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Document to be filed:	Management's Report on Internal Control over Financial Reporting
Provisions to base upon:	Article 24-4-4, paragraph (1) of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	March 24, 2017
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.
Title and name of representative:	Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
Title and name of chief financial officer:	Naohiro Minami, Senior Vice President, Chief Financial Officer
Location of head office:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Places where the document to be filed is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

1. Matters relating to the basic framework for internal control over financial reporting

JT's representative Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director, and the chief financial officer Naohiro Minami, Senior Vice President and Chief Financial Officer are responsible for designing and operating effective internal control over financial reporting of the JT Group and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of December 31, 2016, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("entity-level controls") and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of JT's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of JT Group.

We determined the necessary scope for assessment of internal control over financial reporting for JT and its consolidated subsidiaries and equity-method affiliates from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. In light of the results of assessment of entity-level internal controls, which covered JT, 153 consolidated subsidiaries and 5 equity method affiliates, we reasonably determined the scope of assessment of internal controls over business processes. 49 consolidated subsidiaries and 7 equity method affiliates were not included in the scope of assessment of entity-level internal controls, since their significance was judged to be minimal from the perspective of quantitative and qualitative materiality.

Regarding the scope of assessment of internal control over business processes, we selected locations and business units to be tested in descending order of revenue (after elimination of inter-company transactions) for the previous fiscal year, and the companies whose combined revenue reaches two thirds of total amount on a consolidation basis were selected as "significant locations and/or business units".

We included in the scope of assessment, at the selected significant locations and/or business units, business processes leading to revenue, accounts receivable and inventories as significant accounts that may have a material impact on the business objectives of JT Group. Further, in addition to selected significant locations and/or business units, we also selected for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management's judgment and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of this fiscal year, we concluded that the JT Group's internal control over financial reporting was effectively maintained.

4. Additional notes

No material items to report

5. Special notes

No material items to report