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October 31, 2016

Consolidated Financial Results for the Nine Months Ended September 30, 2016 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)
 Listed Stock Exchange: Tokyo Stock Exchange
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 Scheduled date to file Quarterly Securities Report: November 1, 2016
 Scheduled starting date of the dividend payments: –
 Drawing up supplementary documents on quarterly financial results: Yes
 Holding quarterly investors' meeting: Yes (for analysts and institutional investors)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

1. Consolidated financial results for the nine months of the fiscal year ending December 31, 2016 (from January 1, 2016 to September 30, 2016)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
September 30, 2016	1,618,537	(4.1)	494,580	8.5	484,275	5.9	353,253	(13.4)
September 30, 2015	1,688,468	-	455,901	-	457,340	-	407,872	-

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Nine months ended						
September 30, 2016	350,008	(13.4)	(25,874)	-	195.44	195.33
September 30, 2015	404,395	-	195,471	-	225.07	224.93

The Company has changed its fiscal year end from March 31 to December 31 in the fiscal year 2014. The same change has been made to consolidated subsidiaries with fiscal year ends other than December 31. Consequently, year-on-year changes for nine months ended September 30, 2015 are not presented.

The Group has classified "Beverage Business" as discontinued operations from the previous fiscal year. As a result, profit (loss) from discontinued operations is presented separately from those from continuing operations on the condensed interim consolidated financial statements for nine months ended September 30, 2015. Consequently, only the continuing operations are indicated in the revenue, operating profit and profit before income taxes stated in the above table for nine months ended September 30, 2015.

The year-on-year changes stated in the above table for profit for the period and profit attributable to owners of the parent company for the nine months ended September 30, 2016 are based on comparison of profit for the period and profit attributable to owners of the parent company in the same period of the fiscal year 2015, which include discontinued operations. The aforementioned profits do, however, include gains from the transfer of shares of subsidiaries conducting the vending machine operation business.

Profit for the period and profit attributable to owners of the parent company from continuing operations in the same period of the fiscal year 2015 are ¥320,263 million and ¥317,064 million, respectively. When performing comparison based on these amounts, the year-on-year changes for the nine months ended September 30, 2016 are 10.3% and 10.4%, respectively.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity attributable to owners of the parent company per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
September 30, 2016	4,257,997	2,267,386	2,196,633	51.6	1,226.55
December 31, 2015	4,558,235	2,521,524	2,451,596	53.8	1,369.06

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2015	-	54.00	-	64.00	118.00
Year ending December 31, 2016	-	64.00	-		
Year ending December 31, 2016 (Forecast)				64.00	128.00

Note: Revisions to the cash dividends forecasts most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending December 31, 2016	2,120,000	(5.9)	580,000	2.6	414,000	(14.8)	231.17

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

The Group has classified "Beverage Business" as discontinued operations from the previous fiscal year. As a result, the consolidated earnings forecasts for the fiscal year ending December 31, 2016, are earnings forecasts for continuing operations only.

The year-on-year change stated in the above table for profit attributable to owners of the parent company is based on a comparison of profit attributable to owners of the parent company in the fiscal year 2015 (¥485,691 million), which includes discontinued operations. The aforementioned profit does, however, include gains from the transfer of shares of subsidiaries conducting the vending machine operation business.

Profit attributable to owners of the parent company from continuing operations in the fiscal year 2015 is ¥398,454 million. When performing a comparison based on this amount, the year-on-year change for profit attributable to owners of the parent company for the fiscal year ending December 31, 2016 is 3.9%.

Notes

- (1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
- a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
- For details, please refer to “2. Matters regarding summary information (Notes), (2) Changes in accounting policies and changes in accounting estimates” on page 10 of attached materials.
- (3) Number of shares issued (ordinary shares)
- a. Total number of shares issued at the end of the period (including treasury shares)

As of September 30, 2016	2,000,000,000 shares
As of December 31, 2015	2,000,000,000 shares
 - b. Number of treasury shares at the end of the period

As of September 30, 2016	209,096,067 shares
As of December 31, 2015	209,285,431 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended September 30, 2016	1,790,859,796 shares
Nine months ended September 30, 2015	1,796,783,900 shares

* Indication regarding execution of quarterly review procedures

At the time of disclosure of this quarterly financial results report, the review procedures for quarterly financial statements in accordance with the Financial Instruments and Exchange Act have been completed.

* Proper use of earnings forecasts, and other special matters

The forward-looking statements, including forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions and suppositions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future. Please refer to “FORWARD-LOOKING STATEMENTS” for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

Please refer to the Company’s website (<https://www.jti.co.jp/>) for materials for investors’ meeting.

Attached Materials

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1. Qualitative information regarding consolidated results for the nine months ended 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) Qualitative information regarding consolidated 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).”

a. General summary

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.

b. Review of operations by business segment

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).

* Regarding items in clinical development, please refer to "Clinical Development (as of October 31, 2016)" released today on the Company's website (<https://www.jti.co.jp/>).

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) Qualitative information regarding consolidated financial position

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.

(3) Qualitative information regarding consolidated earnings forecasts

The consolidated earnings forecasts for the fiscal year ending December 31, 2016 have been revised as follows.

(Billions of yen)

	Fiscal year ending December 31, 2016 Previous forecast (Announced on August 1)	Fiscal year ending December 31, 2016 Current forecast	Change
Revenue	2,120.0	2,120.0	–
Domestic Tobacco Business	690.0	687.0	(3.0)
Of which, core revenue	655.0	649.0	(6.0)
International Tobacco Business	1,173.0	1,178.0	5.0
Of which, core revenue	1,118.0	1,120.0	2.0
Pharmaceutical Business	82.0	86.0	4.0
Processed Food Business	169.0	166.0	(3.0)
Adjusted operating profit	569.0	576.0	7.0
Domestic Tobacco Business	261.0	261.0	–
International Tobacco Business	328.0	328.0	–
Pharmaceutical Business	4.0	8.5	4.5
Processed Food Business	4.5	4.5	–
Operating profit	572.0	580.0	8.0
Profit attributable to owners of the parent company	409.0	414.0	5.0

* Principal assumption of sales volume/shipment volume and foreign exchange rate forming the basis of the forecasts

(Billions of cigarettes)

Domestic Tobacco Business	Previous forecast	Current forecast
Sales volume	107.0	106.0

(Billions of cigarettes)

International Tobacco Business	Previous forecast	Current forecast
Total shipment volume	402.0	402.0
Of which, GFBs	285.0	285.0

Foreign exchange rate per U.S. dollar	Previous forecast	Current forecast
Yen	105.80	106.45
Ruble	67.50	67.00
Pounds sterling	0.72	0.74
Euro	0.90	0.90

The forecast for revenue remains unchanged from the previous announcement.

The forecast for adjusted operating profit has been upwardly revised by ¥7.0 billion, primarily due to royalty revenue in the Pharmaceutical Business, which now appears likely to be more than was anticipated in the previous forecast. In addition, operating profit has been upwardly revised by ¥8.0 billion to reflect the increase in gain on sales of real estate.

In line with the upward revision in operating profit, profit attributable to owners of the parent company has been upwardly revised by ¥5.0 billion.

Adjusted operating profit at constant rates of exchange is forecast to rise by 10.1% year on year.

Forecasts for each segment are as follows.

Domestic Tobacco Business

The forecast for sales volume has been downwardly revised by 1.0 billion cigarettes in consideration of the recent total demand trend, among other factors.

The core revenue forecast has also been downwardly revised by ¥6.0 billion, due to the impact of revision of sales volume. However, to take into account efficient use of expenses and so on, the forecast for adjusted operating profit remains unchanged.

International Tobacco Business

The forecasts for total and GFB shipment volumes remain unchanged from the previous announcement.

The effects of favorable pricing and the impact of revisions to the assumed exchange rates have caused an upward revision of ¥2.0 billion to core revenue. However, adjusted operating profit remains unchanged.

Adjusted operating profit at constant rates of exchange (dollar-based) is forecast to rise by 12.4% year on year.

Pharmaceutical Business

Due mainly to higher royalty revenue of an original JT compound that has been out-licensed, revenue and adjusted operating profit have been upwardly revised by ¥4.0 billion and ¥4.5 billion respectively.

Processed Food Business

The revenue forecast has been downwardly revised by ¥3.0 billion due to the readjustment of the sales plan reflecting the recent performance. On the other hand, improvements in the sales product mix, cost-reduction efforts and so on offset the impact of the decline in revenue, and thus the forecast for adjusted operating profit remains unchanged from the previous announcement.

2. Matters regarding summary information (Notes)

(1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation)

No items to report.

(2) Changes in accounting policies and changes in accounting estimates

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, with the exception of the items described below.

The Group calculated income taxes for the nine months ended September 30, 2016, based on the estimated average annual effective tax rate.

(Changes in accounting policies)

The accounting standards and interpretations applied by the Group effective from the first quarter ended March 31, 2016, are as follows.

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

The application of the above standards and interpretations does not have a material impact on the condensed interim consolidated financial statements.

* In addition to the information provided above, reference information regarding settlement of accounts and earnings forecasts are separately provided in the supplementary document "Consolidated financial results for FY2016 Third Quarter."

FORWARD-LOOKING STATEMENTS

This material contains forward-looking statements. These statements appear in a number of places in this presentation and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized. Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

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

3. Condensed interim consolidated financial statements

(1) Condensed interim consolidated statement of financial position

	As of December 31, 2015	As of September 30, 2016
(Millions of yen)		
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	681,865	636,406
Goodwill	1,429,287	1,487,876
Intangible assets	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

	(Millions of yen)	
	As of December 31, 2015	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	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 and consolidated statement of comprehensive income

Condensed interim consolidated statement of income

(Millions of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Continuing operations		
Revenue	1,688,468	1,618,537
Cost of sales	(680,011)	(652,015)
Gross profit	1,008,457	966,523
Other operating income	3,942	66,225
Share of profit in investments accounted for using the equity method	4,869	4,834
Selling, general and administrative expenses	(561,368)	(543,001)
Operating profit	455,901	494,580
Financial income	12,706	5,143
Financial costs	(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	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	176.46	195.44
Discontinued operations	48.60	-
Total basic earnings per share for the interim period	225.07	195.44
Diluted (Yen)		
Continuing operations	176.35	195.33
Discontinued operations	48.57	-
Total diluted earnings per share for the interim period	224.93	195.33

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

(Millions of yen)

	Nine months ended September 30, 2015	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	<u>510,334</u>	<u>476,544</u>

Condensed interim consolidated statement of comprehensive income

(Millions of yen)

	Nine months ended September 30, 2015	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	(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)

(3) Condensed interim consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	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	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-
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	–	–	(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	–	–	(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

(4) 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	(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	(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)

(Millions of yen)

	Nine months ended September 30, 2015	Nine months ended September 30, 2016
Cash flows from financing activities		
Dividends paid to owners of the parent company	(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

(5) Segment information

a. 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.

b. 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 "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.

(6) Notes on premise of going concern

No items to report