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

February 6, 2017

Consolidated Financial Results for the Fiscal Year Ended December 31, 2016 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)
Listed Stock Exchange: Tokyo Stock Exchange
URL: https://www.jti.co.jp/
Representative: Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
Contact: Kei Nakano, Senior Vice President, Communications
Telephone: +81-3-3582-3111
Scheduled date of Annual General Meeting of Shareholders: March 24, 2017
Scheduled date to file Securities Report: March 24, 2017
Scheduled starting date of the dividend payments: March 27, 2017
Drawing up supplementary documents on financial results: Yes
Holding 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 fiscal year ended December 31, 2016 (from January 1, 2016 to December 31, 2016)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the year	
Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2016	2,143,287	(4.9)	593,329	5.0	578,237	2.3	425,773	(13.2)
December 31, 2015	2,252,884	-	565,229	-	565,113	-	490,242	-

	Profit attributable to owners of the parent company		Comprehensive income for the year		Basic earnings per share	Diluted earnings per share
Year ended	Millions of yen	%	Millions of yen	%	Yen	Yen
December 31, 2016	421,695	(13.2)	235,250	13.3	235.47	235.33
December 31, 2015	485,691	-	207,708	-	270.54	270.37

	Ratio of profit to equity attributable to owners of the parent company	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
Year ended	%	%	%
December 31, 2016	17.2	12.4	27.7
December 31, 2015	19.5	12.2	25.1

Reference: Share of profit (loss) in investments accounted for using the equity method:
Fiscal year ended December 31, 2016: ¥6,489 million; Fiscal year ended December 31, 2015: ¥6,381 million

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

The Group classified "Beverage Business" as discontinued operations in the fiscal year ended December 31, 2015. As a result, profit (loss) from discontinued operations is presented separately from those from continuing operations on the consolidated statement of income for the fiscal year ended December 2015. Consequently, only revenue, operating profit, profit before income taxes and ratio of operating profit to revenue from continuing operations are presented for the fiscal year ended December 31, 2015. Moreover, the ratio of profit before income taxes to total assets for the fiscal year ended December 2015 is presented by a calculation that uses profit before income taxes from continuing operations.

The year-on-year changes stated in the above table for profit for the year and profit attributable to owners of the parent company for the fiscal year ended December 31, 2016 are based on a comparison of the aforementioned profits in 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. The amounts of aforementioned profits that came from continuing operations in the fiscal year 2015 are ¥402,727 million and ¥398,454 million, respectively. When performing a comparison based on these amounts, the year-on-year changes for profit for the year and profit attributable to owners of the parent company for the fiscal year ended December 31, 2016 are 5.7% and 5.8%, 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
December 31, 2016	4,744,374	2,528,041	2,456,091	51.8	1,371.39
December 31, 2015	4,558,235	2,521,524	2,451,596	53.8	1,369.06

(3) Consolidated cash flows

	Net cash flows from (used in) operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at the end of the year
Year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2016	376,549	(687,509)	91,318	294,157
December 31, 2015	468,432	(63,271)	(254,852)	526,765

2. Cash dividends

	Annual dividends per share					Total amount of dividends (total)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the parent company (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended December 31, 2015	-	54.00	-	64.00	118.00	211,302	43.6	8.5
Year ended December 31, 2016	-	64.00	-	66.00	130.00	232,820	55.2	9.5
Year ending December 31, 2017 (Forecast)	-	70.00	-	70.00	140.00		62.4	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(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, 2017	2,110,000	(1.6)	560,000	(5.6)	402,000	(4.7)	224.46

Notes

(1) Changes in significant subsidiaries during the 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 “Consolidated Financial Statements (IFRS), (6) Notes to consolidated financial statements (Changes in Accounting Policies).”

(3) Number of shares issued (ordinary shares)
  a. Total number of shares issued at the end of the period (including treasury shares)

As of December 31, 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 December 31, 2016	209,044,267 shares
As of December 31, 2015	209,285,431 shares

  c. Average number of shares during the period

Fiscal year ended December 31, 2016	1,790,878,041 shares
Fiscal year ended December 31, 2015	1,795,254,014 shares

(Reference) Summary of non-consolidated results

Non-consolidated financial results for the fiscal year ended December 31, 2016 (from January 1, 2016 to December 31, 2016) <under Japanese GAAP>

(1) Non-consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2016	729,286	(0.4)	196,700	(15.1)	203,242	(45.4)	173,607	(49.7)
December 31, 2015	732,483	-	231,704	-	371,989	-	345,009	-

	Net income per share	Diluted net income per share
Year ended	Yen	Yen
December 31, 2016	96.94	96.88
December 31, 2015	192.18	192.06

The Company has changed its fiscal year end from March 31 to December 31 in the fiscal year ended December 31, 2014. Consequently, year-on-year changes for the fiscal year ended December 31, 2015 are not presented.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2016	2,849,913	1,663,675	58.3	927.93
December 31, 2015	2,756,785	1,713,068	62.1	955.56

Reference: Equity:
As of December 31, 2016: ¥1,661,881 million; As of December 31, 2015: ¥1,711,127 million

Figures in the table of non-consolidated financial results above are prepared in accordance with Japanese GAAP.

* Indication regarding execution of audit procedures

At the time of disclosure of this financial results report, the audit procedures for financial statements in accordance with the Financial Instruments and Exchange Act are in progress.

* Proper use of earnings forecasts, and other special matters

(1) 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.

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

Attached Materials

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1. Business results

(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.

Regarding the International Tobacco Business, core revenue 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 core revenue for the current fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.

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, 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 fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.

(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) Analysis of consolidated business results

The Group classified "Beverage Business" as discontinued operations in the previous fiscal year. As a result, profit (loss) from discontinued operations for the fiscal year ended December 31, 2015 is presented separately from that from continuing operations as "profit for the year from discontinued operations (attributable to owners of the parent company)."

(Business results of the current fiscal year)

a. Target management benchmarks

From the Business Plan 2014 onward, 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. Adjusted operating profit at constant rates of exchange for the current fiscal year recorded growth in every business, leading to growth of 11.3% year on year.

(Billions of yen)

(At constant rates of exchange)	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Adjusted operating profit	626.7	697.5	70.8	11.3%

b. General summary

Revenue

Revenue decreased by ¥109.6 billion, or 4.9%, from the previous fiscal year to ¥2,143.3 billion due to major 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)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Revenue	2,252.9	2,143.3	(109.6)	(4.9)%
Domestic Tobacco Business	677.3	684.2	6.9	1.0%
Of which, core revenue	642.2	649.7	7.5	1.2%
International Tobacco Business	1,317.2	1,199.2	(118.0)	(9.0)%
Of which, core revenue	1,252.5	1,138.8	(113.7)	(9.1)%
Pharmaceutical Business	75.6	87.2	11.6	15.4%
Processed Food Business	165.8	164.1	(1.8)	(1.1)%

* 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

Despite an increase in adjusted operating profit at constant rates of exchange, adjusted operating profit decreased by ¥39.9 billion, or 6.4%, from the previous fiscal year to ¥586.8 billion, due to major unfavorable foreign exchange effects on the International Tobacco Business.

Operating profit benefited from gain on sales of real estate and the like, rising by ¥28.1 billion, or 5.0%, from the previous fiscal year to ¥593.3 billion.

Profit for the year from continuing operations attributable to owners of the parent company increased by ¥23.2 billion, or 5.8%, from the previous fiscal year to ¥421.7 billion. Profit attributable to owners of the parent company decreased by ¥64.0 billion, or 13.2%, from the previous fiscal year to ¥421.7 billion. However, this was a consequence mainly of the inclusion in the aforementioned profit for the previous fiscal year of gains from the transfer of shares of subsidiaries conducting the vending machine operation business.

(Billions of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Adjusted operating profit	626.7	586.8	(39.9)	(6.4)%
Domestic Tobacco Business	254.1	260.2	6.2	2.4%
International Tobacco Business	394.4	336.2	(58.2)	(14.7)%
Pharmaceutical Business	(2.3)	9.7	12.0	–
Processed Food Business	2.7	5.0	2.3	83.2%
Operating profit	565.2	593.3	28.1	5.0%
Profit for the year from continuing operations (attributable to owners of the parent company)	398.5	421.7	23.2	5.8%
Profit for the year from discontinued operations (attributable to owners of the parent company)	87.2	–	–	–
Profit attributable to owners of the parent company	485.7	421.7	(64.0)	(13.2)%

* 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.

c. Review of operations by business segment

Domestic Tobacco Business

Sales volume in the current fiscal year(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 impact of retail price amendments for some products, including Mevius, 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 2.8% year-on-year. Market share, helped by the aforementioned acquisition, was 61.1% (compared with a share of 59.9% for the previous fiscal year).

(Billions of cigarettes)

Domestic Tobacco Business	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Sales volume	109.2	106.2	(3.1)	(2.8)%

Core revenue rose by 1.2% from the previous fiscal year, despite a decline in sales volume, driven by the impact of the acquisition of the Natural American Spirit business outside the U.S. and retail price amendments of certain products, including Mevius.

Adjusted operating profit rose by 2.4% from the previous fiscal year, due mainly to higher core revenue and the effects of measures to strengthen competitiveness.

(Billions of yen)

Domestic Tobacco Business	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Revenue	677.3	684.2	6.9	1.0%
Of which, core revenue	642.2	649.7	7.5	1.2%
Adjusted operating profit	254.1	260.2	6.2	2.4%

Note 1: In addition to the figure stated above for sales volume, during the fiscal year ended December 31, 2016, 3.9 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 (3.8 billion cigarettes in the previous fiscal 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

In the fiscal year ended December 31, 2016, despite factors including the impact of a decline in total demand in Russia, total shipment volume(Note 3) grew by 1.2% from the previous fiscal year, and GFB(Note 4) shipment volume increased by 3.7%. This mainly reflected the strong performance 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	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Total shipment volume	393.9	398.7	4.8	1.2%
Of which, GFBs	273.6	283.7	10.2	3.7%

At constant rates of exchange (dollar-based), core revenue and adjusted operating profit increased by 8.5% and 13.4% respectively, due primarily to the effects of higher prices.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based) (At constant rates of exchange)	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Core revenue	10,338	11,215	877	8.5%
Adjusted operating profit	3,257	3,693	435	13.4%

Dollar-based core revenue and adjusted operating profit, including foreign exchange effects, increased by 1.5% and decreased by 5.0% from the previous fiscal year respectively, as a result of unfavorable foreign exchange effects related to local currencies, including the ruble and the pound.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Revenue	10,873	11,045	172	1.6%
Of which, core revenue	10,338	10,490	152	1.5%
Adjusted operating profit	3,257	3,095	(163)	(5.0)%

Yen-based core revenue and adjusted operating profit fell by 9.1% and 14.7% from 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	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Change	
Revenue	1,317.2	1,199.2	(118.0)	(9.0)%
Of which, core revenue	1,252.5	1,138.8	(113.7)	(9.1)%
Adjusted operating profit	394.4	336.2	(58.2)	(14.7)%

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 for the fiscal year ended December 31, 2016 were as follows.

Foreign exchange rate per U.S. dollar	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Yen	121.10	108.78
Ruble	60.98	67.07
Pounds sterling	0.65	0.74
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, seven compounds are in clinical development. During the current fiscal year, the Company obtained approval for domestic manufacturing and distribution of anti-HIV drug "Genvoya Combination Tablets" and "Descovy Combination Tablets LT and HT," and Group Company Torii Pharmaceutical Co., Ltd. launched sales of these in July 2016 and January 2017 respectively.

Revenue in the fiscal year ended December 31, 2016 increased ¥11.6 billion, or 15.4%, from the previous fiscal year to ¥87.2 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 ¥12.0 billion as a result of higher revenue to reach ¥9.7 billion (compared to adjusted operating loss of ¥2.3 billion in the previous fiscal year).

* Regarding items in clinical development, please refer to "Clinical Development (as of February 6, 2017)" on the Company's website (https://www.jti.co.jp/).

Processed Food Business

The Group company TableMark Co., Ltd. is taking a central role in the development of the Group's Processed Food Business, which consists primarily of staple food products such as frozen and ambient processed foods, bakery, and seasonings. The Group has been making every effort to produce strong staple food products with established market shares and work to improve cost competitiveness, thus striving to improve profitability.

Despite growth in sales of staple food products and seasonings, revenue in the fiscal year ended December 31, 2016 decreased by ¥1.8 billion, or 1.1%, from the previous fiscal year to ¥164.1 billion, due to a decline in sales of other products. On the other hand, adjusted operating profit rose by ¥2.3 billion, or 83.2%, from the previous fiscal year to ¥5.0 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.

(Outlook)

Consolidated earnings forecasts for the next fiscal year are as follows.

a. Target management benchmarks

In the "Business Plan 2017," the Group will continue to pursue mid to high single-digit annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange. With regard to adjusted operating profit at constant rates of exchange for the next fiscal year, the Domestic Tobacco Business is expected to post lower profit, but the International Tobacco Business, the Pharmaceutical Business, and the Processed Food Business are expected to record higher profits, for a total increase of 3.4% over the current fiscal year.

(Billions of yen)

(At constant rates of exchange)	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)	Change from current fiscal year	Change from current fiscal year (%)
Adjusted operating profit	586.8	607.0	20.2	3.4%

b. Forecasts by business segment and overall

(Billions of yen)

	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)	Change from current fiscal year	Change from current fiscal year (%)
Revenue	2,143.3	2,110.0	(33.3)	(1.6)%
Domestic Tobacco Business	684.2	655.0	(29.2)	(4.3)%
Of which, core revenue	649.7	620.0	(29.7)	(4.6)%
International Tobacco Business	1,199.2	1,178.0	(21.2)	(1.8)%
Of which, core revenue	1,138.8	1,118.0	(20.8)	(1.8)%
Pharmaceutical Business	87.2	98.0	10.8	12.4%
Processed Food Business	164.1	165.0	0.9	0.6%
Adjusted operating profit	586.8	587.0	0.2	0.0%
Domestic Tobacco Business	260.2	244.0	(16.2)	(6.2)%
International Tobacco Business	336.2	347.0	10.8	3.2%
Pharmaceutical Business	9.7	19.0	9.3	95.5%
Processed Food Business	5.0	6.0	1.0	20.1%
Operating profit	593.3	560.0	(33.3)	(5.6)%
Profit attributable to owners of the parent company	421.7	402.0	(19.7)	(4.7)%

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based) (At constant rates of exchange)	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)	Change from current fiscal year	Change from current fiscal year (%)
Core revenue	10,490	10,440	(50)	(0.5)%
Adjusted operating profit	3,095	3,375	280	9.1%

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)	Change from current fiscal year	Change from current fiscal year (%)
Core revenue	10,490	10,170	(320)	(3.1)%
Adjusted operating profit	3,095	3,150	55	1.8%

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

(Billions of cigarettes)

Domestic Tobacco Business	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)	Change from current fiscal year	Change from current fiscal year (%)
Sales volume	106.2	96.0	(10.2)	(9.6)%

(Billions of cigarettes)

International Tobacco Business	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)	Change from current fiscal year	Change from current fiscal year (%)
Total shipment volume	398.7	395.0	(3.7)	(0.9)%
Of which, GFBs	283.7	288.0	4.3	1.5%

Foreign exchange rate per U.S. dollar	Fiscal year ended December 31, 2016	Fiscal year ending December 31, 2017 (Forecast)
Yen	108.78	110.00
Ruble	67.07	60.00
Pounds sterling	0.74	0.81
Euro	0.90	0.95

With regard to revenue, the Company expects unfavorable foreign exchange effects related to local currencies on the International Tobacco Business and the decline in revenue in the Domestic Tobacco Business to be partially offset by higher revenue in the Pharmaceutical Business and the Processed Food Business, leading to a decrease in revenue of ¥33.3 billion, or 1.6% from the current fiscal year to ¥2,110.0 billion.

Adjusted operating profit is forecast to be almost flat year on year at ¥587.0 billion, or 0.0% increase, with an increase in adjusted operating profit at constant rates of exchange being offset by unfavorable foreign exchange effects related to local currencies in the International Tobacco Business.

For operating profit, we forecast a decline of ¥33.3 billion, or 5.6% from the current fiscal year to ¥560.0 billion, due to a decrease in gain on sales of real estate and other factors.

Profit attributable to owners of the parent company is expected to decline by ¥19.7 billion, or 4.7% from the current fiscal year to ¥402.0 billion, with the impact of a lower effective tax rate partially offsetting the decline in operating profit.

Earnings forecasts for each business are as follows.

Domestic Tobacco Business

In addition to continuing to focus on further enhancing brand equity, primarily for the four brands of Mevius, Winston, Seven Stars, and Natural American Spirit, the Company will move ahead with initiatives in the T-Vapor area.

With regard to sales volume(Note 1), the Company expects a decrease of 10.2 billion cigarettes, or 9.6% from the current fiscal year, to 96.0 billion cigarettes, due mainly to a decline in cigarette industry volume(Note 2) caused by the expansion of the T-Vapor market and the downtrend in total demand.

Core revenue is predicted to decline by ¥29.7 billion, or 4.6% from the current fiscal year to ¥620.0 billion. This represents the impact of the decline in sales volume being partially offset by the increase in revenue from "Ploom TECH," a T-Vapor product, and the full-year effect of retail price amendments implemented in April 2016 for certain products, including Mevius.

Adjusted operating profit is forecast to fall by ¥16.2 billion, or 6.2% from the current fiscal year to ¥244.0 billion, with declines in core revenue being partially offset by cost reductions and so on.

Note 1: In addition to the figure stated above for sales volume, 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. 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

With total demand falling as a result of higher taxes in Russia and more stringent regulation in Europe, we assume that the difficult business environment will continue, and forecast that total shipment volume will decline by 3.7 billion cigarettes, or 0.9% from the current fiscal year to 395.0 billion cigarettes. Although we expect total shipment volume to decline, we forecast that GFB shipment volumes, boosted by rising sales in emerging markets and other regions, will increase by 4.3 billion cigarettes, or 1.5% from the current fiscal year to 288.0 billion cigarettes.

Core revenue at constant rates of exchange (dollar-based) is expected to be almost unchanged from the current-year level at $10,440 million, a decrease of 0.5% year on year. On the other hand, adjusted operating profit at constant rates of exchange (dollar-based) is forecast to rise by $280 million, or 9.1% from the current fiscal year to $3,375 million, due to the emergence of effects related to previously implemented optimization of manufacturing facilities and other cost reduction efforts.

With regard to dollar-based core revenue and adjusted operating profit including foreign exchange effects, the Company has factored in the impact of unfavorable foreign exchange effects related to local currencies, including the pound. Accordingly, the Company forecasts a decrease of $320 million, or 3.1% from the current fiscal year to $10,170 million, and an increase of $55 million, or 1.8% from the current fiscal year to $3,150 million respectively.

With regard to yen-based core revenue and adjusted operating profit, the Company has factored in the impact of the weaker yen when making conversions to that currency, and forecasts a decrease of ¥20.8 billion, or 1.8% from the current fiscal year to ¥1,118.0 billion, and an increase of ¥10.8 billion, or 3.2% from the current fiscal year to ¥347.0 billion respectively.

Pharmaceutical Business

As result of higher royalty revenue generated by expanded sales of original JT compounds that have been out-licensed, as well as higher revenue at Torii Pharmaceutical, revenue is forecast to increase by ¥10.8 billion, or 12.4% from the current fiscal year to ¥98.0 billion, while adjusted operating profit is forecast to rise by ¥9.3 billion, or 95.5% from the current fiscal year to ¥19.0 billion.

Processed Food Business

Revenue is forecast to grow by ¥0.9 billion, or 0.6% from the current fiscal year to ¥165.0 billion, due to sales growth in staple products and seasonings. Adjusted operating profit is expected to be boosted by higher revenue, improvements in the product mix, cost reductions and so on, increasing by ¥1.0 billion, or 20.1% from the current fiscal year to ¥6.0 billion.

(2) Analysis of consolidated financial position

Cash and cash equivalents at the end of the current fiscal year decreased by ¥232.6 billion from the end of the previous fiscal year to ¥294.2 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥526.8 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the current fiscal year were ¥376.5 billion, compared with ¥468.4 billion provided in the previous fiscal 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.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the current fiscal year were ¥687.5 billion, compared with ¥63.3 billion used in the previous fiscal 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 current fiscal year were ¥91.3 billion, compared with ¥254.9 billion used in the previous fiscal 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.

Trends in company cash flow indicators are as shown below.

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Ratio of equity attributable to owners of the parent company to total assets (%)	46.9	54.3	53.9	53.8	51.8
Ratio of equity attributable to owners of the parent company to total assets on market value basis (%)	141.5	127.6	128.6	175.6	145.1
Interest-bearing debt to cash flow ratio (%)	70.1	94.8	42.0	54.5	147.5
Interest coverage ratio (times)	53.6	46.8	77.1	132.4	55.5

(Note) Ratio of equity attributable to owners of the parent company to total assets:
equity attributable to owners of the parent company / total assets
Ratio of equity attributable to owners of the parent company to total assets on market value basis:
market capitalization / total assets
Interest-bearing debt to cash flow ratio: interest-bearing debt / operating cash flow
Interest coverage ratio: operating cash flow / paid interest

* All indicators are calculated using consolidated-based financial figures.

* Market capitalization is calculated by multiplying the number of issued shares as of the end of the fiscal year (excluding treasury shares) by the share price on the last day of the fiscal year.

* The figure used for operating cash flow is “net cash flows from operating activities” on the consolidated statements of cash flows.

* Interest-bearing debt includes all liabilities recorded on the consolidated statement of financial position on which interest was paid.

* The information for the fiscal year ended March 31, 2014 was retrospectively adjusted to reflect changes in accounting policies.

* The fiscal year ended December 31, 2014, was the 9-month period from April 1, 2014, to December 31, 2014, for the Company and its main consolidated subsidiaries that do not belong to the International Tobacco Business. For consolidated subsidiaries that belong to the International Tobacco Business, the fiscal year was the 12-month period from January 1, 2014, to December 31, 2014. As a consequence, interest-bearing debt to cash flow ratio and interest coverage ratio for the fiscal year ended December 31, 2014, have not been calculated based on cash flows for the 12-month period.

(3) Basic policy on profit distribution and dividends for fiscal years 2016 and 2017

The Company's resource allocation policy is that the Company prioritizes business investments for sustainable profit growth in the mid- to long-term, and will continue to strike a balance between profit growth through business investments and shareholder returns.

Additionally, according to the shareholder return policy, the Company aims to enhance shareholder returns considering the Company's mid- to long-term profit growth trend, while maintaining a solid balance sheet.(Note 1) Specifically, the Company will pursue the following;

- Deliver consistent dividend per share growth;
- Consider implementing a share buy-back program, taking into account the Company's mid-term operating environment and financial outlook; and
- Continue to closely monitor shareholder returns of global FMCG(Note 2) companies.

Based on the above policies, the Company's Board is recommending a year-end dividend of ¥66 per share. Accordingly, the annualized sum will be ¥130 per share which includes ¥64 of the retained earnings dividend payments made at the end of the half year.

Regarding the dividend for the fiscal year ending December 31, 2017, the Company plans to pay an annual dividend of ¥140 per share (including a ¥70 interim dividend).

Note 1: As its financial policy, the Company maintains a solid balance sheet. This provides the capacity to withstand any adversity arising out of a volatile environment, such as economic crises. It also allows for sufficient flexibility to capture attractive investment opportunities.

Note 2: A Fast-Moving Consumer Goods (daily consumer goods) company which have a stakeholder model similar to our "4S" model, and have realized strong business growth.

(4) Business and other risks

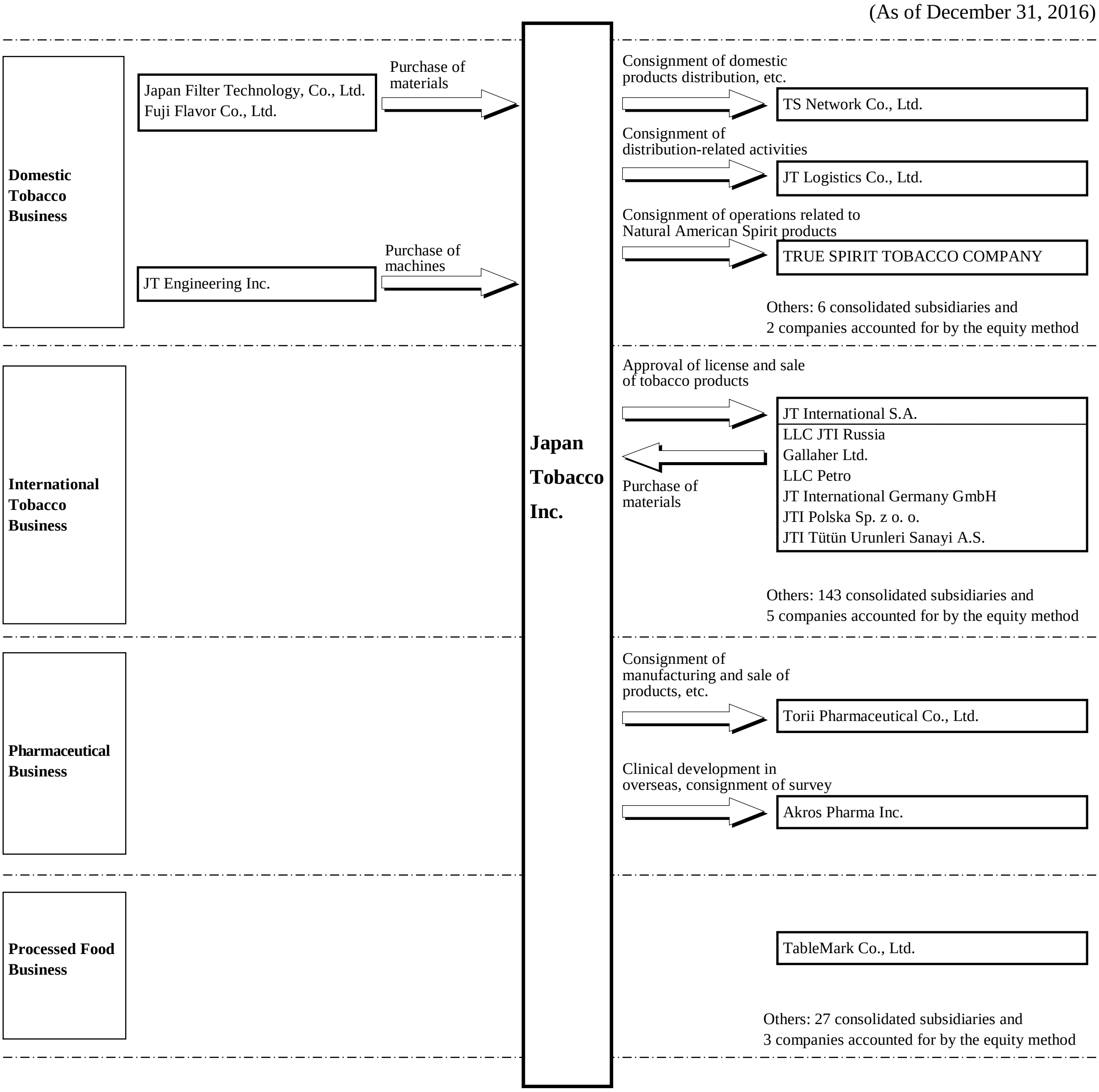
There were no material changes to the items disclosed in the most recent Annual Securities Report (submitted March 23, 2016) or new business or other risks.

2. Status of the corporate group

Regarding the status of the corporate group (202 consolidated subsidiaries and 12 companies accounted for by equity method), there were no material changes from the information disclosed in “I. Overview of the Group, 3. Business description” in the recent Annual Securities Report (filed on March 23, 2016).

The following is an illustration of the business network.

(As of December 31, 2016)



* In addition to the reportable segments mentioned above, the Group runs businesses, including business relating to the rent of real estate.
There are 10 consolidated subsidiaries and 2 companies accounted for by equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

3. Management policy

(1) Basic management policy

The Group's management principles are based on the pursuit of the "4S" model. The model requires the Group to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

The Group created its' vision and mission based on the "4S" model. The vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. The mission is to create, develop and nurture the Group's unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

The Group has also adopted "The JT Group Way" as a code of conduct which all members of the Group should follow. The JT Group Way requires that the Group fulfills the expectations of the Group's consumers and behaves responsibly, strives for quality in everything we do through continuous improvement, and leverages diversity across the Group.

The Group has attained sustainable profit growth and will continue to do so through the pursuit of the "4S" model. Since attaining sustainable profit growth requires the Group to continue to provide new value and satisfaction to consumers, the Group believes it is essential to steadily make business investments for future mid- to long-term profit growth.

The Group believes that the pursuit of the "4S" model will lead to a consistent increase in corporate value in the mid- to long-term and therefore that it is the best approach to serve the interests of all stakeholders.

(2) Mid- to long-term management strategy and issues

The Group formulated its business plan, a three-year plan that is renewed each year on a rolling basis in order to speed up the Group's ability to respond appropriately to unexpected changes in accordance with its recognition that strengthening its "adaptability to a changing environment" is an important theme. Through the plan, the Group intends to carry on strategies that have hitherto been implemented for the Group's long-term vision of becoming a "Company committed to global growth that provides consumers diversified value uniquely available from JT" while also taking them to a higher level.

In the "Business Plan 2017," there is no change in the Group's management resources allocation policy, under which the Group will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as on valuing the balance between profit growth through business investments and shareholder returns.

In the "Business Plan 2017," the Group will continue to pursue mid to high single-digit annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange.

With regard to shareholder return policies, the Group will pursue enhanced shareholder returns in proportion to the mid- to long-term profit growth by continually making proactive business investments while maintaining a strong financial base that enables response to any possible environmental changes.

Specifically, the Group will work toward stable and consistent growth in dividend per share.

Whether to execute the acquisition of treasury shares will be considered in view of factors including the medium-term outlook on business environment and financial positions.

Adopting a stakeholder model, the Group will continue to monitor a trend in shareholder returns of global FMCG companies which achieve a high-growth business.

The mid- to long-term targets and roles for each business are as follows.

- Tobacco Business: Grow adjusted operating profit at mid to high single-digit rate per annum over the mid- to long-term as the core business and profit growth engine of the Group
  - Domestic: Core business that serves as the highly competitive profit generator
  - International: Also a core business that serves as the profit growth engine
- Pharmaceutical Business: Strive to make stable profit contribution to the Group through promotion of R&D on next-generation strategic products and value maximization of each product
- Processed Food Business: Strive to achieve operating profit margin that is, at very least, on par with industry average and aim to make further profit contribution to the Group

In order to achieve the consolidated mid- to long-term profit targets, our strategic focus across all businesses is to achieve quality top line growth by striving in accordance with each target and role. For each business, our strategic focus is to improve cost competitiveness and business foundations that support these efforts, thereby achieving sustainable profit growth.

* In addition to the information provided above, reference information regarding settlement of accounts and earnings forecasts is separately provided in the supplementary document "Business Plan 2017" and "JTG consolidated financial results for 2016 and forecasts for 2017."

4. Basic principle on the choice of accounting standards

The Group has used the International Financial Reporting Standards (IFRS) since the fiscal year ended March 31, 2012 in order to enhance the international comparability of its financial information in capital markets and to aim to diversify its financing methods in global markets.

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.

5. Consolidated financial statements (IFRS)

(1) Consolidated statement of financial position

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	526,765	294,157
Trade and other receivables	406,387	396,934
Inventories	563,820	558,846
Other financial assets	17,849	14,921
Other current assets	280,493	340,312
Subtotal	1,795,313	1,605,169
Non-current assets held-for-sale	2,904	821
Total current assets	1,798,217	1,605,990
Non-current assets		
Property, plant and equipment	681,865	680,835
Goodwill	1,429,287	1,601,987
Intangible assets	332,478	423,970
Investment property	23,614	18,184
Retirement benefit assets	38,954	23,680
Investments accounted for using the equity method	59,523	123,753
Other financial assets	101,727	99,358
Deferred tax assets	92,570	166,617
Total non-current assets	2,760,017	3,138,384
Total assets	4,558,235	4,744,374

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	373,032	377,933
Bonds and borrowings	30,980	208,521
Income tax payables	106,391	54,940
Other financial liabilities	6,459	13,023
Provisions	19,297	12,529
Other current liabilities	729,761	689,629
Total current liabilities	1,265,920	1,356,574
Non-current liabilities		
Bonds and borrowings	215,938	339,036
Other financial liabilities	10,143	9,009
Retirement benefit liabilities	333,562	333,410
Provisions	9,210	4,423
Other non-current liabilities	113,958	102,221
Deferred tax liabilities	87,979	71,660
Total non-current liabilities	770,790	859,759
Total liabilities	2,036,710	2,216,333
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(444,333)	(443,822)
Other components of equity	(137,122)	(303,554)
Retained earnings	2,196,651	2,367,067
Equity attributable to owners of the parent company	2,451,596	2,456,091
Non-controlling interests	69,929	71,950
Total equity	2,521,524	2,528,041
Total liabilities and equity	4,558,235	4,744,374

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Continuing operations		
Revenue	2,252,884	2,143,287
Cost of sales	(920,056)	(872,433)
Gross profit	1,332,828	1,270,854
Other operating income	15,367	70,101
Share of profit in investments accounted for using the equity method	6,381	6,489
Selling, general and administrative expenses	(789,346)	(754,115)
Operating profit	565,229	593,329
Financial income	15,016	6,618
Financial costs	(15,132)	(21,710)
Profit before income taxes	565,113	578,237
Income taxes	(162,386)	(152,464)
Profit for the period from continuing operations	402,727	425,773
Discontinued operations		
Profit for the period from discontinued operations	87,515	—
Profit for the period	490,242	425,773
Attributable to:		
Owners of the parent company	485,691	421,695
Non-controlling interests	4,551	4,078
Profit for the period	490,242	425,773
Earnings per share		
Basic (Yen)		
Continuing operations	221.95	235.47
Discontinued operations	48.59	—
Total	270.54	235.47
Diluted (Yen)		
Continuing operations	221.81	235.33
Discontinued operations	48.56	—
Total	270.37	235.33

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

	Year ended December 31, 2015	Year ended December 31, 2016
Continuing operations		
Operating profit	565,229	593,329
Amortization cost of acquired intangibles arising from business acquisitions	31,875	46,767
Adjustment items (income)	(10,346)	(65,212)
Adjustment items (costs)	39,900	11,894
Adjusted operating profit	626,657	586,777

Consolidated statement of comprehensive income

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Profit for the period	490,242	425,773
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	10,735	(3,159)
Remeasurements of defined benefit plans	(4,102)	(22,202)
Total of items that will not be reclassified to profit or loss	6,633	(25,361)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(289,400)	(163,683)
Net gain (loss) on derivatives designated as cash flow hedges	233	(1,479)
Total of items that may be reclassified subsequently to profit or loss	(289,167)	(165,162)
Other comprehensive income (loss), net of taxes	(282,534)	(190,523)
Comprehensive income (loss) for the period	207,708	235,250
Attributable to:		
Owners of the parent company	203,257	231,590
Non-controlling interests	4,450	3,660
Comprehensive income (loss) for the period	207,708	235,250

(3) Consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2015	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
Profit for the period	―	―	―	―	―	―	―
Other comprehensive income (loss)	―	―	―	―	(288,894)	233	10,500
Comprehensive income (loss) for the period	―	―	―	―	(288,894)	233	10,500
Acquisition of treasury shares	―	―	(100,000)	―	―	―	―
Disposal of treasury shares	―	―	114	(85)	―	―	―
Share-based payments	―	―	―	395	―	―	―
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	―	―	―	―	―	―	(232)
Other increase (decrease)	―	―	―	―	―	(1,324)	―
Total transactions with the owners	―	―	(99,886)	310	―	(1,324)	(372)
As of December 31, 2015	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	―	―	―	―	―	―	―
Other comprehensive income (loss)	―	―	―	―	(163,169)	(1,479)	(3,069)
Comprehensive income (loss) for the period	―	―	―	―	(163,169)	(1,479)	(3,069)
Acquisition of treasury shares	―	―	(0)	―	―	―	―
Disposal of treasury shares	―	―	512	(413)	―	―	―
Share-based payments	―	―	―	265	―	―	―
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	―	―	―	―	―	―	(360)
Other increase (decrease)	―	―	―	―	―	1,794	―
Total transactions with the owners	―	―	512	(147)	―	1,794	(360)
As of December 31, 2016	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854

(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	―	―	485,691	485,691	4,551	490,242
Other comprehensive income (loss)	(4,272)	(282,433)	―	(282,433)	(101)	(282,534)
Comprehensive income (loss) for the period	(4,272)	(282,433)	485,691	203,257	4,450	207,708
Acquisition of treasury shares	―	―	―	(100,000)	―	(100,000)
Disposal of treasury shares	―	(85)	(29)	0	―	0
Share-based payments	―	395	―	395	―	395
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	4,272	4,040	(4,040)	―	―	―
Other increase (decrease)	―	(1,324)	―	(1,324)	(13)	(1,337)
Total transactions with the owners	4,272	2,886	(191,500)	(288,500)	(20,187)	(308,686)
As of December 31, 2015	―	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	―	―	421,695	421,695	4,078	425,773
Other comprehensive income (loss)	(22,387)	(190,105)	―	(190,105)	(419)	(190,523)
Comprehensive income (loss) for the period	(22,387)	(190,105)	421,695	231,590	3,660	235,250
Acquisition of treasury shares	―	―	―	(0)	―	(0)
Disposal of treasury shares	―	(413)	(99)	0	―	0
Share-based payments	―	265	―	265	4	270
Dividends	―	―	(229,223)	(229,223)	(2,038)	(231,261)
Changes in the scope of consolidation	―	―	―	―	1,069	1,069
Changes in the ownership interest in a subsidiary without a loss of control	―	―	69	69	(675)	(606)
Transfer from other components of equity to retained earnings	22,387	22,027	(22,027)	―	―	―
Other increase (decrease)	―	1,794	―	1,794	―	1,794
Total transactions with the owners	22,387	23,674	(251,280)	(227,094)	(1,639)	(228,733)
As of December 31, 2016	―	(303,554)	2,367,067	2,456,091	71,950	2,528,041

(4) Consolidated statement of cash flows

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Cash flows from operating activities		
Profit before income taxes	565,113	578,237
Profit before income taxes from discontinued operations	119,009	—
Depreciation and amortization	139,057	140,794
Impairment losses	12,654	1,239
Interest and dividend income	(14,818)	(6,372)
Interest expense	4,030	8,680
Share of profit in investments accounted for using the equity method	(6,381)	(6,489)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	6,697	(33,473)
(Gains) losses on sale of investments in subsidiaries	(134,287)	(26,106)
(Increase) decrease in trade and other receivables	3,866	(20,128)
(Increase) decrease in inventories	(5,272)	(686)
Increase (decrease) in trade and other payables	(6,697)	16,157
Increase (decrease) in retirement benefit liabilities	(5,162)	(4,724)
(Increase) decrease in prepaid tobacco excise taxes	(59,789)	(48,228)
Increase (decrease) in tobacco excise tax payables	31,714	(14,192)
Increase (decrease) in consumption tax payables	(34,585)	2,787
Other	(33,839)	(31,938)
Subtotal	581,310	555,557
Interest and dividends received	22,687	13,064
Interest paid	(3,538)	(6,788)
Income taxes paid	(132,027)	(185,285)
Net cash flows from operating activities	468,432	376,549
Cash flows from investing activities		
Purchase of securities	(1,320)	(2,303)
Proceeds from sale and redemption of securities	3,687	5,340
Purchase of property, plant and equipment	(116,976)	(101,072)
Proceeds from sale of investment property	8,372	42,046
Purchase of intangible assets	(12,123)	(9,929)
Payments into time deposits	(1,002)	(346)
Proceeds from withdrawal of time deposits	977	298
Payments for business combinations	(70,110)	(589,737)
Proceeds from sale of investments in subsidiaries	126,774	26,979
Purchase of investments in associates	—	(52,291)
Other	(1,550)	(6,493)
Net cash flows from investing activities	(63,271)	(687,509)

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Cash flows from financing activities		
Dividends paid to owners of the parent company	(187,646)	(229,261)
Dividends paid to non-controlling interests	(13,734)	(2,011)
Capital contribution from non-controlling interests	―	129
Increase (decrease) in short-term borrowings and commercial paper	5,255	186,570
Proceeds from long-term borrowings	―	856
Repayments of long-term borrowings	(30,147)	(578)
Proceeds from issuance of bonds	114,724	136,181
Redemption of bonds	(40,000)	―
Repayments of finance lease obligations	(2,986)	(569)
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	(254,852)	91,318
Net increase (decrease) in cash and cash equivalents	150,309	(219,643)
Cash and cash equivalents at the beginning of the period	385,820	526,765
Effect of exchange rate changes on cash and cash equivalents	(9,365)	(12,965)
Cash and cash equivalents at the end of the period	526,765	294,157

(5) Notes on premise of going concern

No items to report

(6) Notes to consolidated financial statements

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 2016.

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

The effect of adopting the above standards and interpretations on the consolidated financial statements is immaterial.

(**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.

Year ended December 31, 2015

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	677,331	1,317,178	75,564	165,843	2,235,916	16,968	—	2,252,884
Intersegment revenue	20,342	46,738	—	37	67,117	9,858	(76,976)	—
Total revenue	697,672	1,363,917	75,564	165,880	2,303,034	26,826	(76,976)	2,252,884
Segment profit (loss)								
Adjusted operating profit (Note 1)	254,053	394,395	(2,315)	2,728	648,860	(21,802)	(402)	626,657
Other items								
Depreciation and amortization	43,668	76,007	4,603	6,476	130,754	2,673	(303)	133,123
Impairment losses on other than financial assets	1,168	4,393	187	56	5,805	3,757	(47)	9,516
Reversal of impairment losses on other than financial assets	—	276	—	—	276	—	—	276
Share of profit (loss) in investments accounted for using the equity method	61	6,252	—	37	6,351	30	—	6,381
Capital expenditures	37,416	77,217	6,200	5,651	126,484	3,970	(703)	129,751

Year ended December 31, 2016

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	684,233	1,199,190	87,183	164,078	2,134,683	8,604	—	2,143,287
Intersegment revenue	18,245	30,280	—	30	48,554	9,653	(58,207)	—
Total revenue	702,478	1,229,470	87,183	164,108	2,183,237	18,257	(58,207)	2,143,287
Segment profit (loss)								
Adjusted operating profit (Note 1)	260,205	336,227	9,717	4,998	611,146	(24,725)	356	586,777
Other items								
Depreciation and amortization	57,994	69,129	4,908	6,423	138,453	2,675	(335)	140,794
Impairment losses on other than financial assets	54	615	—	16	685	554	—	1,239
Reversal of impairment losses on other than financial assets	—	27	—	—	27	—	—	27
Share of profit (loss) in investments accounted for using the equity method	33	6,327	—	(4)	6,355	134	—	6,489
Capital expenditures	29,820	70,592	3,823	5,707	109,942	3,902	(847)	112,998

Reconciliation from "Adjusted operating profit" to "Profit before income taxes"

Year ended December 31, 2015

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Adjusted operating profit (Note 1)	254,053	394,395	(2,315)	2,728	648,860	(21,802)	(402)	626,657
Amortization cost of acquired intangibles arising from business acquisitions	－	(31,875)	－	－	(31,875)	－	－	(31,875)
Adjustment items (income) (Note 4)	97	3,548	－	464	4,108	6,238	－	10,346
Adjustment items (costs) (Note 4)	(4,946)	(19,148)	－	(9)	(24,103)	(15,798)	－	(39,900)
Operating profit (loss)	249,204	346,921	(2,315)	3,182	596,992	(31,361)	(402)	565,229
Financial income								15,016
Financial costs								(15,132)
Profit before income taxes								565,113

Year ended December 31, 2016

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Adjusted operating profit (Note 1)	260,205	336,227	9,717	4,998	611,146	(24,725)	356	586,777
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(30,522)	－	－	(46,767)	－	－	(46,767)
Adjustment items (income) (Note 4)	282	34	－	2	318	64,894	－	65,212
Adjustment items (costs) (Note 4)	(137)	(3,960)	－	(8)	(4,105)	(7,789)	－	(11,894)
Operating profit (loss)	244,106	301,779	9,717	4,991	560,592	32,380	356	593,329
Financial income								6,618
Financial costs								(21,710)
Profit before income taxes								578,237

(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)

	Year ended December 31, 2015	Year ended December 31, 2016
Domestic tobacco	642,240	649,744
International tobacco	1,252,496	1,138,805

(Note 4) "Adjustment items (income)" include restructuring income of gains 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)

	Year ended December 31, 2015	Year ended December 31, 2016
Restructuring costs	39,900	11,894
Adjustment items (costs)	39,900	11,894

Restructuring costs for the year ended December 31, 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 year ended December 31, 2016 mainly relate to disposal of real estate.

c. Geographic information

The regional breakdown of non-current assets and external revenue from continuing operations as of each fiscal year end is as follows:

Non-current Assets

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Japan	461,265	833,543
Overseas	2,005,979	1,891,433
Consolidated	2,467,244	2,724,975

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue from continuing operations

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Japan	894,710	907,905
Overseas	1,358,174	1,235,382
Consolidated	2,252,884	2,143,287

(Note) Revenue is segmented by the sales destination.

d. Major customers information

The “International Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥293,541 million (13.0% of consolidated revenue) for the year ended December 31, 2015 and ¥235,932 million (11.0% of consolidated revenue) for the year ended December 31, 2016.

(Per share information)

(1) Basis of Calculating Basic Earnings per Share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Profit for the period attributable to owners of the parent company	485,691	421,695
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic earnings per share	485,691	421,695
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company.	87,237	–
Profit for the period from continuing operations used for calculation of basic earnings per share	398,454	421,695

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

(Thousands of shares)

	Year ended December 31, 2015	Year ended December 31, 2016
Weighted-average number of shares during the period	1,795,254	1,790,878

(2) Basis of Calculating Diluted Earnings per Share

a. Profit attributable to diluted ordinary shareholders

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Profit for the period used for calculation of basic earnings per share	485,691	421,695
Adjustment	–	–
Profit for the period used for calculation of diluted earnings per share	485,691	421,695
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	87,237	–
Profit for the period from continuing operations used for calculation of diluted earnings per share	398,454	421,695

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

(Thousands of shares)

	Year ended December 31, 2015	Year ended December 31, 2016
Weighted-average number of ordinary shares during the period	1,795,254	1,790,878
Increased number of ordinary shares under subscription rights to shares	1,128	1,030
Weighted-average number of diluted ordinary shares during the period	1,796,382	1,791,908

(Significant subsequent events)

No items to report

6. Non-consolidated financial statements (Japanese GAAP)

(1) Non-consolidated balance sheet

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	154,666	74,565
Accounts receivable - trade	52,269	54,410
Securities	110,000	50,000
Merchandise and finished goods	21,699	30,767
Semi-finished goods	52,954	40,421
Work in process	3,205	2,793
Raw materials and supplies	42,318	43,053
Advance payments - trade	1,849	2,196
Prepaid expenses	5,729	6,826
Deferred tax assets	24,020	13,017
Short-term loans receivable from subsidiaries and affiliates	45,797	44,085
Other	13,502	16,802
Allowance for doubtful accounts	(26)	(27)
Total current assets	527,980	378,907
Noncurrent assets		
Property, plant and equipment		
Buildings	89,584	86,673
Structures	3,151	2,912
Machinery and equipment	62,769	52,941
Vehicles	1,746	1,654
Tools, furniture and fixtures	21,300	18,492
Land	78,383	75,118
Construction in progress	2,440	2,530
Total property, plant and equipment	259,374	240,321
Intangible assets		
Patent right	418	363
Right of trademark	3,424	149,174
Software	16,038	13,172
Goodwill	—	321,939
Other	1,687	2,892
Total intangible assets	21,566	487,539
Investments and other assets		
Investment securities	61,982	54,961
Shares of subsidiaries and affiliates	1,854,137	1,669,714
Investments in capital of subsidiaries and affiliates	782	—
Long-term loans receivable from subsidiaries and affiliates	5,430	3,519
Long-term prepaid expenses	6,689	5,904
Deferred tax assets	8,821	—
Other	10,339	9,338
Allowance for doubtful accounts	(315)	(291)
Total investments and other assets	1,947,865	1,743,146
Total noncurrent assets	2,228,805	2,471,006
Total assets	2,756,785	2,849,913

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	8,604	8,618
Short-term loans payable	—	58,245
Current portion of bonds	—	20,000
Lease obligations	4,303	3,754
Accounts payable - other	82,212	60,464
National tobacco excise taxes payable	94,095	89,763
National tobacco special excise taxes payable	14,548	13,882
Local tobacco excise taxes payable	108,856	102,616
Income taxes payable	82,169	24,994
Accrued consumption taxes	32,212	31,192
Cash management system deposits received	251,827	278,136
Provision for bonuses	5,290	5,596
Other	6,298	7,785
Total current liabilities	690,416	705,045
Noncurrent liabilities		
Bonds payable	211,604	335,808
Lease obligations	7,681	6,355
Provision for retirement benefits	130,530	131,165
Deferred tax liabilities	—	4,987
Other	3,486	2,877
Total noncurrent liabilities	353,301	481,194
Total liabilities	1,043,717	1,186,238

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Total capital surpluses	736,400	736,400
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	—	28
Reserve for reduction entry	47,587	43,687
Special account for reduction entry	2,582	3,057
General reserve	955,300	955,300
Retained earnings brought forward	277,938	225,620
Total retained earnings	1,302,183	1,246,469
Treasury shares	(444,333)	(443,822)
Total shareholders' equity	1,694,250	1,639,047
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	29,791	26,207
Deferred gains or losses on hedges	(12,914)	(3,373)
Total valuation and translation adjustments	16,877	22,833
Subscription rights to shares	1,941	1,794
Total net assets	1,713,068	1,663,675
Total liabilities and net assets	2,756,785	2,849,913

(2) Non-consolidated statement of income

(Millions of yen)

	Year ended December 31, 2015	Year ended December 31, 2016
Net sales	732,483	729,286
Cost of sales	229,551	208,648
Gross profit	502,931	520,638
Selling, general and administrative expenses	271,227	323,938
Operating income	231,704	196,700
Non-operating income		
Interest income	318	237
Dividends income	139,238	6,929
Other	5,142	6,944
Total non-operating income	144,697	14,109
Non-operating expenses		
Interest expenses	951	2,020
Interest on bonds	1,703	3,884
Other	1,759	1,663
Total non-operating expenses	4,413	7,567
Ordinary income	371,989	203,242
Extraordinary income		
Gain on sales of noncurrent assets	7,300	36,638
Gain on sales of shares of subsidiaries	116,259	28,503
Other	408	1,073
Total extraordinary income	123,967	66,214
Extraordinary losses		
Loss on sales of noncurrent assets	158	1,186
Loss on retirement of noncurrent assets	15,740	8,680
Impairment loss	3,707	593
Loss on liquidation of business	12,902	—
Other	5,045	2,781
Total extraordinary losses	37,552	13,240
Income before income taxes	458,404	256,217
Income taxes - current	104,829	65,901
Income taxes - deferred	8,566	16,708
Total income taxes	113,395	82,609
Net income	345,009	173,607

(3) Non-consolidated statement of changes in net assets

Year ended December 31, 2015

(Millions of yen)

	Shareholders' equity									
		Capital surplus		Retained earnings						
					Other retained earnings					
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of current period	100,000	736,400	736,400	18,776	—	44,531	17,043	955,300	109,126	1,144,777
Changes of items during the period										
Provision of reserve for investment loss on developing new business										—
Provision of reserve for reduction entry						10,169			(10,169)	—
Reversal of reserve for reduction entry						(9,493)			9,493	—
Adjustment to reserve due to change in tax rate						2,380			(2,380)	—
Provision of special account for reduction entry							2,453		(2,453)	—
Reversal of special account for reduction entry							(17,043)		17,043	—
Adjustment to special account due to change in tax rate							129		(129)	—
Dividends from surplus									(187,574)	(187,574)
Net income									345,009	345,009
Purchase of treasury shares										
Disposal of treasury shares									(29)	(29)
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	—	—	—	3,056	(14,461)	—	168,811	157,406
Balance at the end of current period	100,000	736,400	736,400	18,776	—	47,587	2,582	955,300	277,938	1,302,183

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(344,447)	1,636,730	21,087	(10,298)	10,790	1,631	1,649,151
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—					—
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Adjustment to reserve due to change in tax rate		—					—
Provision of special account for reduction entry		—					—
Reversal of special account for reduction entry		—					—
Adjustment to special account due to change in tax rate		—					—
Dividends from surplus		(187,574)					(187,574)
Net income		345,009					345,009
Purchase of treasury shares	(100,000)	(100,000)					(100,000)
Disposal of treasury shares	114	85					85
Net changes of items other than shareholders' equity			8,704	(2,617)	6,087	310	6,397
Total changes of items during the period	(99,886)	57,520	8,704	(2,617)	6,087	310	63,917
Balance at the end of current period	(444,333)	1,694,250	29,791	(12,914)	16,877	1,941	1,713,068

Year ended December 31, 2016

(Millions of yen)

	Shareholders' equity									
		Capital surplus		Retained earnings						
					Other retained earnings					
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	Total retained earnings
Balance at the beginning of current period	100,000	736,400	736,400	18,776	—	47,587	2,582	955,300	277,938	1,302,183
Changes of items during the period										
Provision of reserve for investment loss on developing new business					28				(28)	—
Provision of reserve for reduction entry						3,913			(3,913)	—
Reversal of reserve for reduction entry						(8,805)			8,805	—
Adjustment to reserve due to change in tax rate						992			(992)	—
Provision of special account for reduction entry							2,987		(2,987)	—
Reversal of special account for reduction entry							(2,582)		2,582	—
Adjustment to special account due to change in tax rate							69		(69)	—
Dividends from surplus									(229,223)	(229,223)
Net income									173,607	173,607
Purchase of treasury shares										
Disposal of treasury shares									(99)	(99)
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	—	—	28	(3,900)	(474)	—	(52,318)	(55,714)
Balance at the end of current period	100,000	736,400	736,400	18,776	28	43,687	3,057	955,300	225,620	1,246,469

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(444,333)	1,694,250	29,791	(12,914)	16,877	1,941	1,713,068
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—					—
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Adjustment to reserve due to change in tax rate		—					—
Provision of special account for reduction entry		—					—
Reversal of special account for reduction entry		—					—
Adjustment to special account due to change in tax rate		—					—
Dividends from surplus		(229,223)					(229,223)
Net income		173,607					173,607
Purchase of treasury shares	(0)	(0)					(0)
Disposal of treasury shares	512	413					413
Net changes of items other than shareholders' equity			(3,584)	9,541	5,956	(147)	5,809
Total changes of items during the period	512	(55,203)	(3,584)	9,541	5,956	(147)	(49,394)
Balance at the end of current period	(443,822)	1,639,047	26,207	(3,373)	22,833	1,794	1,663,675

(4) Notes on premise of going concern

No items to report.

(5) Notes to nonconsolidated financial statements

(Significant subsequent events)

Return of paid-in capital from a subsidiary

On January 11, 2017, the Company received approximately $0.5 billion (approximately ¥57.9 billion) return of paid-in capital from JT International Group Holding B.V. to repay a bank loan.