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Document to be filed:	Quarterly Securities Report
Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	May 11, 2017
Quarterly accounting period:	First quarter of the 33rd term (from January 1, 2017 to March 31, 2017)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
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Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Three months ended March 31, 2016	Three months ended March 31, 2017	32nd term
Accounting period	From January 1, 2016 to March 31, 2016	From January 1, 2017 to March 31, 2017	From January 1, 2016 to December 31, 2016
Revenue (Millions of yen)	534,088	506,138	2,143,287
Profit before income taxes (Millions of yen)	200,339	142,493	578,237
Profit for the period (Millions of yen)	146,403	106,021	425,773
Profit attributable to owners of the parent company (Millions of yen)	145,445	105,491	421,695
Comprehensive income (loss) for the period (Millions of yen)	33,538	95,717	235,250
Total equity (Millions of yen)	2,441,338	2,504,470	2,528,041
Total assets (Millions of yen)	4,699,527	4,522,724	4,744,374
Basic earnings per share (Yen)	81.22	58.90	235.47
Diluted earnings per share (Yen)	81.17	58.87	235.33
Ratio of equity attributable to owners of the parent company to total assets (%)	50.45	53.80	51.77
Net cash flows from operating activities (Millions of yen)	(172,299)	(70,520)	376,549
Net cash flows from investing activities (Millions of yen)	(558,852)	(22,375)	(687,509)
Net cash flows from financing activities (Millions of yen)	370,532	(53,742)	91,318
Cash and cash equivalents at the end of the period (Millions of yen)	159,235	147,873	294,157

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.

2. Business description

During the three months ended March 31, 2017, 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 three months ended March 31, 2017, there were no new businesses or other risks.

There were no material changes to the items regarding business and other risks mentioned in the previous fiscal year's Annual Securities Report.

2. Important operational contracts

No important operational contracts were determined or entered into during the first quarter ended March 31, 2017.

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

Matters concerning the future in this document were determined by the Group as of March 31, 2017.

(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 (loss) less amortization cost of acquired intangibles arising from business acquisitions 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, growth rate in adjusted operating profit at constant rates of exchange 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. The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant rates of exchange, at mid to high single-digit over the mid- to long-term, and is aiming to achieve it.

(Emerging products)

In the tobacco business, in addition to our existing products we are aiming to create value in innovative new product categories by working on emerging products such as E-Vapor (electronic cigarette) and T-Vapor (tobacco vapor).

E-Vapor products do not use tobacco leaf, instead using electrical heating of a liquid inside a device or specialized cartridge to generate vapor for the user to enjoy.

Conversely, T-Vapor products do use tobacco leaf, but instead of burning it they use methods such as heating the leaf to generate vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.

(1) Operating results

<Revenue>

Revenue decreased by ¥27.9 billion, or 5.2%, from the same period of the previous year to ¥506.1 billion due to decrease in revenue in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business despite increase in revenue in the Pharmaceutical Business. This decline in revenue includes one-off negative effects stemming from the surge in last-minute demand in the Domestic Tobacco Business for the same period of the previous year to which the period under review is being compared, and from the impact of a trade inventory adjustment in the International Tobacco Business.

(Billions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
<Revenue>	534.1	506.1	(27.9)	(5.2)%
Domestic Tobacco Business	168.4	151.8	(16.6)	(9.9)%
Of which, core revenue	160.6	143.9	(16.7)	(10.4)%
International Tobacco Business	301.8	290.8	(11.1)	(3.7)%
Of which, core revenue	284.7	276.0	(8.7)	(3.1)%
Pharmaceutical Business	21.5	23.2	1.7	7.7%
Processed Food Business	39.4	38.3	(1.1)	(2.9)%

* Figures exclude intersegment revenue.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above.

<Adjusted operating profit, operating profit and profit attributable to owners of the parent company>

Adjusted operating profit including foreign exchange effects decreased by ¥14.1 billion, or 8.6%, from the same period of the previous year to ¥150.3 billion, due to decrease in profit in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business despite increase in profit in the Pharmaceutical Business. Adjusted operating profit at constant rates of exchange decreased by 3.1%.

In addition to the decline in adjusted operating profit, the gain on sales of real estate and the like contracted dramatically in the period under review compared to the same period of the previous year, in which a very significant gain on sales of real estate and the like was recorded, and accordingly operating profit declined by ¥54.7 billion, or 26.9%, from the same period of the previous year to ¥149.0 billion.

Profit attributable to owners of the parent company decreased by ¥40.0 billion, or 27.5%, from the same period of the previous fiscal year to ¥105.5 billion due to decrease in operating profit and so on.

(Billions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
Adjusted operating profit	164.4	150.3	(14.1)	(8.6)%
Domestic Tobacco Business	65.7	57.2	(8.5)	(13.0)%
International Tobacco Business	99.5	92.0	(7.5)	(7.6)%
Pharmaceutical Business	3.2	5.1	1.9	58.9%
Processed Food Business	1.2	1.2	0.0	0.7%
Operating profit	203.7	149.0	(54.7)	(26.9)%
Profit attributable to owners of the parent company	145.4	105.5	(40.0)	(27.5)%

* Adjusted operating profit and 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 of cigarettes in the three months ended March 31, 2017(Note 1) was affected by a decline in cigarette industry volume(Note 2) caused by the expansion of the T-Vapor market and the downtrend in total demand, as well as the result of a one off increase in demand ahead of retail price amendments of certain products including Mevius in the same period of the previous fiscal year. As a result, sales volume fell by 15.3% from the same period of the previous fiscal year. Market share was 61.0% (compared with a share of 61.1% for the previous year).

(Billions of cigarettes)

Domestic Tobacco Business	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
Sales volume of cigarettes	27.2	23.0	(4.2)	(15.3)%

Core revenue from the tobacco business fell by 10.4% from the same period of the previous year, with the impact of lower cigarette sales volume being partially offset by the effects of retail price amendments implemented in April 2016 for some brands such as Mevius.

Adjusted operating profit decreased by 13.0% from the same period of the previous fiscal year due to lower core revenue despite cost reductions.

(Billions of yen)

Domestic Tobacco Business	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
Revenue	168.4	151.8	(16.6)	(9.9)%
Of which, core revenue	160.6	143.9	(16.7)	(10.4)%
Adjusted operating profit	65.7	57.2	(8.5)	(13.0)%

Note: 1 In addition to the figure stated above for sales volume, during the three months ended March 31, 2017, 1.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (1.0 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 and the like.

Note: 2 Cigarette industry volume includes sales volume for the whole Japanese cigarette market, but it does not include sales volume for emerging products and so on.

International Tobacco Business

For the three months ended March 31, 2017, performance was strong in markets such as Iran and Taiwan, but due to the impact of the decline in total demand in Russia etc. and intensifying competition, as well as the one-off negative effects of the trade inventory adjustment that occurred in the same period of the previous year, total shipment volume(Note 3) decreased by 2.9% from the same period in the previous year, while GFB(Note 4) sales volume fell by 0.5%.

(Billions of cigarettes)

International Tobacco Business	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
Total shipment volume	94.4	91.7	(2.7)	(2.9)%
Of which, GFBs	66.4	66.0	(0.3)	(0.5)%

Despite favorable pricing, dollar-based core revenue including foreign exchange effects decreased by 1.6% from the same period of the previous fiscal year, as a result of the impact of decrease in shipment volume and unfavorable foreign exchange effects related to local currencies including the pound.

Dollar-based adjusted operating profit, including foreign exchange effects, fell by 6.1% from the same period of the previous year. This was caused by additional investments in areas such as emerging markets and emerging products, as well as disadvantageous exchange rates in local currencies such as the pound, which taken together more than offset the results of optimization of manufacturing facilities and other cost reduction efforts. Adjusted operating profit at constant rates of exchange (dollar-based) increased by 1.5%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
Revenue	2,617	2,560	(57)	(2.2)%
Of which, core revenue	2,468	2,429	(39)	(1.6)%
Adjusted operating profit	863	810	(53)	(6.1)%

Yen-based core revenue and adjusted operating profit fell by 3.1% and 7.6% from the same period of the previous fiscal year respectively, as a result of the effects of the stronger yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	Three months ended March 31, 2016	Three months ended March 31, 2017	Change	
Revenue	301.8	290.8	(11.1)	(3.7)%
Of which, core revenue	284.7	276.0	(8.7)	(3.1)%
Adjusted operating profit	99.5	92.0	(7.5)	(7.6)%

Note: 3 Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and emerging products.

Note: 4 GFBs (Global Flagship Brands) consist of nine brands, which serve as flagships of the Group’s brand portfolio - Winston, Camel, Mevius, LD, Benson & Hedges, Glamour, Sobranie, Silk Cut and Natural American Spirit.

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

Foreign exchange rate per U.S. dollar	Three months ended March 31, 2016	Three months ended March 31, 2017
Yen	115.35	113.60
Ruble	74.68	58.82
Pounds sterling	0.70	0.81
EUR	0.91	0.94

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, seven compounds are in clinical development.

In the three months ended March 31, 2017, revenue increased ¥1.7 billion, or 7.7%, from the same period of the previous year to ¥23.2 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed. Adjusted operating profit increased by ¥1.9 billion, or 58.9%, from the same period of the previous year to ¥5.1 billion, due to the increase in revenue.

Processed Food Business

In the first quarter ended March 31, 2017, we continued to concentrate on frozen and ambient processed foods, primarily staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, as well as bakery and seasonings, while at the same time making efforts to strengthen cost competitiveness and working on initiatives to improve profitability.

In the three months ended March 31, 2017, despite growth in sales of seasonings, revenue decreased by ¥1.1 billion, or 2.9%, from the same period of the previous year to ¥38.3 billion, due to a decline in sales of other products. Although revenue declined, decreases in prices of raw materials, mainly in frozen and the ambient processed foods, and cost reduction efforts, resulted in adjusted operating profit of ¥1.2 billion, a similar level to that of the same period of the previous year, and an increase of 0.7%.

(2) Operational and financial issues to be addressed

During the three months ended March 31, 2017, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(3) Research and development activities

Research and development expenses of the entire Group during the three months ended March 31, 2017, were ¥13.8 billion.

During the three months ended March 31, 2017, 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 mainly allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, loans from financial institutions and bond and commercial paper issuances.

<Cash flows>

Cash and cash equivalents at the end of the three months ended March 31, 2017 decreased by ¥146.3 billion from the end of the previous fiscal year to ¥147.9 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥159.2 billion.

Cash flows from (used in) operating activities

Net cash flows used in operating activities during the three months ended March 31, 2017 were ¥70.5 billion, compared with ¥172.3 billion used in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes despite the generation of a stable cash inflow from the tobacco business.

The last day of the previous fiscal year was a holiday for financial institutions. As a result, the amount of national tobacco excise tax payable for the three months ended March 31, 2017 is for four months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended March 31, 2017 were ¥22.4 billion, compared with ¥558.9 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the three months ended March 31, 2017 were ¥53.7 billion, compared with ¥370.5 billion provided in the same period of the previous year. This was mainly due to the payment of cash dividends, despite proceeds from borrowings and commercial paper issuances.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2016 and as of March 31, 2017 accounted for ¥358.2 billion and ¥350.7 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥1.4 billion and ¥1.4 billion respectively. Long-term lease obligations totaled ¥7.3 billion as of December 31, 2016 and ¥7.6 billion as of March 31, 2017.

Short-term debt

Short-term borrowings from financial institutions totaled ¥187.9 billion as of December 31, 2016 and ¥120.0 billion as of March 31, 2017. There was no commercial paper outstanding as of December 31, 2016, but as of March 31, 2017, the outstanding balance was ¥128.9 billion. Short-term lease obligations totaled ¥0.4 billion as of December 31, 2016 and ¥0.4 billion as of March 31, 2017.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of March 31, 2017, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

Class	Total number of shares authorized (Share)
Ordinary shares	8,000,000,000
Total	8,000,000,000

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2017)	Number of shares issued (Share; as of the date of filing: May 11, 2017)	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 General Meeting of Shareholders).

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

(2) Status of subscription rights to shares

No items to report

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
January 1, 2017 to March 31, 2017	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

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

(7) Status of voting rights

a. Shares issued

(As of March 31, 2017)

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 209,017,400	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,946,000	17,909,460	(Note 2)
Shares less than one unit	Ordinary shares 36,600	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,909,460	–

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 March 31, 2017)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	209,017,400	–	209,017,400	10.45
Total	–	209,017,400	–	209,017,400	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 three months ended March 31, 2017.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

The condensed interim consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the "Company") are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (hereinafter referred to as "IAS 34") pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007; hereinafter referred to as the "Ordinance on QCFS").

Figures stated in the condensed interim consolidated financial statements are rounded to the nearest million yen.

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for the three months ended March 31, 2017 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, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	294,157	147,873
Trade and other receivables	396,934	372,966
Inventories	558,846	548,690
Other financial assets	14,921	14,516
Other current assets	340,312	333,593
Subtotal	1,605,169	1,417,637
Non-current assets held-for-sale	821	2,281
Total current assets	1,605,990	1,419,918
Non-current assets		
Property, plant and equipment (Note 6)	680,835	676,778
Goodwill (Note 6)	1,601,987	1,589,673
Intangible assets (Note 6)	423,970	407,205
Investment property	18,184	18,033
Retirement benefit assets	23,680	23,524
Investments accounted for using the equity method	123,753	123,218
Other financial assets	99,358	103,464
Deferred tax assets	166,617	160,911
Total non-current assets	3,138,384	3,102,806
Total assets	4,744,374	4,522,724

(Millions of yen)

	As of December 31, 2016	As of March 31, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	377,933	332,550
Bonds and borrowings	208,521	269,544
Income tax payables	54,940	49,825
Other financial liabilities	13,023	7,197
Provisions	12,529	9,717
Other current liabilities	689,629	512,711
Total current liabilities	1,356,574	1,181,545
Non-current liabilities		
Bonds and borrowings	339,036	331,494
Other financial liabilities	9,009	9,367
Retirement benefit liabilities	333,410	323,266
Provisions	4,423	4,317
Other non-current liabilities	102,221	98,995
Deferred tax liabilities	71,660	69,269
Total non-current liabilities	859,759	836,709
Total liabilities	2,216,333	2,018,254
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,413
Treasury shares	(443,822)	(443,765)
Other components of equity	(303,554)	(312,969)
Retained earnings	2,367,067	2,353,566
Equity attributable to owners of the parent company	2,456,091	2,433,245
Non-controlling interests	71,950	71,225
Total equity	2,528,041	2,504,470
Total liabilities and equity	4,744,374	4,522,724

(2) 【Condensed interim consolidated statement of income】

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Revenue (Notes 5, 8)	534,088	506,138
Cost of sales	(214,671)	(199,460)
Gross profit	319,416	306,678
Other operating income (Note 9)	57,098	11,770
Share of profit in investments accounted for using the equity method	860	1,631
Selling, general and administrative expenses (Note 10)	(173,683)	(171,122)
Operating profit (Note 5)	203,692	148,957
Financial income (Note 11)	2,183	1,826
Financial costs (Note 11)	(5,537)	(8,290)
Profit before income taxes	200,339	142,493
Income taxes	(53,936)	(36,472)
Profit for the period	146,403	106,021
Attributable to:		
Owners of the parent company	145,445	105,491
Non-controlling interests	958	531
Profit for the period	146,403	106,021
Interim earnings per share		
Basic (Yen) (Note 12)	81.22	58.90
Diluted (Yen) (Note 12)	81.17	58.87

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Operating profit	203,692	148,957
Amortization cost of acquired intangibles arising from business acquisitions	12,212	11,832
Adjustment items (income)	(56,298)	(11,197)
Adjustment items (costs)	4,779	734
Adjusted operating profit (Note 5)	164,385	150,326

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Profit for the period	146,403	106,021
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	(3,129)	(262)
Remeasurements of defined benefit plans	(13,170)	(922)
Total of items that will not be reclassified to profit or loss	(16,299)	(1,184)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(95,133)	(9,297)
Net gain (loss) on derivatives designated as cash flow hedges	(1,433)	177
Total of items that may be reclassified subsequently to profit or loss	(96,566)	(9,120)
Other comprehensive income (loss), net of taxes	(112,865)	(10,305)
Comprehensive income (loss) for the period	33,538	95,717
Attributable to:		
Owners of the parent company	33,136	95,447
Non-controlling interests	402	270
Comprehensive income (loss) for the period	33,538	95,717

(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, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(94,663)	(1,433)	(3,041)
Comprehensive income (loss) for the period	—	—	—	—	(94,663)	(1,433)	(3,041)
Disposal of treasury shares	—	—	196	(170)	—	—	—
Share-based payments	—	—	—	44	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(134)
Other increase (decrease)	—	—	—	—	—	889	—
Total transactions with the owners	—	—	196	(127)	—	889	(134)
As of March 31, 2016	100,000	736,400	(444,138)	1,815	(267,135)	(420)	30,109
As of January 1, 2017	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(9,047)	177	(252)
Comprehensive income (loss) for the period	—	—	—	—	(9,047)	177	(252)
Disposal of treasury shares	—	13	57	(70)	—	—	—
Share-based payments	—	—	—	24	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(134)
Other increase (decrease)	—	—	—	—	—	(115)	—
Total transactions with the owners	—	13	57	(45)	—	(115)	(134)
As of March 31, 2017	100,000	736,413	(443,765)	1,749	(344,688)	502	29,469

(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, 2016	—	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	—	—	145,445	145,445	958	146,403
Other comprehensive income (loss)	(13,172)	(112,309)	—	(112,309)	(556)	(112,865)
Comprehensive income (loss) for the period	(13,172)	(112,309)	145,445	33,136	402	33,538
Disposal of treasury shares	—	(170)	(25)	0	—	0
Share-based payments	—	44	—	44	—	44
Dividends (Note 7)	—	—	(114,606)	(114,606)	(868)	(115,474)
Changes in the scope of consolidation	—	—	—	—	933	933
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(117)	(117)	(0)	(117)
Transfer from other components of equity to retained earnings	13,172	13,038	(13,038)	—	—	—
Other increase (decrease)	—	889	—	889	—	889
Total transactions with the owners	13,172	13,800	(127,786)	(113,790)	65	(113,725)
As of March 31, 2016	—	(235,631)	2,214,310	2,370,942	70,396	2,441,338
As of January 1, 2017	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	105,491	105,491	531	106,021
Other comprehensive income (loss)	(922)	(10,043)	—	(10,043)	(261)	(10,305)
Comprehensive income (loss) for the period	(922)	(10,043)	105,491	95,447	270	95,717
Disposal of treasury shares	—	(70)	—	0	—	0
Share-based payments	—	24	—	24	1	26
Dividends (Note 7)	—	—	(118,203)	(118,203)	(995)	(119,198)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	(0)	(0)
Transfer from other components of equity to retained earnings	922	788	(788)	—	—	—
Other increase (decrease)	—	(115)	—	(115)	—	(115)
Total transactions with the owners	922	628	(118,991)	(118,294)	(994)	(119,288)
As of March 31, 2017	—	(312,969)	2,353,566	2,433,245	71,225	2,504,470

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Cash flows from operating activities		
Profit before income taxes	200,339	142,493
Depreciation and amortization	36,406	35,207
Impairment losses	378	292
Interest and dividend income	(2,160)	(1,784)
Interest expense	1,969	2,859
Share of profit in investments accounted for using the equity method	(860)	(1,631)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(27,129)	(10,512)
(Gains) losses on sale of investments in subsidiaries	(26,116)	—
(Increase) decrease in trade and other receivables	(4,999)	14,965
(Increase) decrease in inventories	(5,460)	1,531
Increase (decrease) in trade and other payables	(29,298)	(33,042)
Increase (decrease) in retirement benefit liabilities	(6,872)	(8,055)
(Increase) decrease in prepaid tobacco excise taxes	(83,689)	6,466
Increase (decrease) in tobacco excise tax payables	(100,793)	(140,469)
Increase (decrease) in consumption tax payables	(1,159)	(10,231)
Other	(18,565)	(27,468)
Subtotal	(68,009)	(29,381)
Interest and dividends received	1,421	971
Interest paid	(1,506)	(1,554)
Income taxes paid	(104,205)	(40,556)
Net cash flows from operating activities	(172,299)	(70,520)
Cash flows from investing activities		
Purchase of securities	(234)	(1,693)
Proceeds from sale and redemption of securities	644	1,347
Purchase of property, plant and equipment	(22,660)	(26,740)
Proceeds from sale of investment property	28,462	11,386
Purchase of intangible assets	(2,346)	(3,101)
Payments into time deposits	(195)	(201)
Proceeds from withdrawal of time deposits	187	190
Payments for business combinations	(586,796)	—
Proceeds from sale of investments in subsidiaries	26,989	—
Other	(2,901)	(3,563)
Net cash flows from investing activities	(558,852)	(22,375)

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 7)	(113,573)	(117,000)
Dividends paid to non-controlling interests	(479)	(617)
Increase (decrease) in short-term borrowings and commercial paper	484,785	64,085
Repayments of long-term borrowings	(62)	(62)
Repayments of finance lease obligations	(138)	(147)
Other	0	0
Net cash flows from financing activities	370,532	(53,742)
Net increase (decrease) in cash and cash equivalents	(360,619)	(146,636)
Cash and cash equivalents at the beginning of the period	526,765	294,157
Effect of exchange rate changes on cash and cash equivalents	(6,910)	352
Cash and cash equivalents at the end of the period	159,235	147,873

【Notes to condensed interim consolidated financial statements】

1. Reporting entity

The Company is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (https://www.jti.co.jp/).

The condensed interim consolidated financial statements for the three-month period ended March 31, 2017 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on May 10, 2017 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of preparation

The Group's condensed interim consolidated financial statements, which satisfy the requirements concerning the "Specified Company applying Designated International Financial Reporting Standards" 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, 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, 2016 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 new interpretations from the first quarter ended March 31, 2017.

IFRS		Description of new standards and amendments
IAS 7	Statement of Cash Flows	Requiring disclosure of changes in liabilities arising from financing activities

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, 2016.

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

For the three months ended March 31, 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)	168,370	301,843	21,549	39,415	531,177	2,911	—	534,088
Intersegment revenue	5,699	8,803	—	5	14,507	2,297	(16,804)	—
Total revenue	174,068	310,647	21,549	39,420	545,684	5,208	(16,804)	534,088
Segment profit (loss)								
Adjusted operating profit (Note 1)	65,747	99,508	3,185	1,164	169,604	(5,017)	(202)	164,385

For the three months ended March 31, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	151,783	290,784	23,217	38,271	504,055	2,083	—	506,138
Intersegment revenue	2,512	7,240	—	6	9,757	2,318	(12,075)	—
Total revenue	154,294	298,024	23,217	38,276	513,812	4,401	(12,075)	506,138
Segment profit (loss)								
Adjusted operating profit (Note 1)	57,204	91,975	5,061	1,172	155,412	(5,075)	(11)	150,326

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

For the three months ended March 31, 2016

(Millions of yen)

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

For the three months ended March 31, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	57,204	91,975	5,061	1,172	155,412	(5,075)	(11)	150,326
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,770)	—	—	(11,832)	—	—	(11,832)
Adjustment items (income) (Note 4)	—	13	—	—	13	11,184	—	11,197
Adjustment items (costs) (Note 4)	(10)	(119)	—	—	(130)	(604)	—	(734)
Operating profit (loss)	53,132	84,099	5,061	1,172	143,464	5,504	(11)	148,957
Financial income								1,826
Financial costs								(8,290)
Profit before income taxes								142,493

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Domestic Tobacco	160,593	143,900
International Tobacco	284,669	275,974

(Note 4) "Adjustment items (income)" include restructuring income of gain on sale of real estate. "Adjustment items (costs)" include restructuring costs of the closing down of a factory. The breakdown of restructuring income is described in "9. Other operating income." The breakdown of restructuring costs is described in "10. Selling, general and administrative expenses."

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Restructuring costs	4,779	734
Adjustment items (costs)	4,779	734

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

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

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

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2017	680,835	1,601,987	423,970
Individual acquisition	19,186	−	4,173
Transfer to investment property	(263)	−	−
Transfer to non-current assets held-for-sale	(1,491)	−	−
Depreciation or amortization	(19,310)	−	(15,757)
Impairment losses	(292)	−	−
Sale or disposal	(1,032)	−	(21)
Exchange differences on translation of foreign operations	(2,314)	(12,314)	(4,957)
Other	1,460	−	(203)
As of March 31, 2017	676,778	1,589,673	407,205

7. Dividends

Dividends paid for each interim period are as follows:

For the three months ended March 31, 2016

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

For the three months ended March 31, 2017

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders’ Meeting (March 24, 2017)	Ordinary shares	118,203	66	December 31, 2016	March 27, 2017

8. Revenue

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Gross turnover	1,724,535	1,666,645
Tobacco excise taxes and agency transaction amount	(1,190,447)	(1,160,507)
Revenue	534,088	506,138

9. Other operating income

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Gains on sale of property, plant and equipment, intangible assets and investment property (Note)	30,442	11,436
Gains on sale of investments in subsidiaries (Note)	26,116	—
Other (Note)	541	334
Total	57,098	11,770

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Gains on sale of property, plant and equipment, intangible assets and investment property	30,106	11,183
Gains on sale of investments in subsidiaries	26,116	—
Other	76	1
Total	56,298	11,184

10. Selling, general and administrative expenses

The breakdown of "Selling, general and administrative expenses" for each interim period is as follows:

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Advertising expenses	5,529	5,127
Promotion expenses	20,812	21,366
Shipping and warehousing expenses	6,432	6,189
Commission	10,675	11,336
Employee benefit expenses (Note)	60,852	63,204
Research and development expenses	14,207	13,832
Depreciation and amortization	20,671	19,686
Impairment losses on other than financial assets (Note)	378	292
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	5,402	1,106
Other (Note)	28,725	28,984
Total	173,683	171,122

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

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Employee benefit expenses	24	123
Impairment losses on other than financial assets	17	0
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	4,094	302
Other	645	309
Total	4,779	734

11. Financial income and financial costs

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

(Millions of yen)

Financial income	Three months ended March 31, 2016	Three months ended March 31, 2017
Dividend income	940	1,035
Interest income	1,220	749
Other	23	41
Total	2,183	1,826

(Millions of yen)

Financial costs	Three months ended March 31, 2016	Three months ended March 31, 2017
Interest expenses (Note 2)	1,969	2,859
Foreign exchange losses (Note 1)	2,404	4,239
Employee benefit expenses (Note 3)	889	878
Other	274	314
Total	5,537	8,290

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

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

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

12. Interim earnings per share

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Profit for the period attributable to owners of the parent company	145,445	105,491
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	145,445	105,491

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

(Thousands of shares)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Weighted-average number of shares during the period	1,790,800	1,790,979

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Profit for the period used for calculation of basic interim earnings per share	145,445	105,491
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	145,445	105,491

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

(Thousands of shares)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Weighted-average number of ordinary shares during the period	1,790,800	1,790,979
Increased number of ordinary shares under subscription rights to shares	1,046	954
Weighted-average number of diluted ordinary shares during the period	1,791,846	1,791,932

13. 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, 2016		As of March 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	1,449	1,449	1,356	1,356
Bonds (Note)	358,158	357,126	350,701	350,668

(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, 2016

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	11,769	—	11,769
Equity securities	60,662	—	4,886	65,548
Other	368	—	2,316	2,683
Total	61,030	11,769	7,202	80,001
Derivative liabilities	—	12,516	—	12,516
Total	—	12,516	—	12,516

As of March 31, 2017

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	12,118	—	12,118
Equity securities	59,869	—	5,011	64,880
Other	370	—	2,663	3,033
Total	60,239	12,118	7,673	80,031
Derivative liabilities	—	6,708	—	6,708
Total	—	6,708	—	6,708

14. Commitments

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

(Millions of yen)

	As of December 31, 2016	As of March 31, 2017
Acquisition of property, plant and equipment	41,889	46,522

15. Contingencies

As of March 31 2017, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2016.

16. Subsequent events

No items to report

2. 【Other】

No items to report

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

No items to report

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

May 10, 2017

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: Yasuhiko Haga (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Takenao Ohashi (Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2017, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

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

Accountant's Responsibility

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

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

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

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the three-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

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

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