responsibility

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

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

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

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of September 30, 2016, and the consolidated results of their operations for the three-month and nine-month periods then ended, and their cash flows for the nine-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

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

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