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February 4, 2016

Consolidated Financial Results for the Fiscal Year Ended December 31, 2015 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)
Listed Stock Exchange: Tokyo Stock Exchange
URL: http://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 23, 2016
Scheduled date to file Securities Report: March 23, 2016
Scheduled starting date of the dividend payments: March 24, 2016
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, 2015 (from January 1, 2015 to December 31, 2015)

(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, 2015	2,252,884	-	565,229	-	565,113	-	490,242	-
December 31, 2014	2,019,745	-	499,880	-	502,526	-	368,626	-

	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, 2015	485,691	-	207,708	-	270.54	270.37
December 31, 2014	362,919	-	244,868	-	199.67	199.56

	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, 2015	19.5	12.2	25.1
December 31, 2014	14.4	10.8	24.7

Reference: Share of profit (loss) in investments accounted for using the equity method:
Fiscal year ended December 31, 2015: ¥6,381 million; Fiscal year ended December 31, 2014: ¥7,812 million

The Company changed its accounting period, with the closing date moving from March 31 to December 31, in 2014. The same change has been made to consolidated subsidiaries with fiscal year ends other than December 31. In accordance with this change, fiscal year 2014 covered: nine months from April1, 2014 to December 31, 2014 for Japanese domestic business; and 12 months from January 1, 2014 to December 31, 2014 for the consolidated subsidiaries which operate its international tobacco business. From 2015, the accounting period of the Company and all its consolidated subsidiaries cover the twelve months from January 1 to December 31. Consequently, year-on-year changes are not presented.

The Group classified "Beverage Business" as discontinued operations in the fiscal year 2015. As a result, profit (loss) from discontinued operations is presented separately from those from continuing operations on the consolidated statement of income. Consequently, only revenue, operating profit and profit before income taxes from continuing operations are presented in the fiscal year 2015 and the fiscal year 2014. Moreover, the ratio of profit before income taxes to total assets is presented by a calculation that uses profit before income taxes from continuing operations.

(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, 2015	4,558,235	2,521,524	2,451,596	53.8	1,369.06
December 31, 2014	4,704,706	2,622,503	2,536,838	53.9	1,395.74

(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, 2015	468,432	(63,271)	(254,852)	526,765
December 31, 2014	543,696	(49,110)	(388,859)	385,820

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, 2014	-	50.00	-	50.00	100.00	181,756	50.1	7.2
Year ended December 31, 2015	-	54.00	-	64.00	118.00	211,302	43.6	8.5
Year ending December 31, 2016 (Forecast)	-	64.00	-	64.00	128.00		57.4	

Basic earnings per share from continuing operations and the payout ratio are as follows:
- Basic earnings per share ¥221.95
- Payout ratio 53.2%

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

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending December 31, 2016	2,200,000	(2.3)	566,000	0.1	399,000	(17.8)	222.82

Profit and loss for fiscal year 2016 will be only from continuing operations due to the transfer of shares the Company held in its subsidiaries conducting the vending machine operation business and the termination of the manufacture and sale of JT beverage products, which both occurred in 2015. The year-on-year percentage change stated in the above table for profit attributable to owners of the parent company, however, is based on a comparison of profit attributable to owners of the parent company in the fiscal year 2015, which includes discontinued operations. A comparison of profit attributable to owners of the parent company for the fiscal year 2016 against the profit attributable to owners of the parent company from continuing operations of the fiscal year 2015 is as follows:
- Profit attributable to owners of the parent company from continuing operations in the fiscal year 2015 ¥398,454 million
- Year-on-year changes 0.1 %

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 (common stock)
   a. Total number of shares issued at the end of the period (including treasury shares)

As of December 31, 2015	2,000,000,000 shares
As of December 31, 2014	2,000,000,000 shares

   b. Number of treasury shares at the end of the period

As of December 31, 2015	209,285,431 shares
As of December 31, 2014	182,443,388 shares

   c. Average number of shares during the period

Fiscal year ended December 31, 2015	1,795,254,014 shares
Fiscal year ended December 31, 2014	1,817,552,790 shares

(Reference) Summary of non-consolidated results

Non-consolidated financial results for the fiscal year ended December 31, 2015 (from January 1, 2015 to December 31, 2015) <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, 2015	732,483	-	231,704	-	371,989	-	345,009	-
December 31, 2014	572,323	-	157,712	-	159,746	-	108,656	-

	Net income per share	Diluted net income per share
Year ended	Yen	Yen
December 31, 2015	192.18	192.06
December 31, 2014	59.78	59.75

The Company changed its accounting period, with the closing date moving from March 31 to December 31, in 2014. In accordance with this change, fiscal year 2014 covered nine months from April1, 2014 to December 31, 2014. From 2015, the accounting period of the Company covers the twelve months from January 1 to December 31.Consequently, year-on-year changes 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, 2015	2,756,785	1,713,068	62.1	955.56
December 31, 2014	2,729,270	1,649,151	60.4	906.45

Reference: Equity:
As of December 31, 2015: ¥1,711,127 million; As of December 31, 2014: ¥1,647,520 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 JT's website (http://www.jti.co.jp/) for materials for investors' meeting.

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.

Consolidated financial statements (IFRS)

(1) Consolidated statement of financial position

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	385,820	526,765
Trade and other receivables	448,402	406,387
Inventories	587,849	563,820
Other financial assets	43,907	17,849
Other current assets	230,530	280,493
Subtotal	1,696,507	1,795,313
Non-current assets held-for-sale	367	2,904
Total current assets	1,696,874	1,798,217
Non-current assets		
Property, plant and equipment	756,127	681,865
Goodwill	1,539,376	1,429,287
Intangible assets	364,912	332,478
Investment property	17,870	23,614
Retirement benefit assets	35,402	38,954
Investments accounted for using the equity method	76,825	59,523
Other financial assets	91,959	101,727
Deferred tax assets	125,361	92,570
Total non-current assets	3,007,832	2,760,017
Total assets	4,704,706	4,558,235

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	419,764	373,032
Bonds and borrowings	107,562	30,980
Income tax payables	54,942	106,391
Other financial liabilities	14,463	6,459
Provisions	9,200	19,297
Other current liabilities	754,169	729,761
Total current liabilities	1,360,098	1,265,920
Non-current liabilities		
Bonds and borrowings	101,001	215,938
Other financial liabilities	18,617	10,143
Retirement benefit liabilities	351,915	333,562
Provisions	25,425	9,210
Other non-current liabilities	121,792	113,958
Deferred tax liabilities	103,356	87,979
Total non-current liabilities	722,106	770,790
Total liabilities	2,082,204	2,036,710
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(344,447)	(444,333)
Other components of equity	142,425	(137,122)
Retained earnings	1,902,460	2,196,651
Equity attributable to owners of the parent company	2,536,838	2,451,596
Non-controlling interests	85,665	69,929
Total equity	2,622,503	2,521,524
Total liabilities and equity	4,704,706	4,558,235

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

Consolidated statement of income

(Millions of yen)

	Nine months ended December 31,2014	Year ended December 31, 2015
Continuing operations		
Revenue	2,019,745	2,252,884
Cost of sales	(822,538)	(920,056)
Gross profit	1,197,208	1,332,828
Other operating income	47,419	15,367
Share of profit in investments accounted for using the equity method	7,812	6,381
Selling, general and administrative expenses	(752,559)	(789,346)
Operating profit	499,880	565,229
Financial income	13,808	15,016
Financial costs	(11,162)	(15,132)
Profit before income taxes	502,526	565,113
Income taxes	(132,811)	(162,386)
Profit for the period from continuing operations	369,715	402,727
Discontinued operations		
Profit for the period from discontinued operations	(1,088)	87,515
Profit for the period	368,626	490,242
Attributable to:		
Owners of the parent company	362,919	485,691
Non-controlling interests	5,708	4,551
Profit for the period	368,626	490,242
Earnings per share		
Basic (Yen)		
Continuing operations	200.55	221.95
Discontinued operations	(0.87)	48.59
Total	199.67	270.54
Diluted (Yen)		
Continuing operations	200.43	221.81
Discontinued operations	(0.87)	48.56
Total	199.56	270.37

Reconciliation from "Operating profit" to "Adjusted operating profit"

	Nine months ended December 31, 2014	Year ended December 31, 2015
Continuing operations		
Operating profit	499,880	565,229
Amortization cost of acquired intangibles	29,465	31,875
Adjustment items (income)	(44,302)	(10,346)
Adjustment items (costs)	103,641	39,900
Adjusted operating profit	588,684	626,657

Consolidated statement of comprehensive income

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Profit for the period	368,626	490,242
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	3,725	10,735
Remeasurements of defined benefit plans	(14,164)	(4,102)
Total of items that will not be reclassified to profit or loss	(10,439)	6,633
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(114,242)	(289,400)
Net gain (loss) on derivatives designated as cash flow hedges	922	233
Total of items that may be reclassified subsequently to profit or loss	(113,319)	(289,167)
Other comprehensive income (loss), net of taxes	(123,759)	(282,534)
Comprehensive income (loss) for the period	244,868	207,708
Attributable to:		
Owners of the parent company	240,363	203,257
Non-controlling interests	4,505	4,450
Comprehensive income (loss) for the period	244,868	207,708

(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 April 1, 2014	100,000	736,400	(344,463)	1,443	229,990	293	19,380
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(112,972)	922	3,753
Comprehensive income (loss) for the period	—	—	—	—	(112,972)	922	3,753
Acquisition of treasury shares	—	—	—	—	—	—	—
Disposal of treasury shares	—	—	16	(14)	—	—	—
Share-based payments	—	—	—	202	—	—	—
Dividends	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	(597)	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	23
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	—	16	188	(597)	—	23
As of December 31, 2014	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

(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 April 1, 2014	—	251,107	1,762,566	2,505,610	90,481	2,596,091
Profit for the period	—	—	362,919	362,919	5,708	368,626
Other comprehensive income (loss)	(14,259)	(122,556)	—	(122,556)	(1,203)	(123,759)
Comprehensive income (loss) for the period	(14,259)	(122,556)	362,919	240,363	4,505	244,868
Acquisition of treasury shares	—	—	—	—	—	—
Disposal of treasury shares	—	(14)	(3)	0	—	0
Share-based payments	—	202	—	202	—	202
Dividends	—	—	(181,755)	(181,755)	(2,736)	(184,491)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	(597)	(26,985)	(27,581)	(7,623)	(35,204)
Transfer from other components of equity to retained earnings	14,259	14,282	(14,282)	—	—	—
Other increase (decrease)	—	—	—	—	1,039	1,039
Total transactions with the owners	14,259	13,874	(223,025)	(209,135)	(9,321)	(218,455)
As of December 31, 2014	—	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

(4) Consolidated statement of cash flows

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Cash flows from operating activities		
Profit before income taxes	502,526	565,113
Profit before income taxes from discontinued operations	(227)	119,009
Depreciation and amortization	122,171	139,057
Impairment losses	21,877	12,654
Interest and dividend income	(13,560)	(14,818)
Interest expense	4,651	4,030
Share of profit in investments accounted for using the equity method	(7,812)	(6,381)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(31,315)	6,697
(Gains) losses on sales of investments in subsidiaries	—	(134,287)
(Increase) decrease in trade and other receivables	(12,130)	3,866
(Increase) decrease in inventories	(16,808)	(5,272)
Increase (decrease) in trade and other payables	83,885	(6,697)
Increase (decrease) in retirement benefit liabilities	(25,736)	(5,162)
(Increase) decrease in prepaid tobacco excise taxes	(23,963)	(59,789)
Increase (decrease) in tobacco excise tax payables	103,651	31,714
Increase (decrease) in consumption tax payables	37,550	(34,585)
Other	(37,055)	(33,839)
Subtotal	707,703	581,310
Interest and dividends received	22,569	22,687
Interest paid	(7,050)	(3,538)
Income taxes paid	(179,526)	(132,027)
Net cash flows from operating activities	543,696	468,432
Cash flows from investing activities		
Purchase of securities	(3,280)	(1,320)
Proceeds from sale and redemption of securities	4,769	3,687
Purchase of property, plant and equipment	(106,655)	(116,976)
Proceeds from sale of investment property	85,653	8,372
Purchase of intangible assets	(7,749)	(12,123)
Payments into time deposits	(852)	(1,002)
Proceeds from withdrawal of time deposits	778	977
Purchase of investments in subsidiaries	(20,977)	(70,110)
Proceed from sale of investments in subsidiaries	—	126,774
Other	(800)	(1,550)
Net cash flows from investing activities	(49,110)	(63,271)

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Cash flows from financing activities		
Dividends paid to owners of the parent company	(181,635)	(187,646)
Dividends paid to non-controlling interests	(2,663)	(13,734)
Capital contribution from non-controlling interests	44	—
Increase (decrease) in short-term borrowings and commercial paper	6,373	5,255
Repayments of long-term borrowings	(1,225)	(30,147)
Proceeds from issuance of bonds	—	114,724
Redemption of bonds	(170,670)	(40,000)
Repayments of finance lease obligations	(3,837)	(2,986)
Acquisition of treasury shares	—	(100,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(35,246)	(318)
Other	0	0
Net cash flows from financing activities	(388,859)	(254,852)
Net increase (decrease) in cash and cash equivalents	105,727	150,309
Cash and cash equivalents at the beginning of the period	253,219	385,820
Effect of exchange rate changes on cash and cash equivalents	26,874	(9,365)
Cash and cash equivalents at the end of the period	385,820	526,765

(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, 2015.

IFRS		Description of new standards and amendments
IFRS 9	Financial Instruments (Amended in November 2013)	Amendments to hedge accounting
IAS 19	Employee Benefits	Clarifying the accounting treatment for contributions from employees or third parties set out in the formal terms of defined benefit plans.

The effect of the above standards and interpretations on the consolidated financial statements is immaterial.
IFRS 9 mentioned above has been early adopted.

(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 room-temperature processed foods, bakery products and seasonings.

Shares of Japan Beverage Holdings Inc., JT A-star Co., Ltd. and other subsidiaries conducting vending machine operation business were transferred to Suntory Beverage & Food Limited on July 31, 2015 and the manufacture and sale of JT beverage products was discontinued at the end of September, 2015. Accordingly, for the year ended December 31, 2015, “Beverage Business” has been classified as discontinued operations and excluded from reportable segments.

b. Revenues and performances for reportable segments

Revenues and performances for 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 the prevailing market price.

Nine months ended December 31, 2014

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue								
External revenue (Note 4)	506,725	1,328,005	47,555	123,351	2,005,637	14,108	—	2,019,745
Intersegment revenue	12,776	39,445	—	21	52,242	4,046	(56,288)	—
Total revenue	519,501	1,367,450	47,555	123,373	2,057,879	18,154	(56,288)	2,019,745
Segment profit (loss)								
Adjusted operating profit (Note 1)	172,235	447,053	(6,914)	1,259	613,634	(25,266)	317	588,684
Other items								
Depreciation and amortization	33,475	69,940	3,283	5,135	111,834	2,383	(227)	113,989
Impairment losses on other than financial assets	4,926	16,842	—	110	21,877	—	—	21,877
Reversal of impairment losses on other than financial assets	—	33	—	—	33	—	—	33
Share of profit (loss) in investments accounted for using the equity method	114	7,671	—	(26)	7,758	54	—	7,812
Capital expenditures	27,915	74,244	2,856	3,615	108,630	3,818	—	112,448

Year ended December 31, 2015

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Revenue								
External revenue (Note 4)	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

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

Nine months ended December 31, 2014

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Processed Food	Total	Other (Note 3)	Elimination	Consolidated
Adjusted operating profit (Note 1)	172,235	447,053	(6,914)	1,259	613,634	(25,266)	317	588,684
Amortization cost of acquired intangibles	—	(29,465)	—	—	(29,465)	—	—	(29,465)
Adjustment items (income) (Note 5)	76	4,221	—	3	4,300	40,002	—	44,302
Adjustment items (costs) (Note 5)	(56,680)	(42,351)	—	(2,215)	(101,246)	(2,395)	—	(103,641)
Operating profit (loss)	115,631	379,458	(6,914)	(953)	487,222	12,341	317	499,880
Financial income								13,808
Financial costs								(11,162)
Profit before income taxes								502,526

Year ended December 31, 2015

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 3)	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	—	(31,875)	—	—	(31,875)	—	—	(31,875)
Adjustment items (income) (Note 5)	97	3,548	—	464	4,108	6,238	—	10,346
Adjustment items (costs) (Note 5)	(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

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

(Note 2) The foreign subsidiaries group, which includes the core company of JT International S.A., that is part of the "International Tobacco Business" segment, continues to have December 31 as its fiscal year end date as before and the profit or loss for the period from January 1, 2014 to December 31, 2014 is included in the nine months ended December 31, 2014.

(Note 3) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the "Domestic Tobacco Business" and the "International Tobacco Business" is as follows:

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Domestic tobacco	478,692	642,240
International tobacco	1,258,176	1,252,496

(Note 5) "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)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Restructuring costs	100,405	39,900
Other	3,236	—
Adjustment items (costs)	103,641	39,900

Restructuring costs for the nine months ended December 31, 2014 mainly relate to costs of measures to strengthen the competitiveness of "Domestic Tobacco Business" and restructuring of manufacturing facilities in Europe in the "International Tobacco Business." 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.

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, 2014	As of December 31, 2015
Japan	522,920	461,265
Overseas	2,155,365	2,005,979
Consolidated	2,678,285	2,467,244

(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)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Japan	667,527	894,710
Overseas	1,352,218	1,358,174
Consolidated	2,019,745	2,252,884

(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 ¥335,446 million (16.6% of consolidated revenue) for the nine months ended December 31, 2014 and ¥293,541 million (13.0% of consolidated revenue) for the year ended December 31, 2015.

(Per share information)

(1) Basis of Calculating Basic Earnings per Share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Profit for the period attributable to owners of the parent company	362,919	485,691
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	362,919	485,691
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company.	(1,583)	87,237
Profit for the period from continuing operations used for calculation of basic earnings per share	364,502	398,454

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

(Thousands of shares)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Weighted-average number of shares during the period	1,817,553	1,795,254

(2) Basis of Calculating Diluted Earnings per Share

a. Profit attributable to diluted ordinary shareholders

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Profit for the period used for calculation of basic earnings per share	362,919	485,691
Adjustment	—	—
Profit for the period used for calculation of diluted earnings per share	362,919	485,691
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(1,583)	87,237
Profit for the period from continuing operations used for calculation of diluted earnings per share	364,502	398,454

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

(Thousands of shares)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Weighted-average number of ordinary shares during the period	1,817,553	1,795,254
Increased number of ordinary shares under subscription rights to shares	1,048	1,128
Weighted-average number of diluted ordinary shares during the period	1,818,601	1,796,382

(3) Adjusted Diluted Earnings per Share from continuing operations

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Profit for the period from continuing operations used for calculation of adjusted diluted earnings per share	364,502	398,454
Adjustment items (income)	(44,302)	(10,346)
Adjustment items (costs)	103,641	39,900
Adjustments on income taxes and non-controlling interests	(13,534)	(7,017)
Adjusted profit for the period from continuing operations	410,308	420,990
Adjusted diluted earnings per share from continuing operations (yen)	225,62	234.35

(Significant subsequent events)

(1) Acquisition of the Natural American Spirit Business outside the United States

On September 29, 2015, the Group entered into an agreement with the Reynolds American Inc. group ("RAI") to acquire the Natural American Spirit business outside the United States which included the non-U.S. trademarks and all outstanding shares of RAI's subsidiaries outside the U.S. which sold the brand.
Based on the agreement, the Group completed the acquisition on January 13, 2016. The acquisition price is approximately $5.0 billion (approximately ¥592.2 billion).

(2) Borrowings

The Group entered into loan agreements with banks as follows;

1.	Lenders:	Mizuho Bank, Ltd, Sumitomo Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd
2.	Aggregate amount of borrowings:	$3.5 billion (approximately ¥412.6 billion)
3.	Interest rates:	Floating rates (Based on LIBOR plus spread)
4.	Execution dates:	January 12 and 13, 2016
5.	Repayment dates:	April 13, 2016, July 13, 2016, January 12 and 13, 2017
6.	Collateral/Guarantee:	None
7.	Use of proceeds:	The funds to acquire the Natural American Spirit business outside the United States by the Company

Non-consolidated financial statements (Japanese GAAP)

(1) Non-consolidated balance sheet

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
Assets		
Current assets		
Cash and deposits	44,231	154,666
Accounts receivable - trade	63,296	52,269
Securities	72,220	110,000
Merchandise and finished goods	31,768	21,699
Semi-finished goods	54,635	52,954
Work in process	2,924	3,205
Raw materials and supplies	38,721	42,318
Advance payments - trade	2,052	1,849
Prepaid expenses	7,477	5,729
Deferred tax assets	37,248	24,020
Short-term loans receivable from subsidiaries and affiliates	47,190	45,797
Other	27,294	13,502
Allowance for doubtful accounts	(24)	(26)
Total current assets	429,031	527,980
Non-current assets		
Property, plant and equipment		
Buildings	96,800	89,584
Structures	2,851	3,151
Machinery and equipment	70,710	62,769
Vehicles	1,794	1,746
Tools, furniture and fixtures	29,507	21,300
Land	80,340	78,383
Construction in progress	4,367	2,440
Total property, plant and equipment	286,369	259,374
Intangible assets		
Patent right	558	418
Right of trademark	3,794	3,424
Software	17,973	16,038
Other	2,347	1,687
Total intangible assets	24,672	21,566
Investments and other assets		
Investment securities	50,464	61,982
Stocks of subsidiaries and affiliates	1,906,853	1,854,137
Investments in capital of subsidiaries and affiliates	782	782
Long-term loans receivable from subsidiaries and affiliates	7,656	5,430
Long-term prepaid expenses	7,407	6,689
Deferred tax assets	6,270	8,821
Other	10,169	10,339
Allowance for doubtful accounts	(402)	(315)
Total investments and other assets	1,989,198	1,947,865
Total non-current assets	2,300,239	2,228,805
Total assets	2,729,270	2,756,785

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
Liabilities		
Current liabilities		
Accounts payable - trade	13,218	8,604
Current portion of bonds	40,000	—
Current portion of long-term loans payable	30,000	—
Lease obligations	5,595	4,303
Accounts payable - other	123,390	82,212
National tobacco excise taxes payable	95,426	94,095
National tobacco special excise taxes payable	14,758	14,548
Local tobacco excise taxes payable	110,414	108,856
Income taxes payable	33,966	82,169
Accrued consumption taxes	53,078	32,212
Cash management system deposits received	297,060	251,827
Provision for bonuses	5,424	5,290
Other	11,807	6,298
Total current liabilities	834,135	690,416
Non-current liabilities		
Bonds payable	96,572	211,604
Lease obligations	11,075	7,681
Provision for retirement benefits	132,344	130,530
Other	5,993	3,486
Total non-current liabilities	245,983	353,301
Total liabilities	1,080,118	1,043,717

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Other capital surplus	—	—
Total capital surpluses	736,400	736,400
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for reduction entry	44,531	47,587
Special account for reduction entry	17,043	2,582
General reserve	955,300	955,300
Retained earnings brought forward	109,126	277,938
Total retained earnings	1,144,777	1,302,183
Treasury stock	(344,447)	(444,333)
Total shareholders' equity	1,636,730	1,694,250
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	21,087	29,791
Deferred gains or losses on hedges	(10,298)	(12,914)
Total valuation and translation adjustments	10,790	16,877
Subscription rights to shares	1,631	1,941
Total net assets	1,649,151	1,713,068
Total liabilities and net assets	2,729,270	2,756,785

(2) Non-consolidated statement of income

(Millions of yen)

	Nine months ended December 31, 2014	Year ended December 31, 2015
Net sales	572,323	732,483
Cost of sales	185,407	229,551
Gross profit	386,916	502,931
Selling, general and administrative expenses	229,203	271,227
Operating income	157,712	231,704
Non-operating income		
Interest income	220	318
Dividend income	2,615	139,238
Other	2,663	5,142
Total non-operating income	5,498	144,697
Non-operating expenses		
Interest expenses	821	951
Interest on bonds	1,296	1,703
Other	1,348	1,759
Total non-operating expenses	3,465	4,413
Ordinary income	159,746	371,989
Extraordinary income		
Gain on sales of non-current assets	68,995	7,300
Gain on sales of shares of subsidiaries	—	116,259
Other	6	408
Total extraordinary income	69,001	123,967
Extraordinary losses		
Loss on sales of non-current assets	752	158
Loss on retirement of non-current assets	7,293	15,740
Impairment loss	—	3,707
Business restructuring costs	56,726	3,333
Loss on liquidation of business	—	12,902
Other	427	1,711
Total extraordinary losses	65,198	37,552
Income before income taxes	163,549	458,404
Income taxes - current	73,800	104,829
Income taxes - deferred	(18,908)	8,566
Total income taxes	54,893	113,395
Net income	108,656	345,009

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

Nine months ended December 31, 2014

(Millions of yen)

	Shareholders								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	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	48,211	14,440	955,300	187,349	1,224,077
Cumulative effects of changes in accounting policies								(6,198)	(6,198)
Balance after cumulative effects of changes in accounting policies	100,000	736,400	736,400	18,776	48,211	14,440	955,300	181,151	1,217,879
Changes of items during the period									
Provision of reserve for reduction entry					5,094			(5,094)	―
Reversal of reserve for reduction entry					(8,773)			8,773	―
Adjustment to reserve due to change in tax rate									
Provision of reserve for special account for reduction entry						7,696		(7,696)	―
Reversal of reserve for special account for reduction entry						(5,094)		5,094	―
Adjustment to reserve for special account due to change in tax rate									
Dividends from surplus								(181,755)	(181,755)
Net income								108,656	108,656
Purchase of treasury stock									
Disposal of treasury stock								(3)	(3)
Net changes of items other than shareholders' equity									
Total changes of items during the period	―	―	―	―	(3,680)	2,603	―	(72,025)	(73,102)
Balance at the end of current period	100,000	736,400	736,400	18,776	44,531	17,043	955,300	109,126	1,144,777

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury stock	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	(344,463)	1,716,013	17,786	(863)	16,922	1,443	1,734,379
Cumulative effects of changes in accounting policies		(6,198)					(6,198)
Balance after cumulative effects of changes in accounting policies	(344,463)	1,709,816	17,786	(863)	16,922	1,443	1,728,181
Changes of items during the period							
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Adjustment to reserve due to change in tax rate							
Provision of reserve for special account for reduction entry		—					—
Reversal of reserve for special account for reduction entry		—					—
Adjustment to reserve for special account due to change in tax rate							
Dividends from surplus		(181,755)					(181,755)
Net income		108,656					108,656
Purchase of treasury stock							
Disposal of treasury stock	16	14					14
Net changes of items other than shareholders' equity			3,302	(9,434)	(6,133)	188	(5,945)
Total changes of items during the period	16	(73,086)	3,302	(9,434)	(6,133)	188	(79,030)
Balance at the end of current period	(344,447)	1,636,730	21,087	(10,298)	10,790	1,631	1,649,151

Year ended December 31, 2015

(Millions of yen)

	Shareholders								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	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
Cumulative effects of changes in accounting policies									
Balance after cumulative effects of changes in accounting policies	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 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 reserve for special account for reduction entry						2,453		(2,453)	—
Reversal of reserve for special account for reduction entry						(17,043)		17,043	—
Adjustment to reserve for 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 stock									
Disposal of treasury stock								(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 stock	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
Cumulative effects of changes in accounting policies							
Balance after cumulative effects of changes in accounting policies	(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 reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Adjustment to reserve due to change in tax rate		—					—
Provision of reserve for special account for reduction entry		—					—
Reversal of reserve for special account for reduction entry		—					—
Adjustment to reserve for special account due to change in tax rate		—					—
Dividends from surplus		(187,574)					(187,574)
Net income		345,009					345,009
Purchase of treasury stock	(100,000)	(100,000)					(100,000)
Disposal of treasury stock	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

(Significant subsequent events)

(1) Acquisition of the Natural American Spirit Business outside the United States

On September 29, 2015, the Company entered into an agreement with the Reynolds American Inc. group ("RAI") to acquire the Natural American Spirit business outside the United States which included the non-U.S. trademarks and all outstanding shares of RAI's subsidiaries outside the U.S. which sold the brand.
Based on the agreement, the Company completed the acquisition on January 13, 2016. The acquisition price is approximately $4.4 billion (approximately ¥519.7 billion).

(2) Borrowings

The Company entered into loan agreements with banks as follows;

1	Lenders:	Mizuho Bank, Ltd, Sumitomo Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd
2	Aggregate amount of borrowings:	$3.0 billion (approximately ¥353.7billion)
3	Interest rates:	Floating rates (Based on LIBOR plus spread)
4	Execution date:	January 13, 2016
5	Repayment dates:	April 13, 2016, July 13, 2016, and January 13, 2017
6	Collateral/Guarantee:	None
7	Use of proceeds:	The funds to acquire the Natural American Spirit business outside the United States

(3) Return of paid-in capital from a subsidiary

On January 12, 2016, the Company received approximately $0.6 billion (approximately ¥69.7 billion) return of paid-in capital from JT International Group Holding B.V. to finance acquisition of the Natural American Spirit business outside the United States.

(4) Guarantee of obligations for a subsidiary

The Company has guaranteed a bank loan of JT International Holding B.V. (approximately $0.5billion (approximately ¥58.9 billion)) executed on January 12, 2016.