[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

Securities Code: 2914
March 1, 2017

To Our Shareholders

Mitsuomi Koizumi
President, Chief Executive Officer and
Representative Director
Japan Tobacco Inc.
2-1, Toranomon 2-chome, Minato-ku, Tokyo

NOTICE OF CONVOCATION OF THE 32ND ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 32nd Ordinary General Meeting of Shareholders of Japan Tobacco Inc. ("JT" or the "Company") to be held as set forth below.

If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the "Reference Documents for the General Meeting of Shareholders" hereinafter described and exercise your voting rights by 6:00 p.m., on Thursday, March 23, 2017, in accordance with "Instructions for Exercising Your Voting Rights" on pages 3 to 5.

Particulars

1. **Date and Time of the Meeting:** Friday, March 24, 2017 at 10:00 a.m.

2. **Place of the Meeting:** The Prince Park Tower Tokyo
Second basement, Ball Room
8-1, Shibakoen 4-chome, Minato-ku, Tokyo

3. **Purpose of the Meeting:**

Matters to be Reported:

1. Report on the Business Report, the Consolidated Financial Statements, and the Independent Auditors' Report and JT's Audit & Supervisory Board Report on the Consolidated Financial Statements for the 32nd Business Term (From January 1, 2016 to December 31, 2016)
2. Report on the Non-Consolidated Financial Statements for the 32nd Business Term (From January 1, 2016 to December 31, 2016)

Matters to be Resolved:

Item 1: Appropriation of Surplus
Item 2: Election of One (1) Substitute Audit & Supervisory Board Member

Information on Matters Posted on JT's Web-site

1. Notes to Consolidated and Non-Consolidated Financial Statements are posted on our web-site (https://www.jti.co.jp/) in accordance with laws and regulations, and the provision in Article 17 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 32nd Ordinary General Meeting of Shareholders.

   In addition to documents stated in the reference documents attached to the Notice of Convocation of the 32nd Ordinary General Meeting of Shareholders, Notes to Consolidated and Non-Consolidated Financial Statements posted on the Company's web-site are included in Consolidated and Non-Consolidated Financial Statements audited by Audit & Supervisory Board Members and the Accounting Auditors in the course of preparing Audit Report and Accounting Auditors' Report respectively.

2. If there is any amendment to the Reference Documents for the General Meeting of Shareholders, Business Report (available in Japanese), or Non-Consolidated and Consolidated Financial Statements (available in Japanese), it will be published on our web-site (https://www.jti.co.jp/).

JT's web-site	https://www.jti.co.jp/

Guidance to our shareholders attending the General Meeting of Shareholders

* For those attending, please bring this Notice of Convocation of the 32nd Ordinary General Meeting of Shareholders with you.
* It is expected to be crowded immediately before the meeting begins. If meeting room No.1 becomes full, you will be ushered to meeting room No.2. We ask that you come to the meeting at your earliest convenience.
* In case an agent attends the meeting, your agent must bring a letter of attorney along with the Voting Rights Exercise Form. Only one other shareholder who can exercise the voting rights at the 32nd Ordinary General Meeting of Shareholders is supposed to be eligible to serve as your agent.
* Please note that the meeting will be conducted in Japanese only. An interpreter, including a sign language interpreter, may accompany you. If you would like to have an interpreter accompany you, please tell so at the reception desk. It is also possible for us to arrange a Japanese sign language interpreter for you. If you are in need of this service, please inquire us in writing by March 16 (Thursday) (your letter of inquiry must reach us by this date).
* The Company plans to give gifts to the shareholders who attend on the day. Please note, however, shareholders will receive just one package, regardless of how many Voting Rights Exercise Forms are held.

Instructions for Exercising Your Voting Rights

Exercise of voting rights at the Company's General Meeting of Shareholders is shareholders' important right. Please by all means exercise your voting rights.

There are three methods to exercise your voting rights as indicated below.

A.	Attend the meeting	Please present the Voting Rights Exercise Form at the reception desk on arrival at the meeting. (Not required to place a seal.) Date and time of the General Meeting of Shareholders: 10:00 a.m., on Friday, March 24, 2017
B.	Post the Voting Rights Exercise Form	Please post the Voting Rights Exercise Form indicating whether you are for or against each of the items. Exercise due date: To be returned to us no later than 6:00 p.m., on Thursday, March 23, 2017
C.	Exercise the Voting Rights via the Internet	Please access the Voting Rights Exercise Web-site (http://www.evote.jp/) and indicate whether you are for or against each of the items. Exercise due date: No later than 6:00 p.m., on Thursday, March 23, 2017

Guide to filling in the Voting Rights Exercise Form

Please indicate for or against about each item.

Items 1 and 2

When you are for the proposed item, mark ○ in the "for" box, and when you are against the item, mark ○ in the "against" box.

* For those attending, procedures for posting the Voting Rights Exercise Form or exercising your voting rights via the Internet are unnecessary.

When Exercise the Voting Rights via the Internet

The exercise of the voting rights via the Internet is available only by accessing the designated web-site for the exercise of the voting rights ("Voting Rights Exercise Web-site") from your computer or smartphone.

Please access the Voting Rights Exercise Web-site and indicate whether you are for or against each of the items.

Exercise due date	No later than 6:00 p.m., on Thursday, March 23, 2017

Voting Rights Exercise Web-site **http://www.evote.jp/**	If you use a smartphone with a function to read QR Codes, you can access by having your smartphone read the QR Code on the right.	

When using a computer

1. Click the "Next" button
2. Enter the "Log-in ID" and the "Temporary Password" described on the lower right-hand side of the Voting Rights Exercise Form
3. Click the "Log-in" button
4. Then, please indicate whether you are for or against each of the items following the directions on the web-site

When using a smartphone

1. Touch the "Procedures for General Meeting of Shareholders"
2. Enter the "Log-in ID" and the "Temporary Password" described on the lower right-hand side of the Voting Rights Exercise Form
3. Touch the "Log-in" button
4. Then, please indicate whether you are for or against each of the items following the directions on the web-site

* Please refer to the following page for the Cautions Regarding Exercise of the Voting Rights via the Internet.

Cautions Regarding Exercise of the Voting Rights via the Internet

For the exercise of the voting rights via the Internet, please access the Voting Rights Exercise Web-site (http://www.evote.jp/), and exercise your voting rights after confirming the items below.

For those attending, procedures for posting the Voting Rights Exercise Form or exercising your voting rights via the Internet are unnecessary.

* You will not be able to access the web-site from 2:00 a.m. to 5:00 a.m. each day during the exercise period.
* If you use firewalls, etc. for the Internet connection, antivirus programs or a proxy server, you may not be able to access the web-site depending on your Internet environment.
* In order to prevent unauthorized access (web spoofing) or alteration of the voting by non-shareholders, you will be asked to change your "Temporary Password" on the Voting Rights Exercise Web-site. Please take care not to forget your new password.
* JT will notify you of the new "Log-in ID" and "Temporary Password" at each convocation of the General Meeting of Shareholders.
* In the event voting rights are exercised more than once:
  (1) If the voting right is exercised both by posting the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.
  (2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.
* Each shareholder shall bear any fees for accessing the Voting Rights Exercise Web-site (Internet connection fees, communications fees, etc.).

If you have any enquiries, please contact "Help Desk" shown below.

Enquiries on systems, etc.	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division Help Desk Tel: 0120-173-027 (Japanese-language only) (Business hours: 9:00 to 21:00, Toll-free)

To institutional investors	JT participates in the electronic voting rights exercise platform operated and administered by ICJ, Inc.

REFERENCE DOCUMENTS
FOR THE GENERAL MEETING OF SHAREHOLDERS

Item 1: Appropriation of Surplus

The Company has adopted a management resources allocation policy, under which the Company will continue to place a high priority on making business investments that contribute to sustainable mid- to long-term profit growth as well as to value the balance between profit growth through business investments and shareholder returns. In this context, the Company is pursuing enhanced shareholder returns in proportion to the mid- to long-term profit growth, while maintaining a strong financial base*.

In accordance with these policies, year-end dividends and other appropriation of surplus for the 32nd Business Term will be paid as described below.

1. Year-end dividends

(1) Type of assets to be paid as dividends:

Cash

(2) Allotment of assets to be paid as dividends and their aggregate amount:

¥66 per share of ordinary shares of JT Aggregate amount: ¥118,203,078,378

Together with the interim dividends of ¥64 per share paid in September 2016, the annual dividends for the 32nd Business Term will be ¥130 per share, a ¥12 increase year on year.

(3) Effective date for distribution of surplus:

March 27, 2017

2. Other appropriation of surplus

(1) Item of surplus to be increased and its amount:

Retained earnings brought forward: ¥955,300,000,000

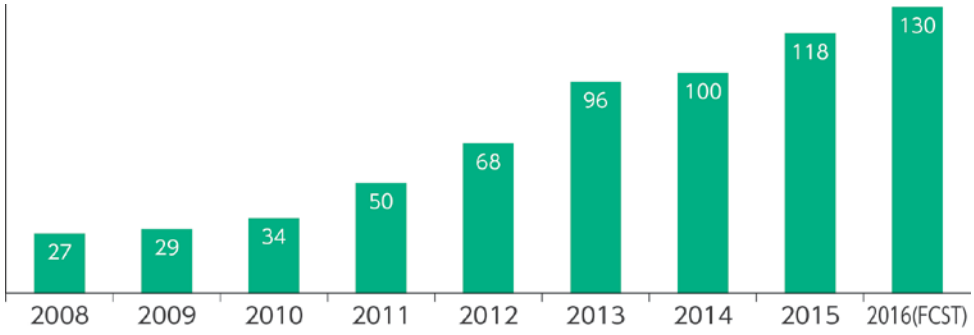
(2) Item of surplus to be decreased and its amount:

General reserve: ¥955,300,000,000

This is a transfer between accounts in “other retained earnings” on the Company’s non-consolidated balance sheet and therefore has no effect on the distributable amount.

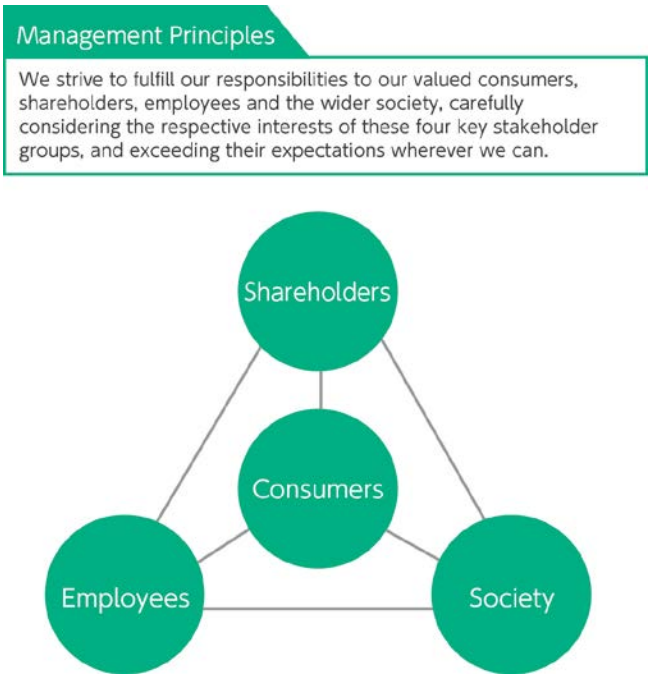
* As its financial policy, JT will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

Reference: Trends in dividend per share* (yen)



* A 200 for 1 share split was effectuated as of July 1, 2012. The above numbers are calculated on the assumption that the share split was retroactively effective.

Reference



In accordance with the "Business Plan 2017," the Group will continue to pursue mid to high single-digit[*1] annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange[*2]. The Group's management resources allocation policy and returns to shareholders policy are as follows.

Management resources allocation policy

Execute management resources allocation, based on the 4S model that underlies the Group's management principles.	・Prioritize business investments that lead to sustained profit growth over the mid- to long-term ・Emphasize a balance between profit growth through business investments and returns to shareholders

Returns to shareholders policy

Improve returns to shareholders in agreement with mid- to long-term profit growth, while maintaining a firm financial base	・Work toward stable and consistent growth in dividend per share ・Consider whether to execute the acquisition of treasury shares in view of factors including the medium-term outlook on business environment and financial positions ・Continue to monitor a trend in shareholder returns of global FMCG[*3] companies

*1 mid to high single-digit: mid to high single-digit-percentage

*2 Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items. Adjusted operating profit growth rate at constant rates of exchange is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the fiscal year in the International Tobacco Business using the foreign exchange rates of the previous fiscal year.

*3 A Fast-Moving Consumer Goods (daily consumer goods) company is a company that achieves a high-growth business by adopting a stakeholder model.

Item 2: Election of One (1) Substitute Audit & Supervisory Board Member

In preparation against a situation where the number of Outside Audit & Supervisory Board Members falls below the statutory required number, the election of one (1) Substitute Audit & Supervisory Board Member is proposed.

The Audit & Supervisory Board has approved this proposition.

The candidate for the office of Substitute Audit & Supervisory Board Member is as follows:

Michio Masaki (Born February 20, 1961)	Number of the Company's Shares Held	0
Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company		
April 1987 Judicial Apprentice April 1989 Appointed as Public Prosecutor July 2003 Head of Takasaki Branch, Maebashi District Public Prosecutors Office April 2004 Registered as Attorney at Law City-Yuwa Partners (Current Position)		**Reasons for candidacy as a Substitute Outside Audit & Supervisory Board Member** Michio Masaki possesses abundant experience in the legal circles and broad insight. Therefore, we judge he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member of the Company. While he has not been involved in corporate management except the role of outside executive, we judged that he would be able to appropriately execute his duty as Outside Audit & Supervisory Board Member for the above-mentioned reasons.
(Significant Concurrent Positions outside the Company) Attorney at Law, City-Yuwa Partners Outside Director, Hamai Co., Ltd.		

(Notes)

1. No conflict of interest exists between the Company and the above candidate.
2. The Company proposes Michio Masaki be elected as substitute Outside Audit & Supervisory Board Member.
3. Should Michio Masaki assume the position of Audit & Supervisory Board Member, the Company intends to enter into an agreement with him to limit his liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and regulations.
4. Michio Masaki satisfies the Criteria for Evaluating the Independence of Outside Executives of the Company and the requirements of an independent auditor prescribed by the Tokyo Stock Exchange, Inc.

【Reference】Criteria for Evaluating the Independence of Outside Executives

The Company has established a Criteria for Evaluating the Independence of Outside Executives and Independent Directors/Audit & Supervisory Board Members must not fall under any of the following categories.

1 A person who belongs or belonged to JT or an affiliate or sister company of JT

2 A person who belongs to a company or any other form of organization of which JT is a major shareholder

3 A person who is a major shareholder of JT or who belongs to a company or any other form of organization which is a major shareholder of JT

4 A person who is a major supplier or customer of JT (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)

5 A major creditor of JT including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)

6 A certified public accountant who serves as an accounting auditor or an audit advisor of JT, or a person who belongs to an auditing firm which serves as an accounting auditor or an audit advisor of JT

7 A person who receives a large amount of fees from JT in exchange for providing professional services for legal, financial and tax affairs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)

8 A person who receives a large amount of donation from JT (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)

9 A person who has fit any of the descriptions in 2 to 8 above in the recent past

10 A close relative of a person who fits any of the following descriptions:

(1) A person who fits any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)

(2) A member of the board, audit & supervisory board member, audit advisor, executive officer or employee of JT or an affiliate or sister company of JT

(3) A person who has fit the descriptions in (1) or (2) in the recent past

[For your reference, we have included various graphs and photographs.]

[Attached Documents]

Business Report

(From January 1, 2016 to December 31, 2016)

I. Matters Concerning Present State of the Corporate Group

1. Overview and results of operations

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.

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

Despite an increase of 11.3% year on year in adjusted operating profit at constant rates of exchange, the Group's management benchmarks, 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 attributable to owners of the parent company increased by ¥23.2 billion, or 5.8%, from the previous fiscal year to ¥421.7 billion.

Consolidated performance(Note 1)

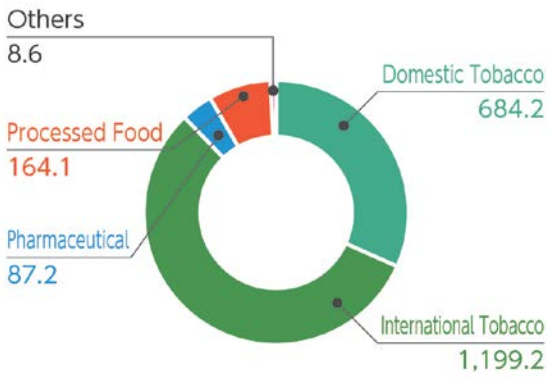
	[Billions of yen]	Change [%]
Revenue	2,143.3	(4.9)
Adjusted operating profit(Note 2)	586.8	(6.4)
Adjusted operating profit (at constant rates of exchange)(Note 3)	697.5	11.3
Profit attributable to owners of the parent company(Note 4)	421.7	5.8

(Notes) 1. During the previous fiscal year, the Group withdrew from the Beverages Business and this business was categorized as discontinued operations. Accordingly, consolidated performance for the previous fiscal year for certain items used as comparators for the current fiscal year (revenue, adjusted operating profit, operating profit and profit attributable to owners of the parent company) are reported on a continuing operations basis.

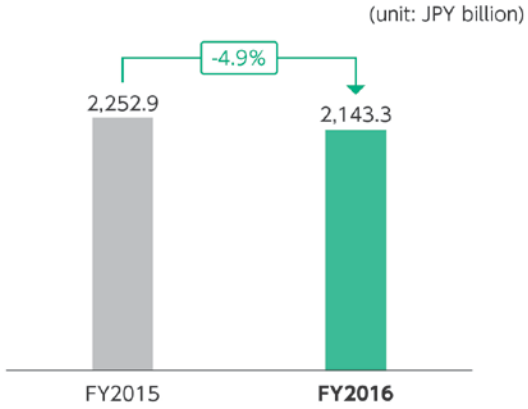
2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

3. Adjusted operating profit (at constant rates of exchange) is a value 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.
4. Profit attributable to owners of the parent company including amounts for discontinued operations for the previous fiscal year is ¥485.7 billion.

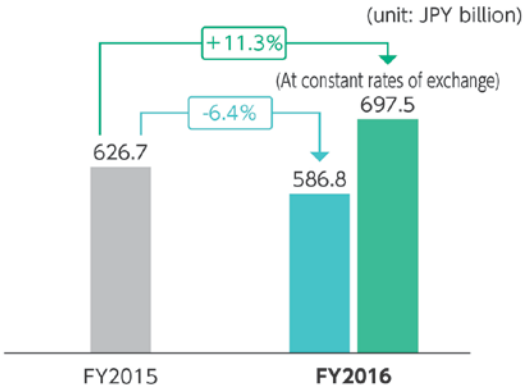
Revenue breakdown by business segment (unit: JPY billion)



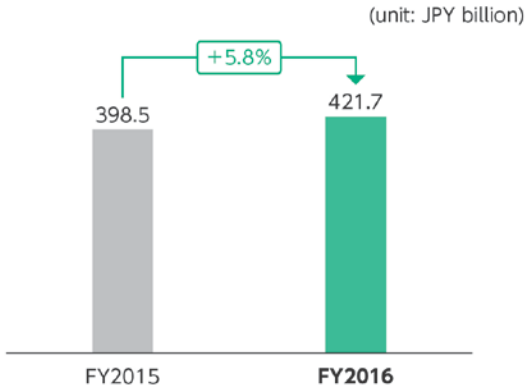
Revenue



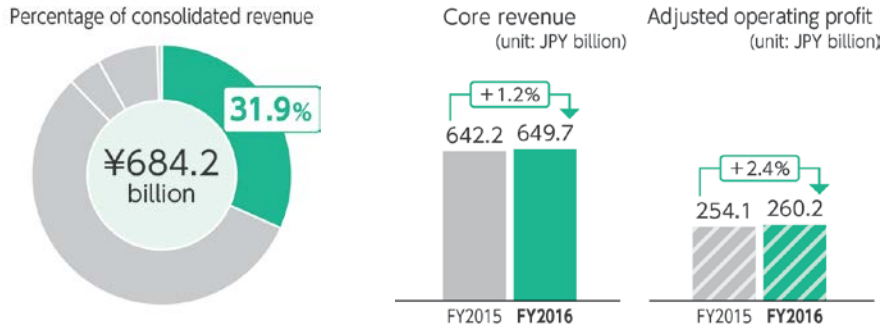
Adjusted operating profit



Profit
(Attributable to owners of the parent company)



Domestic Tobacco Business



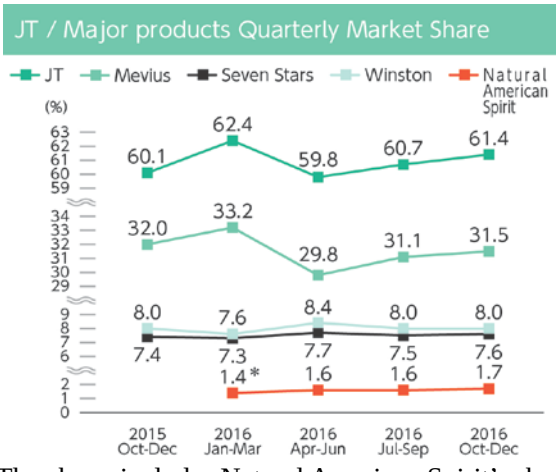
Sales volume in the current fiscal year was affected by a decline in cigarette industry volume(Note 1) caused by the expansion of the T-Vapor(Note 2) market and the downtrend in total demand, as well as the impact of retail price amendments for some products, including Mevius, but this was partially offset by the impact of the acquisition of the Natural American Spirit business outside the U.S. As a result, sales volume fell by 3.1 billion cigarettes, or 2.8%, from the previous fiscal year to 106.2 billion cigarettes(Note 3).

Market share, helped by the aforementioned acquisition, was 61.1% (compared with a share of 59.9% for the previous fiscal year).

Core revenue(Note 4) rose by ¥7.5 billion, or 1.2% from the previous fiscal year to ¥649.7 billion, despite a decline in sales volume, driven by the impacts of the acquisition of the Natural American Spirit business outside the U.S. and the retail price amendments of certain products, including Mevius.

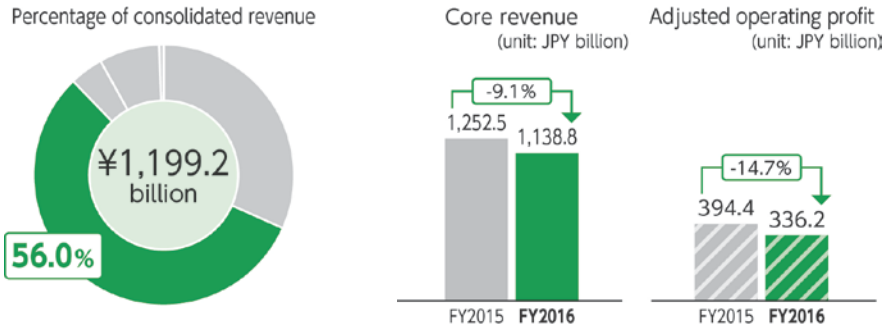
Adjusted operating profit rose by ¥6.2 billion, or 2.4% from the previous fiscal year to ¥260.2 billion, due mainly to higher core revenue and the effects of measures to strengthen competitiveness.

(Notes)
1. Cigarette industry volume includes sales volume for the whole Japanese cigarette market, but it does not include sales volume for emerging products (novel or innovative products other than conventional cigarettes, including T-Vapor products and others) and so on.
2. 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.
3. 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.
4. Core revenue in 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.



* The above includes Natural American Spirit's share (JT estimate) before completion of its acquisition.

International Tobacco Business



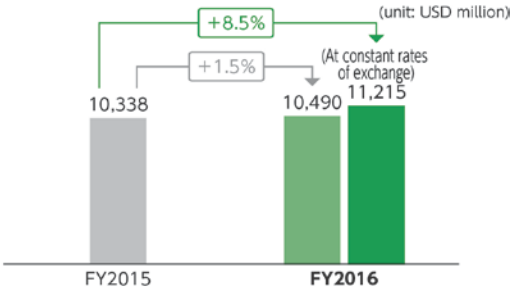
In the fiscal year ended December 31, 2016, despite factors including the impact of a decline in total demand in Russia, total shipment volume(Note 1) grew by 4.8 billion cigarettes, or 1.2% from the previous fiscal year to 398.7 billion cigarettes, and GFB(Note 2) shipment volume increased by 10.2 billion cigarettes, or 3.7% to 283.7 billion cigarettes. 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.

Dollar-based core revenue(Note 3) and adjusted operating profit, increased by $152 million, or 1.5% from the previous fiscal year to $10,490 million, and decreased by $163 million, or 5.0% from the previous fiscal year to $3,095 million respectively, as a result of unfavorable foreign exchange effects related to local currencies, including the Russian ruble and the pound sterling. Adjusted operating profit at constant rates of exchange increased by 13.4% from the previous fiscal year.

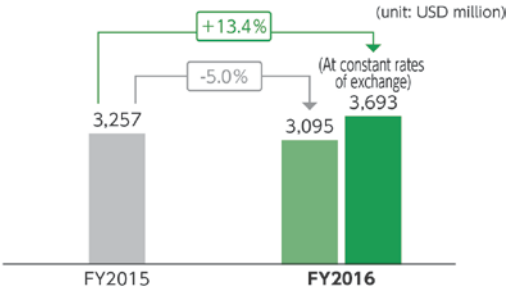
Yen-based core revenue and adjusted operating profit fell by ¥113.7 billion, or 9.1% from the previous fiscal year to ¥1,138.8 billion and by ¥58.2 billion, or 14.7% from the previous fiscal year to ¥336.2 billion respectively, as a result of the effects of the strong yen when making conversions to that currency.

(Notes)
1. Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and emerging products.
2. 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.
3. Core revenue in 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.

Core revenue (USD basis)



Adjusted operating profit (USD basis)



Exchange rate per U.S. dollar

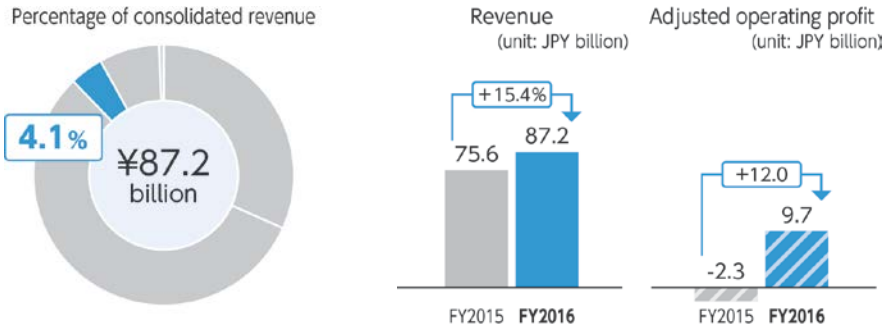
Foreign exchange rate per U.S. dollar	FY 2015	FY 2016
Yen	121.10	108.78
Ruble	60.98	67.07
Pounds sterling	0.65	0.74
Euro	0.90	0.90

Main Market Shares (12-month rolling average)

	2015 Dec	2016 Dec	Variance
Italy	21.1%	22.7%	1.6ppt
France	21.4%	22.0%	0.6ppt
Spain	22.3%	22.8%	0.5ppt
UK	41.9%	41.7%	(0.2ppt)
Russia (GFBs)	33.8% 24.2%	32.8% 24.7%	(1.0ppt) 0.5ppt
Turkey	30.3%	29.4%	(0.9ppt)
Taiwan	39.2%	39.9%	0.7ppt

Source: Internal estimates, Logista, IRI, Nielsen

Pharmaceutical Business



In the 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).

【Reference】

Japan Tobacco Inc. Clinical Development as of February 6, 2017

<In-house development>

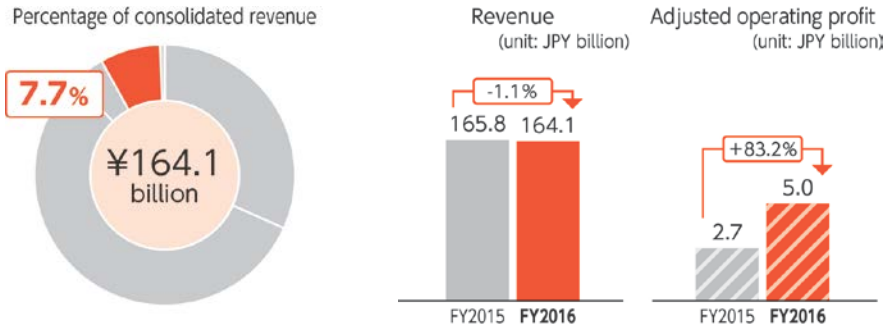
Code (Generic Name)	Potential Indication/Dosage form	Mechanism		Phase	Note
JTZ-951	Anemia associated with chronic kidney disease /Oral	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	Phase2(Japan) Phase1(Overseas)	In-house
JTE-052	Autoimmune/allergic diseases /Oral, Topical	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	Phase2(Japan)	In-house Co-development with Torii
JTE-051	Autoimmune/allergic diseases /Oral	Interleukin-2 inducible T cell kinase inhibitor	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response.	Phase2(Overseas)	In-house
JTT-251	Type 2 diabetes mellitus /Oral	PDHK inhibitor	Decreases blood glucose by activation of pyruvate dehydrogenase (PDH) related to carbohydrate metabolism.	Phase1(Overseas)	In-house
JTK-351	HIV infection /Oral	HIV integrase inhibitor	Suppresses blood HIV levels by inhibiting the activity of integrase, an enzyme involved in the replication of HIV.	Phase1(Japan)	In-house
JTE-451	Autoimmune/allergic diseases /Oral	RORγ antagonist	Suppresses overactive immune response via inhibition of ROR γ related to Th 17 activation.	Phase1(Overseas)	In-house
JTT-751 (ferric citrate)	Iron-deficiency anemia/Oral	Oral iron replacement	Corrects iron-deficiency anemia by using absorbed Iron for synthesis of hemoglobin.	Phase2(Japan)	In-license (Keryx Biopharmaceuticals) Co-development with Torii *additional indication

Clinical trial phase presented above is based on the first dose.

<Licensed compounds>

Compound (JT's code)	Licensee	Mechanism		Note
trametinib	Novartis	MEK inhibitor	Inhibits cellular growth by specifically inhibiting the activity of MAPK/ERK Kinase (MEK1/2).	NSCLC, trametinib+dabrafenib U.S., EU, Japan marketing approvals submitted
Anti-ICOS monoclonal antibody	MedImmune	ICOS antagonist	Suppresses overactive immune response via inhibition of ICOS which regulates activation of T cells.	
JTE-052	LEO Pharma	JAK inhibitor	Suppresses overactive immune response via inhibition of Janus kinase (JAK) related to immune signal.	
JTZ-951	JW Pharmaceutical	HIF-PHD inhibitor	Increases red blood cells by stimulating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD.	

Processed Food Business



In the Processed Food Business, 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.

In the fiscal year ended December 31, 2016, we continued working to expand product sales with an emphasis on staple food products. Specifically, we launched 28 new and 48 renewed frozen and ambient home-use products, such as Chinese-style "Abura Soba" noodles with other ingredients packed in a tray, and "Japanese-style rice Beef and burdock root rice made with Japanese Koshihikari rice." With "Home Run - Ken" marking its 30th anniversary, we launched a product with a commemorative logo, in addition to which we developed "Gottsu Umai Okonomiyaki" in a package supporting the Taisou-nippon, and various other proactive marketing initiatives.

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.

2. Status of capital expenditures

In this fiscal year, we made capital expenditures totaling ¥113.0 billion.

In the Domestic Tobacco Business, we spent ¥29.8 billion, mainly on investments accompanying maintenance and upgrade of manufacturing processes, productivity improvements, adaptation to new products, improvements in product specifications, and others. In the International Tobacco Business, we invested ¥70.6 billion mainly for improvements in product specifications in addition to optimization of manufacturing facilities. In the Pharmaceutical Business, we spent ¥3.8 billion on enhancing and strengthening research and development structures and the like. In the Processed Food Business, we invested ¥5.7 billion in improvement, maintenance and renewals of production capability.

Please note that our own capital was allocated for capital expenditures.

* Capital expenditures includes land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

3. Status of financing

The Company conducted an issuance of straight bonds in USD (with general mortgage) totaling $1.25 billion on April 13, 2016, to be applied to the refinancing of bridge loans related to the acquisition of the Natural American Spirit business outside the U.S.

4. Business transfers, absorption-type company split or incorporation-type company split

No items to report.

5. Business transfers from other companies

On January 13, 2016, the Group acquired the Natural American Spirit business outside the U.S. from the Reynolds American Inc. group (“RAI”). The acquisition included trademarks involved with the Natural American Spirit business outside the U.S. and all shares of RAI’s subsidiaries outside the U.S. that are sales companies for tobacco products of the same brand.

6. Succession of rights and obligations relating to other entities’ business as a result of absorption-type merger or company split

No items to report.

7. Acquisition or disposal of shares, other equities or subscription rights to shares of other companies

No items to report.

8. Trends in assets and operating results

(1) Trends in assets and operating results of the JT Group [Consolidated]

	29th term FY2013	30th term From April 1, 2014 to December 31, 2014	(Reference) From January 1, 2014 to December 31, 2014	31st term From January 1, 2015 to December 31, 2015	32nd term From January 1, 2016 to December 31, 2016
Revenue (Millions of yen)	2,399,841	2,019,745	2,259,240	2,252,884	2,143,287
Profit before income taxes (Millions of yen)	636,203	502,526	574,572	565,113	578,237
Profit attributable to owners of the parent company (Millions of yen)	427,987	364,502	391,431	398,454	421,695
Basic earnings per share (Yen)	235.48	200.55	215.36	221.95	235.47
Total assets (Millions of yen)	4,616,766	4,704,706	4,704,706	4,558,235	4,744,374
Total equity (Millions of yen)	2,596,091	2,622,503	2,622,503	2,521,524	2,528,041

(Notes) 1. Effective from the 30th term, the Company and those of its consolidated subsidiaries with fiscal year ends other than December 31 have changed their fiscal year ends to December 31. As a result of this change, the accounting period for the 30th term was the 9-month period from April 1, 2014, through December 31, 2014. In addition, the fiscal year end date of JT International Holding B.V. and its subsidiaries, which operate the Group's International Tobacco Business, was already December 31. Consequently, the accounting periods of these companies for the 30th term were the 12-month period from January 1, 2014, through December 31, 2014. For comparison and reference purposes, the results for the 12-month period from January 1, 2014, through December 31, 2014 are presented.

2. Consolidated financial statements of the JT Group are prepared based on IFRS.
3. During the 31st term, the Group withdrew from the Beverages Business and this business was categorized as discontinued operations, and revised figures for the 30th term are presented here. Accordingly, revenue, profit before income taxes, profit attributable to owners of the parent company, and basic earnings per share in "30th term," "Reference," and "31st term" are shown for continuing operations.
4. Profit attributable to owners of the parent company including amounts for discontinued operations for the 31st term, and basic earnings per share are ¥485,691 million and ¥270.54, respectively.

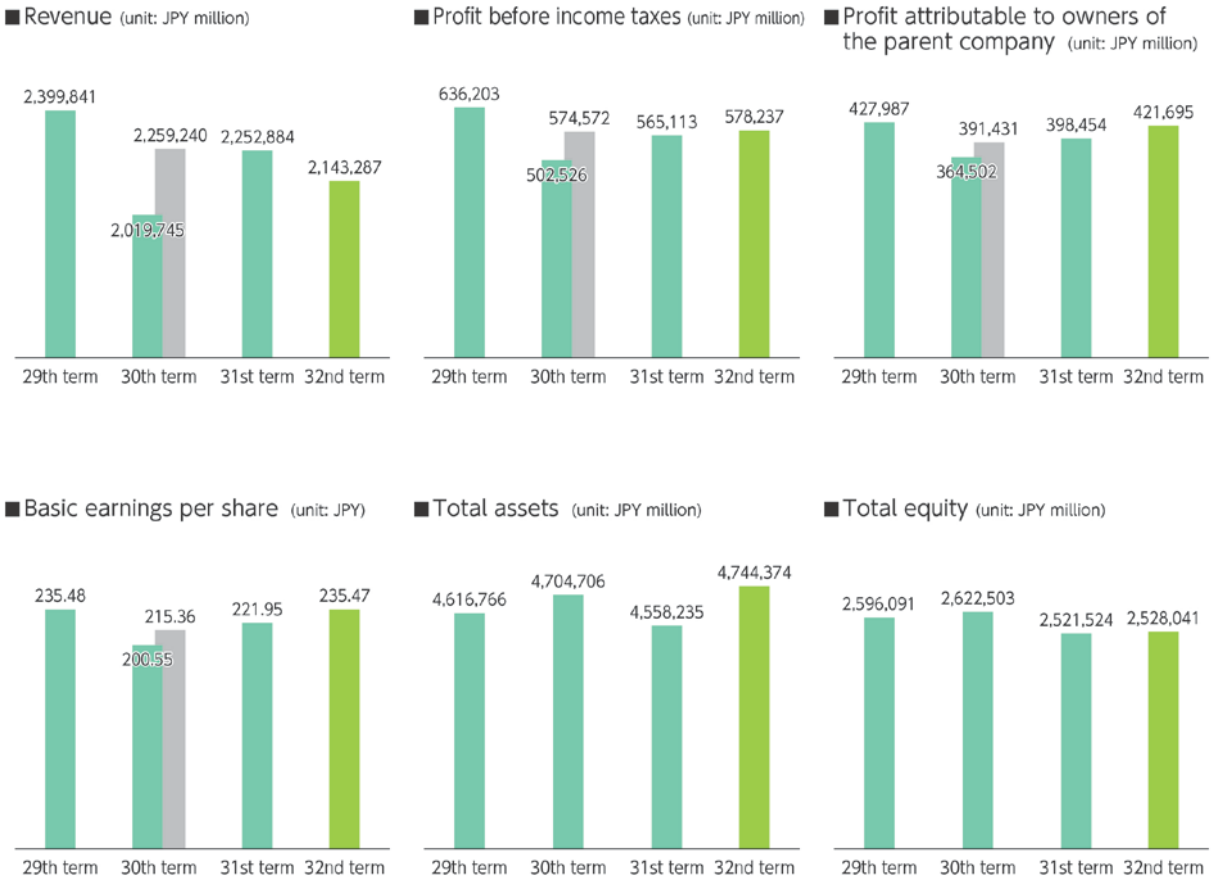
(2) Trends in assets and non-consolidated operating results of JT [Non-consolidated]

	29th term FY2013	30th term From April 1, 2014 to December 31, 2014	31st term From January 1, 2015 to December 31, 2015	32nd term From January 1, 2016 to December 31, 2016
Net sales (Millions of yen)	809,967	572,323	732,483	729,286
Ordinary income (Millions of yen)	230,900	159,746	371,989	203,242
Net income (Millions of yen)	168,779	108,656	345,009	173,607
Net income per share (Yen)	92.86	59.78	192.18	96.94
Total assets (Millions of yen)	2,732,637	2,729,270	2,756,785	2,849,913
Net assets (Millions of yen)	1,734,379	1,649,151	1,713,068	1,663,675

(Notes) 1. Effective from the 30th term, the Company has changed its fiscal year end to December 31. As a result of this change, the accounting period for the 30th term was the 9-month period from April 1, 2014, through December 31, 2014.

2. Non-consolidated financial statements of the Company are prepared based on Japanese GAAP.

Trends in assets and operating results of the JT Group [Consolidated]



(Note) As the 30th term (■April-December) was nine months (April 1, 2014 to December 31, 2014), a reference bar (■January-December) for twelve months (January 1, 2014 to December 31, 2014) is also presented (except for total assets and total equity).

9. Issues to be addressed

(1) Basic management policy

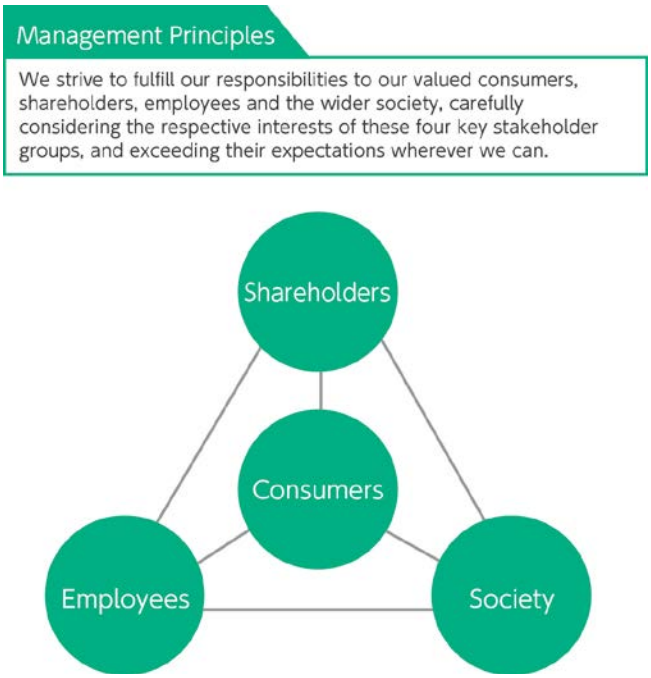
Our management principles are based on the pursuit of the "4S" model ("S" is for satisfaction). The model requires us to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups,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

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

We have 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 we fulfill the expectations of our consumers and behave responsibly, strive for quality in everything we do through continuous improvement, and leverage diversity across the JT Group.

The JT 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 us to continue to provide new value and satisfaction to consumers, we believe it is essential to steadily make business investments for future mid- to long-term profit growth.

We believe 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 JT 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 we 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 accordance with the "Business Plan 2017," the Group will continue to pursue mid to high single-digit(Note 1) annual average growth rate over the mid- to long-term in adjusted operating profit at constant rates of exchange(Note 2).

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(Note 3) 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(Note 4) 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 JT 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 JT 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 JT 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.

We will work to strengthen our CSR initiatives further with an emphasis on the pursuit of high-level, well-balanced stakeholder satisfaction based on the "4S" model, which constitutes JT's management principles.

We think that the business environment surrounding the JT Group will continue to change on the global scale and at a faster rate. In order to respond to the various changes that may happen in the future, we will continue to strive for sustained profit growth in the mid- to long-term and steadily actualizing shareholder returns, based on the "4S" model and through consistent business investment and an adaptability to a changing environment.

(Notes)
1. mid to high single-digit: mid to high single-digit-percentage
2. Adjusted operating profit is calculated by deducting amortization cost of acquired intangibles and adjustment items (income and costs) from operating profit (loss). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

   Adjusted operating profit growth rate at constant rates of exchange 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.
3. As its financial policy, the Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
4. FMCG: Fast Moving Consumer Goods (daily consumer durables)

10. Main business contents

Business segment	Main business
Domestic Tobacco Business	Manufacture and sale of tobacco products, mainly Mevius and Seven Star
International Tobacco Business	Manufacture and sale of tobacco products, mainly Winston and Camel
Pharmaceutical Business	Research and development, manufacture and sale of prescription drugs
Processed Food Business	Manufacture and sale of frozen and ambient processed foods, bakery products and seasonings

11. Status of important subsidiaries

Company name	Capital	Equity ownership (%)	Main business
TS Network Co., Ltd.	(Millions of yen) 460	74.5	Distribution of tobacco products
Japan Filter Technology Co., Ltd.	(Millions of yen) 461	88.6	Manufacture and sale of filters for tobacco products
JT International S.A.	(Thousands of CHF) 1,215,425	(100.0)	Manufacture and sale of tobacco products
Gallaher Ltd.	(Thousands of GBP) 172,495	(100.0)	Manufacture and sale of tobacco products
Torii Pharmaceutical Co., Ltd.	(Millions of yen) 5,190	53.5	Manufacture and sale of prescription drugs
TableMark Co., Ltd.	(Millions of yen) 22,500	(100.0)	Manufacture and sale of processed foods

(Notes) 1. Figures in parentheses in the “Equity ownership” column indicate indirect holding rates.

2. There were 202 consolidated subsidiaries in this fiscal year, including 6 above-mentioned important subsidiaries, as well as 12 affiliates accounted for by the equity method. In addition, consolidated revenue for the fiscal year ended December 31, 2016 amounted to ¥2,143.3 billion with profit attributable to owners of the parent company at ¥421.7 billion.

3. On the last day of the fiscal year ended December 31, 2016, there were no specified wholly owned subsidiaries as stipulated in Article 118, item 4 of the Ordinance for Enforcement of the Companies Act.

12. Major lenders

No items to report.

13. Major sales offices and factories

(1) JT

Headquarters: 2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan

Regional sales headquarters:
Hokkaido (Hokkaido), Tohoku (Miyagi), Joshinetsu (Gunma), Kita-Kanto (Saitama), Higashi-Kanto (Chiba), Tokyo (Tokyo), Kanagawa (Kanagawa), Hokuriku (Ishikawa), Tokai (Aichi), Kita-Kansai (Osaka), Osaka (Osaka), Chugoku (Hiroshima), Shikoku (Kagawa), Kyushu (Fukuoka), and Minami-Kyushu (Kagoshima)

Factories: Kita-Kanto (Tochigi), Tokai (Shizuoka), Kansai (Kyoto), Kyushu (Fukuoka), and Tomobe (Ibaraki)

Laboratories: Tobacco Science Research Center (Kanagawa), Leaf Tobacco Research Center (Tochigi), and Central Pharmaceutical Research Institute (Osaka)

(Note) At the end of March, 2016, the Company discontinued the Hiratsuka factory.

(2) Subsidiaries

TS Network Co., Ltd. (Tokyo)

Japan Filter Technology Co., Ltd. (Tokyo)

JT International S.A. (Switzerland)

Gallaher Ltd. (U.K.)

Torii Pharmaceutical Co., Ltd. (Tokyo)

TableMark Co., Ltd. (Tokyo)

(Note) Text in parentheses shows the location of head office.

14. Status of employees

(1) Employees of the JT Group [Consolidated]

Business segment	Number of employees (Person)
Domestic Tobacco Business	9,486
International Tobacco Business	26,558
Pharmaceutical Business	1,850
Processed Food Business	5,683
Common company-wide services within JT	1,090
Total	44,667

(Note) The above number of employees indicates the number of working employees.

(2) Employees of JT [Non-consolidated]

Male/Female	Number of employees (Person)	Year-on-year increase (decrease) (Person)	Average age (Year old)	Average years of service (Year)
Male	6,216	(295)	43.0	19.8
Female	1,082	44	36.1	11.8
Total or average	7,298	(251)	42.0	18.6

(Note) The above number of employees indicates the number of working employees.

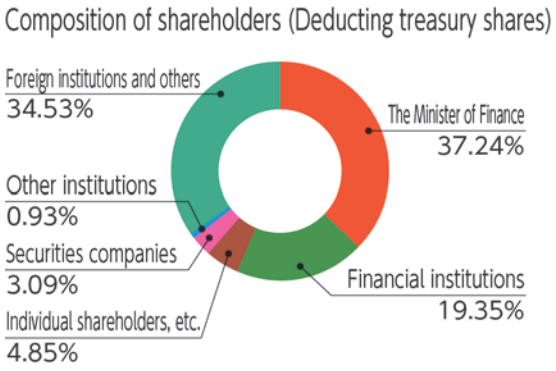
II. Matters Concerning Shares of JT

1. Total number of shares authorized: 8,000,000,000 shares

2. Total number of shares issued: 2,000,000,000 shares

(Including treasury shares 209,044,267 shares)

3. Number of shareholders: 154,377



4. Major shareholders

Name of shareholders	Number of shares held (Share)	Equity ownership (%)
The Minister of Finance	666,927,200	37.24
Japan Trustee Services Bank, Ltd. (Trust Account)	57,243,800	3.20
The Master Trust Bank of Japan, Ltd. (Trust Account)	56,742,000	3.17
State Street Bank and Trust Company	35,920,351	2.01
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	33,800,000	1.89
GIC Private Limited-C	31,123,800	1.74
State Street Bank and Trust Company 505223	29,825,673	1.67
State Street Bank and Trust Company 505001	25,502,286	1.42
JPMorgan Chase Bank 380055	22,489,094	1.26
The Bank of New York 133522	20,434,226	1.14

(Note) Equity ownership is calculated after deducting treasury shares (209,044,267 shares).

III. Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of December 31, 2016

(1) Total number of subscription rights to shares:

4,884 units

(2) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Ordinary shares 976,800 shares

(200 shares per subscription right to shares)

2. Status of subscription rights to shares held by Members of the Board and Audit & Supervisory Board Members of JT as of December 31, 2016

(1) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Ordinary shares 275,800 shares

(200 shares per subscription right to shares)

(2) Value of property to be contributed when subscription rights to shares are exercised

¥1 per share

(3) Assignment of subscription rights to shares

The approval of the Board of Directors is required for the assignment of subscription rights to shares.

(4) Conditions for exercising subscription rights to shares

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer *(sikkoyakuin)*.

(5) Status of ownership by Members of the Board and Audit & Supervisory Board Members of JT

Category	Year granted	Payment due upon allotment of subscription rights to shares	Exercise period of subscription rights to shares	Number of units	Number of shareholders
Member of the Board	FY2007	¥581,269 per unit	From January 9, 2008 to January 8, 2038	35	3
	FY2008	¥285,904 per unit	From October 7, 2008 to October 6, 2038	60	4
	FY2009	¥197,517 per unit	From October 14, 2009 to October 13, 2039	159	4
	FY2010	¥198,386 per unit	From October 5, 2010 to October 4, 2040	144	4
	FY2011	¥277,947 per unit	From October 4, 2011 to October 3, 2041	175	4
	FY2012	¥320,000 per unit	From October 10, 2012 to October 9, 2042	171	4
	FY2013	¥513,400 per unit	From October 8, 2013 to October 7, 2043	126	4
	FY2014	¥483,200 per unit	From October 7, 2014 to October 6, 2044	139	5
	FY2015	¥711,200 per unit	From August 4, 2015 to August 3, 2045	199	5
	FY2016	¥572,600 per unit	From July 5, 2016 to July 4, 2046	171	5

(Note) Outside Directors are not included in the above category of “Member of the Board.”

3. Status of subscription rights to shares granted to employees of JT from January 1, 2016 to December 31, 2016

(1) Class and number of shares to be delivered upon exercise of subscription rights to shares:

Ordinary shares 51,800 shares

(200 shares per subscription right to shares)

(2) Payment due upon allotment of subscription rights to shares

¥572,600 per unit

(3) Value of property to be contributed when subscription rights to shares are exercised

¥1 per share

(4) Exercise period of subscription rights to shares

From July 5, 2016 to July 4, 2046

(5) Assignment of subscription rights to shares

The approval of the Board of Directors is required for the assignment of subscription rights to shares.

(6) Conditions for exercising subscription rights to shares

Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer *(sikkoyakuin).*

(7) Status of granting to employees of JT

259 subscription rights to shares were granted to 18 Executive Officers *(sikkoyakuin)* (excluding persons serving as Members of the Board) of JT.

IV. Matters Concerning Members of the Board and Audit & Supervisory Board Members of JT

1. Members of the Board and Audit & Supervisory Board Members

Position	Name	Responsibility	Significant concurrent positions outside the Company
Chairman of the Board	Yasutake Tango		The Ogaki Kyoritsu Bank, Ltd. Outside Director
President and Representative Director	Mitsuomi Koizumi	Chief Executive Officer	
Executive Vice President and Representative Director	Yasushi Shingai	Deputy Chief Executive Officer, Assistant to CEO in Compliance, General Administration, Legal, Strategy, IT, Business Development, HR and Operational Review & Business Assurance	Recruit Holdings Co., Ltd. Outside Director
Executive Vice President and Representative Director*	Mutsuo Iwai	President, Tobacco Business	JT International Group Holding B.V. Chairman
Executive Vice President and Member of the Board	Hideki Miyazaki	Assistant to CEO in Finance, CSR and Communications	
Member of the Board	Motoyuki Oka		NEC Corporation Outside Director
Member of the Board	Main Kohda		Novelist LIXIL Group Corporation Outside Director Japan Exchange Group, Inc. Outside Director
Standing Audit & Supervisory Board Member	Futoshi Nakamura		
Standing Audit & Supervisory Board Member	Tomotaka Kojima		
Audit & Supervisory Board Member	Yoshinori Imai		
Audit & Supervisory Board Member	Hiroshi Obayashi		Obayashi Law Office Attorney at Law Daiwa Securities Co., Ltd. Outside Audit & Supervisory Board Member Mitsubishi Electric Corporation Outside Director NIPPON STEEL & SUMITOMO METAL CORPORATION Outside Audit & Supervisory Board Member

(Notes) 1. Members of the Board Motoyuki Oka and Main Kohda are Outside Directors.
2. Audit & Supervisory Board Members Yoshinori Imai and Hiroshi Obayashi are Outside Audit & Supervisory Board Members.

3. Members of the Board, Motoyuki Oka and Main Kohda, and Audit & Supervisory Board Members, Yoshinori Imai and Hiroshi Obayashi, were designated as independent officers (directors and audit & supervisory board members) as prescribed by the Tokyo Stock Exchange, Inc.
4. Audit & Supervisory Board Member Futoshi Nakamura and Audit & Supervisory Board Member Tomotaka Kojima have relevant knowledge about financing and accounting as they were the Senior Manager of the Accounting Division of JT and Deputy Head of Finance Group of JT, respectively.
5. The Member of the Board denoted with the asterisk * has assumed his office on March 23, 2016.
6. Members of the Board Noriaki Okubo and Akira Saeki resigned on March 23, 2016.
7. The Company has entered into agreements with each of its Members of the Board (excluding those are Executive Directors, etc.) and Audit & Supervisory Board Members with respect to the liability set forth in Article 423, paragraph 1 of the Companies Act, by which the liability for damages of each of them is limited to the minimum amount set forth in Article 425, paragraph 1 of the same Act, provided they perform their duties without knowledge of such damages and without gross negligence.

2. Remunerations for Members of the Board and Audit & Supervisory Board Members

(1) Total remunerations for Members of the Board and Audit & Supervisory Board Members

Category	Members of the Board		Audit & Supervisory Board Members		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	9	346	4	103	13	449
Officers' bonus	4	170	-	-	4	170
Stock option grants	7	117	-	-	7	117
Total	-	633	-	103	-	736

(Note) For officers' bonuses, the amounts planned to be paid are shown.

(2) Policy concerning the remuneration amount for Members of the Board and Audit & Supervisory Board Members or the remuneration calculation method thereof and the method of determining the policy

The Company has the Compensation Advisory Panel in place as a non-statutory advisory body to the Board of Directors in order to increase objectivity and transparency regarding the remuneration of Members of the Board and Audit & Supervisory Board Members. The Compensation Advisory Panel, which holds meetings several times a year, holds deliberations and makes reports in accordance with its advice on such matters as the Company's policy, system and calculation method regarding remuneration for its Members of the Board and Executive Officers *(sikkoyakuin)*, and monitors the status of remuneration for Members of the Board and Audit & Supervisory Board Members at the Company. The Compensation Advisory Panel currently consists of five members: the Chairman of the Board, who has the role of the panel's chairman, and two Outside Directors and two Outside Audit & Supervisory Board Members.

Outside members of Compensation Advisory Panel

Outside Director Motoyuki Oka
Outside Director Main Kohda
Outside Audit & Supervisory Board Member Yoshinori Imai
Outside Audit & Supervisory Board Member Hiroshi Obayashi

In light of reports by the Compensation Advisory Panel, JT's basic concept of remuneration for Members of the Board and Audit & Supervisory Board Members is as follows:

- Setting the remuneration at a level sufficient to secure personnel with superior capabilities
- Linking the remuneration to business performance so as to motivate Members of the Board and Audit & Supervisory Board Members to enhance performance
- Linking the remuneration to mid- to long-term corporate value
- Ensuring transparency based on an objective point of view and quantitative schemes

In accordance with the above concept, the remuneration for Members of the Board and Audit & Supervisory Board Members is made of three components. In addition to the monthly "basic remuneration," there is an "officers' bonus," which reflects the Company's business performance in the relevant fiscal year, and a "stock option," which is linked to the mid- to long-term corporate value of JT. The said "stock option" was introduced in 2007 as remuneration that is linked to the mid- to long-term corporate value, thereby providing an incentive towards increasing shareholder value.

The composition of the remuneration for Members of the Board is as follows:

For Members of the Board who also serve as Executive Officers *(sikkoyakuin)*, remuneration consists of the "basic remuneration," the "officers' bonus," and the "stock option" because they are required to achieve results by executing their duties on a daily basis. If the "officers' bonus" is paid at the standard amount, the sum of this bonus and the "stock option" is set to be equivalent to approximately 80% of the basic remuneration.

Members of the Board (excluding Outside Directors) who do not serve as Executive Officers *(sikkoyakuin)* receive remuneration that consists of the "basic remuneration" and the "stock option" since they are required to make decisions on company-wide management strategies and fulfill supervisory functions to enhance corporate value.

Remuneration for Outside Directors, which is not linked to business performance with the purpose of maintaining their independence, is composed of "basic remuneration" only.

In the light of the role of Audit & Supervisory Board Members, which is primarily to conduct audits on legal compliance, their remuneration consists solely of the "basic remuneration."

The upper limit of remuneration for the Company's Members of the Board and Audit & Supervisory Board Members, which was approved at the 22nd Ordinary General Meeting of Shareholders (held in June 2007), is ¥870 million per year for all Directors and ¥190 million per year for all Audit & Supervisory Board Members. In addition, the upper limit of "stock option" that may be granted to Members of the Board separately to the remuneration mentioned above is 800 units and ¥200 million per year. This was also approved at the 22nd Ordinary General Meeting of Shareholders. The number of units allocated for each term, including the number allocated to Executive Officers *(sikkoyakuin)* who are not also Members of the Board, is decided by resolution of the Board of Directors.

The amounts of remunerations for Members of the Board and Audit & Supervisory Board Members are determined by resolution of the Board of Directors in the case of remuneration for Members of the Board, and through discussions among Audit & Supervisory Board Members in the case of remunerations for Audit & Supervisory Board Members, within the approved upper limits, in light of deliberations by the Compensation Advisory Panel. These processes are carried out after benchmarking of levels of remuneration at major Japanese manufacturers that operate globally, and whose size and profits are at similar levels to those of the Company, is undertaken based on third-party research into remuneration for corporate executives.

3. Matters concerning Outside Directors and Outside Audit & Supervisory Board Members

(1) Significant concurrent positions outside the Company

Category	Name	Organizations where concurrent positions are held	Position
Member of the Board	Motoyuki Oka	NEC Corporation	Outside Director
	Main Kohda	Novelist	
		LIXIL Group Corporation	Outside Director
		Japan Exchange Group, Inc.	Outside Director
Audit & Supervisory Board Member	Hiroshi Obayashi	Obayashi Law Office	Attorney at Law
		Daiwa Securities Co., Ltd.	Outside Audit & Supervisory Board Member
		Mitsubishi Electric Corporation	Outside Director
		NIPPON STEEL & SUMITOMO METAL CORPORATION	Outside Audit & Supervisory Board Member

(Note) There are no special relationships to be mentioned between the above organizations in which concurrent positions are held and JT.

(2) Major activities during this fiscal year

Category	Name	Status of main activities
Member of the Board	Motoyuki Oka	Attended 15 out of 16 Board of Directors meetings held during this fiscal year. Mr. Oka asked questions and made remarks where necessary at these meetings, as a Member of the Board.
	Main Kohda	Attended all 16 Board of Directors meetings held during this fiscal year. Ms. Kohda asked questions and made remarks where necessary at these meetings, as a Member of the Board.
Audit & Supervisory Board Member	Yoshinori Imai	Attended all 16 Board of Directors meetings, as well as all 13 meetings of the Audit & Supervisory Board held during this fiscal year. Mr. Imai asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.
	Hiroshi Obayashi	Attended all 16 Board of Directors meetings, as well as all 13 meetings of the Audit & Supervisory Board, held during this fiscal year. Mr. Obayashi asked questions and made remarks where necessary at these meetings, as an Audit & Supervisory Board Member.

(3) Total amount of remunerations

Category	Outside Director		Outside Audit & Supervisory Board Member		Total	
	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)	Number to be paid (Person)	Amount to be paid (Millions of yen)
Basic remuneration	2	30	2	26	4	56

V. Matters Relating to Independent Auditor

1. Name of Independent Auditor: Deloitte Touche Tohmatsu LLC

2. Fees for Independent Auditor relating to this fiscal year

(1) Fees for Independent Auditor relating to this fiscal year of JT

i)	Fees for audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥330 million
ii)	Fees for tasks other than audit attestation based on Article 2, paragraph 1 of the Certified Public Accountants Act:	¥20 million

(2) Amount of cash and other financial benefits to be paid by JT and its subsidiaries:

¥489 million

(3) Reasons for approval of the Independent Auditor's remuneration by the Audit & Supervisory Board:

When the Company concluded an audit contract with Independent Auditor, the Audit & Supervisory Board Members obtained necessary materials and received reports from the Members of the Board, relevant internal departments, and the Independent Auditor, and performed verification to confirm that the amount of remuneration to be paid to the Independent Auditor, the persons in charge of the audits, and other details of the audit contract were appropriate.
Based upon this verification, the Audit & Supervisory Board checked and examined matters including the content of the Independent Auditor's accounting plan, the status of the performance of the auditing duties, and the basis for calculation of the remuneration estimate, and, as a result, determined that approval was fair and reasonable.

(Notes) 1. Fees paid under the terms of the audit contract concluded between Deloitte Touche Tohmatsu LLC and JT in relation to audit attestation based on the Companies Act and the Financial Instruments and Exchange Act are not clearly classified and, since they cannot be effectively classified, their total is indicated in the amount in "i)" above.
2. JT retain Deloitte Touche Tohmatsu LLC for tasks other than audit attestation based on Article 2, Paragraph 1 of the Certified Public Accountants Act, which consist of the preparation of comfort letters, and for which a consideration is paid to the same.
3. Among the important subsidiaries of JT, JT International S.A. and Gallaher Ltd. are audited by Deloitte & Touche LLP. None of these subsidiaries are audited by Deloitte Touche Tohmatsu LLC, the Independent Auditor of JT.

3. Policy on dismissal or non-reappointment of Independent Auditor

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph 1 of the Companies Act, with the agreement of all of the Audit & Supervisory Board Members, the Company shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, the Audit & Supervisory Board shall decide the content of proposal and submit such proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

VI. Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations and the Operating Status of the Systems

The Board of Directors has resolved with regard to the development of systems necessary to ensure that the execution of the duties by the Members of the Board complies with the laws and regulations and the Articles of Incorporation, and other systems necessary to ensure the properness of operations of a stock company as follows:

(1) Systems to ensure that the performance of duties by the Members of the Board and employees of the Company, as well as by Directors, etc. (meaning "Directors, etc." as provided for in Article 100, Paragraph 1, Item 5 (i) of the Ordinance for Enforcement of the Companies Act) and employees (with Directors, etc. and employees hereafter collectively referred to as "directors and employees") of subsidiaries, conforms to laws, regulations, and the Articles of Incorporation

i) Compliance system

The Company shall establish Code of Conduct based on regulations concerning the compliance system in order to ensure that directors and employees of the Company and its subsidiaries to comply with laws and regulations, Company's Articles of Incorporation, the social norms, etc., and set up a JT Group Compliance Committee as an organization responsible for ensuring thorough compliance. This committee, headed by Company's Chairman of the Board, mainly consists of outside members and reports directly to the Board of Directors.

The Company appoints an Executive Officer *(sikkoyakuin)* in charge of compliance with overseeing the Compliance Office in an effort to establish and promote a group-wide, cross-sectional system and shed light on issues.

The compliance promotion departments of the Company and its subsidiaries (meaning the Compliance Office within the Company, and corresponding departments within subsidiaries) distribute materials including the "JT Group Code of Conduct," which explains the Code of Conduct, etc., to directors and employees, and work to enhance the effectiveness of the compliance system by enlightening directors and employees about compliance through training and other programs, etc.

(Internal reporting system)

In preparation for cases in which employees or other parties detect activities, etc. suspected of violating laws and regulations, the Company and its subsidiaries maintain consultation and reporting desks as internal whistleblower systems. Compliance promotion departments that receive a report or request for consultation investigate the details and take necessary action, while working to prevent recurrence of the issue.
The Company will bring matters of particular importance involving the JT Group to the JT Group Compliance Committee, and will request deliberation or will report on the issue.

(System for excluding anti-social elements)

The Company and its subsidiaries are resolved to fight against, not to comply with, an unreasonable demand and not to have any relations with anti-social elements.

The General Administration Division shall be the JT Group's headquarters assuming the responsibility for supervising efforts to exclude anti-social elements, the Company cooperates with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way.

In addition, the Company and its subsidiaries shall prohibit involving with anti-social elements and fully communicated to all directors and employees of the Company and its subsidiaries. At the same time, an awareness raising program for excluding antisocial elements is to be consistently administered for all directors and employees, by providing relevant training, etc. as necessary.

ii) System to ensure the reliability of financial reporting

The Company has in place and operates an internal control system relating to financial reporting of JT Group in accordance with the Financial Instruments and Exchange Act. The Company strives to maintain and improve the reliability of its financial reporting by allocating a sufficient level of staff to the task of evaluating and reporting financial results.

iii) Internal audit system

The Operational Review and Business Assurance Division of the Company oversees the internal audit system and examines and evaluates systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect the Company's assets and improve management efficiency. In coordination with the internal audit functions of all subsidiaries, the Operational Review and Business Assurance Division also undertakes the planning and performance of the JT Group's internal audit systems and policies, and supplements the internal audit functions of subsidiaries.

(2) Procedures and arrangements for storage and management of information on the performance of duties by the Members of the Board of the Company

i) Storage and management of minutes

The Company makes sure to properly stores and manages the minutes of General Meetings of Shareholders and meetings of the Board of Directors, in line with laws and regulations.

ii) Storage and management of other information

The Company makes sure that the information on important matters relating to business execution and decision-making including the conclusion of corporate contracts are stored and managed by the relevant departments and divisions as specified by the "Responsibilities/Authorities Allocation Rules," in accordance with rules on the supervision of the processes of decision-making, procurement and accounting.

(3) System for reporting matters concerning the performance of duties by Directors, etc. of subsidiaries to the Company

The Company will require subsidiaries to regularly report important information to the Company departments and divisions that are in charge of the subsidiaries.

(4) Rules on management of risk of loss of the Company and its subsidiaries, and procedures/arrangements for other matters

i) System to evaluate and manage risk of loss under normal circumstances

The Company has established internal policies, rules and manuals relating to JT Group for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and Chief Executive Officer and the Board of Directors on a quarterly basis via Chief Financial Officer. With regard to the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibilities/Authorities Allocation Rules, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management and, depending on the level of importance, report risks to the President and Chief Executive Officer and obtain approval for countermeasures.
In cooperation with the internal audit functions of subsidiaries, the Operational Review and Business Assurance Division of the Company examines and evaluates the internal control systems, etc. of the JT Group companies in light of the level of importance and the risks involved, and from an objective standpoint that is independent of organizations responsible for business execution. It provides reports and counsel to the President and Chief Executive Officer and also reports to the Board of Directors.

ii) Preparedness for possible emergencies

The Company has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions and subsidiaries. Events to which a response has been made and the details of such events shall be reported to the Board of Directors.

(5) System to ensure that Members of the Board of the Company and Directors, etc. of its subsidiaries can perform their duties efficiently

i) Board of Directors of the Company

The Board of Directors of the Company meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters and to supervise business execution.

The Board of Directors of the Company receives reports from Members of the Board of the Company on the status of business execution at least once every three months.

ii) Proper delegation of authority and system of responsibilities of the Company

For important management issues, particularly management policy and basic plans regarding overall business operations of the Company, in addition to matters to be referred to the Board of Directors of the Company, a clear decision-making process is stipulated in the Responsibilities/Authorities Allocation Rules to have a system that enables to realize swift decision-making and high-quality business execution.

Executive Officers *(sikkoyakuin)* appointed by the Board of Directors execute business properly by exercising the authority delegated to them in their respective areas in accordance with a company-wide business strategy decided by the Board.

In order to manage business operations in ways that contribute to the business efficiency and flexibility of the Company, basic matters concerning the Company's organization, allocation of duties to officers and staff and the roles of individual divisions are specified by the relevant internal rules.

iii) Formulation, etc. of rules and policies that apply to the JT Group

The Company will construct an efficient system for business execution within the JT Group through the formulation, etc. of rules and policies that apply to the JT Group.

(6) Systems necessary to ensure the properness of operations in the Company and the business group which consists of the Company and its subsidiaries

i) Mission of the JT Group

The JT Group has set itself the mission of creating, developing and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission.

ii) Group management

The JT Group shall specify the functions and rules common for all group companies to effectuate group management that optimizes the operations of the entire JT Group as a whole.

The Company has put in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

(7) Matters for employees assisting Audit & Supervisory Board Members of the Company in their duties in the event such employees were requested by Audit & Supervisory Board Members

i) Establishment of Audit & Supervisory Board Member's Office

The Company has established an Audit & Supervisory Board Member's Office as an organization to assist the duties of the Company's Audit & Supervisory Board Members (hereinafter simply "Audit & Supervisory Board Members," with the terms "Audit & Supervisory Board," "Audit & Supervisory Board Member's Office," and "Manager of the Audit & Supervisory Board Member's Office" also referring to those items within the Company).

ii) Allocation of staff

The Company has allocated sufficient staff to the Audit & Supervisory Board Member's Office. In addition, the Company makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

(8) Matters relating to the independence of employees belonging to the Audit & Supervisory Board Member's Office from the Company's Members of the Board, and matters relating to the assurance of the effectiveness of instruction by Audit & Supervisory Board Members to those employees

i) Management of employees affiliated with the Audit & Supervisory Board Member's Office

The evaluation of the Manager of the Audit & Supervisory Board Member's Office is made by the Audit & Supervisory Board and the evaluation of the other employees assigned to the Audit & Supervisory Board Member's Office is made by the Manager of the Audit & Supervisory Board Member's Office based on the advice of the Audit & Supervisory Board. The transfer and discipline of employees assigned to the Audit & Supervisory Board Member's Office is to be deliberated in advance with the Audit & Supervisory Board.

ii) Duties of employees belonging to the Audit & Supervisory Board Member's Office

Employees belonging to the Audit & Supervisory Board Member's Office will follow the direction and orders of Audit & Supervisory Board Members in assisting the duties of the latter, and will not be assigned to other concurrent positions relating to the business execution of the Company.

(9) System for reporting by directors and employees of the Company and its subsidiaries or persons reported by directors and employees of its subsidiaries to the Audit & Supervisory Board and Audit & Supervisory Board Members

i) Reporting to the Audit & Supervisory Board

When directors and employees of the Company and its subsidiaries detect any evidence of malfeasance in financial documents or serious breaches of laws or regulations or the Company's Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the Company's management.

ii) Appropriate reporting in response to requests by Audit & Supervisory Board Members

Directors and employees of the Company and its subsidiaries shall respond in a prompt and appropriate manner when they are asked by Audit & Supervisory Board Members to compile important documents for their perusal, to accept field audits and to submit reports.

iii) Reporting on the status of whistleblowing

The Compliance Office will report regularly to Audit & Supervisory Board Members on the status of whistleblowing involving the JT Group, and will make non-regular reports as necessary.

(10) System to ensure that persons reporting to Audit & Supervisory Board Members are not subject to disadvantageous treatment due to having reported

The Company will thoroughly communicate within the JT Group that persons engaging in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions.

(11) Matters concerning policies for the prepayment of expenses involving the performance of duties by Audit & Supervisory Board Members, procedures for reimbursement, and the handling of other expenses or debts involving the performance of those duties

i) Handling of expenses or debts in accordance with Article 388 of the Companies Act

When an Audit & Supervisory Board Member has made claim to the Company for the prepayment of expenses, etc. in accordance with Article 388 of the Companies Act, the Company will promptly handle the relevant expenses or debt, with the exception of cases in which the Company deems the claimed expenses or debt to be unnecessary to the performance of the duties of the Audit & Supervisory Board Member.

ii) Setting of budgets, etc.

With regard to miscellaneous expenses for audits by Audit & Supervisory Board Members, the Company will set a budget in order to secure the effectiveness of the audits. The Company will also bear the portion of miscellaneous expenses for audits by Audit & Supervisory Board Members that are in excess of budget, with the exception of cases in which the Company deems the expenses to be unnecessary to the performance of duties.

(12) Other systems to ensure effective auditing by Audit & Supervisory Board Members

i) Attendance at important meetings

Audit & Supervisory Board Members are allowed to attend not only meetings of the Board of Directors of the Company but also other important meetings of the Company.

ii) Coordination between the Operational Review and Business Assurance Division and Compliance Office and the Audit & Supervisory Board Members

The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Audit & Supervisory Board Members by exchanging information.

The status of systems necessary to ensure the properness of operations

i) Status of initiatives concerning compliance

- The JT Group has set itself the mission of creating, developing, and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals. The Company communicates this mission throughout the JT Group by means including its inclusion in the “JT Group Code of Conduct” booklet, which is distributed to the directors and employees of the Company and its subsidiaries.
- In accordance with the JT Group Compliance Rules, the Company performs appropriate reporting to the Board of Directors on the performance of the annual Compliance Plan, the occurrence of serious compliance violations, actions taken in response to these, and other matters of importance.
- In order to improve awareness of compliance and prevent improper actions, the Company conducts regular training for the directors and employees of the Company and its subsidiaries.

・With regard to whistleblowing systems, the Company maintains consultation and reporting desks inside and outside the Company, and thoroughly communicates to employees of the Company and its subsidiaries that persons who engage in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions. In addition, the content of consultations and whistleblowing are regularly reported within the JT Group Compliance Committee.
・With regard to the handling of anti-social elements, the Company continues to collect related declarations and pledges from suppliers, and conducts regular training and other programs for the directors and employees of the Company and its subsidiaries.

ii) Status of initiatives to manage the risk of loss

・With regard to the monetary and financial risks, the Company makes quarterly reports to the President and Chief Executive Officer and the Board of Directors in accordance with the Basic Rules on Financial Work of the Group.

・With regard to the evaluation and examination of internal management systems, the Operational Review and Business Assurance Division provides reports and counsel to the President and Chief Executive Officer and also reports to the Board of Directors, in accordance with the Rules for Internal Audits.

・With regard to crises and disasters, the Company makes quarterly reports to the Board of Directors concerning events to which responses were made and the details of the events, in accordance with the "Decision Concerning the Preparation of Basic Policies and Systems Concerning the Construction of Internal Control Systems."

iii) Status of initiatives concerning the properness and efficiency of the execution of duties

・Meetings of the Board of Directors are held every month and as appropriate, in accordance with the Regulations of the Board of Directors. The Members of the Board in charge of businesses make quarterly reports to the Board of Directors on the status of business execution within each business, including within its subsidiaries.

・With regard to decision-making, etc. on execution of important business, etc., the Company is converting resolution procedures to electronic methods and is constructing a fast and efficient management system. The Company also accurately records and creates minutes of meetings of the Board of Directors, and performs appropriate storage and management of the information.

iv) Securing the effectiveness of audits by Audit & Supervisory Board Members

・Audit & Supervisory Board Members receive reports as appropriate from directors and employees of the Company and its subsidiaries, regarding necessary information for audits. In addition to attending important conferences, Audit & Supervisory Board Members also perform appropriate checks of the content of electronic resolutions concerning decision-making on the execution of business. In addition, Audit & Supervisory Board Members regularly exchange opinions and otherwise communicate with each subsidiary's own Audit & Supervisory Board Members to enhance audits performed by all Audit & Supervisory Board Members inside the JT Group.

・The Operational Review and Business Assurance Division and the Compliance Office also coordinate on conducting regular exchanges of information with Audit & Supervisory Board Members.

・In order to assist the duties of Audit & Supervisory Board Members, the Company has established an Audit & Supervisory Board Member's Office that is independent of divisions responsible for execution, and has assigned necessary personnel to the Office. In addition, through consultation with Audit & Supervisory Board Members, the Company records a budget for expenses expected to be necessary for the duties of the Audit & Supervisory Board Members.

【Reference】

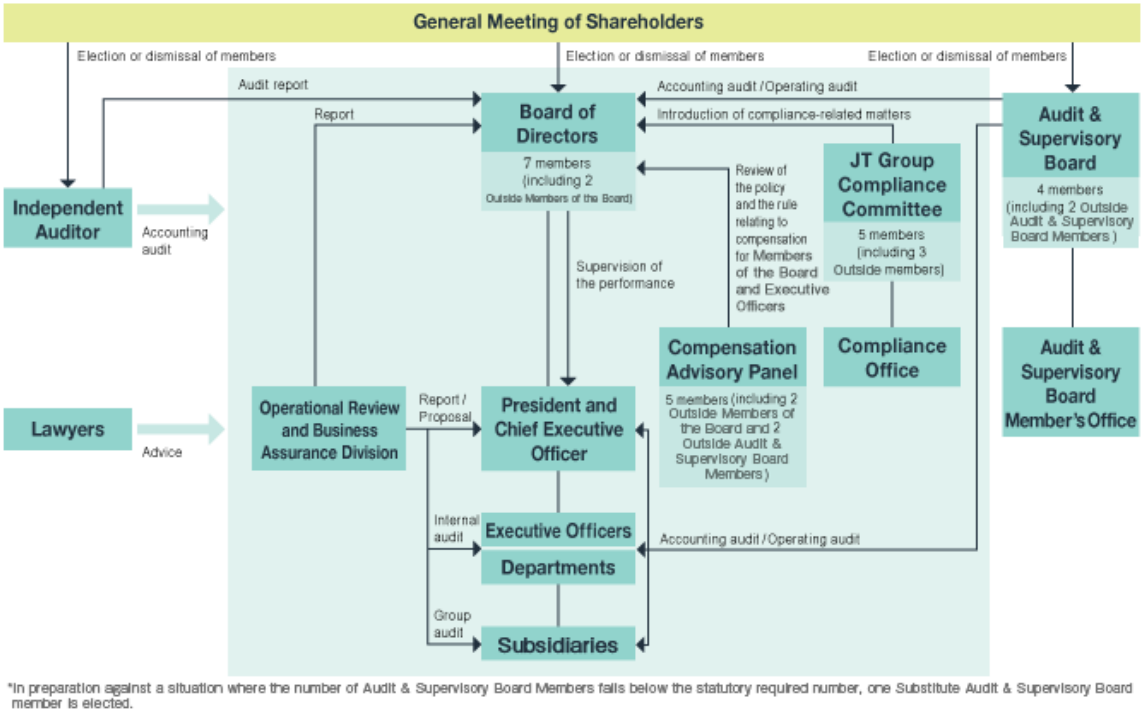
＜Fundamental Policy Concerning Corporate Governance＞

We have enhanced our corporate governance, based on our belief that it is the means for conducting transparent, fair, timely and decisive decision-making for pursuing JT's management principle, the "4S model". Specifically the 4S model aims "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."

We have set out the "JT Corporate Governance Policies" on 4 February, 2016, and continuously strive to make enhancements based on our belief that it will enable us to achieve mid- to long-term sustainable profit growth and increase corporate value, which will contribute to the development of our group's stakeholders and eventually the economic society as a whole.

"JT Corporate Governance Policies" is posted on our web-site (https://www.jti.co.jp/).

＜JT's Corporate Governance System＞



*In preparation against a situation where the number of Audit & Supervisory Board Members falls below the statutory required number, one Substitute Audit & Supervisory Board member is elected.

* All figures contained in this Business Report are rounded to the nearest unit.

Consolidated Statement of Financial Position

(As of December 31, 2016)

(Millions of yen)

Account title	Amount	Account title	Amount
Current assets		**Current liabilities**	
Cash and cash equivalents	294,157	Trade and other payables	377,933
Trade and other receivables	396,934	Bonds and borrowings	208,521
Inventories	558,846	Income tax payables	54,940
Other financial assets	14,921	Other financial liabilities	13,023
Other current assets	340,312	Provisions	12,529
Subtotal	1,605,169	Other current liabilities	689,629
Non-current assets held-for-sale	821	Total current liabilities	1,356,574
Total current assets	1,605,990		
		Non-current liabilities	
Non-current assets			
Property, plant and equipment	680,835	Bonds and borrowings	339,036
Goodwill	1,601,987	Other financial liabilities	9,009
Intangible assets	423,970	Retirement benefit liabilities	333,410
Investment property	18,184	Provisions	4,423
Retirement benefit assets	23,680	Other non-current liabilities	102,221
Investments accounted for using the equity method	123,753	Deferred tax liabilities	71,660
Other financial assets	99,358	Total non-current liabilities	859,759
Deferred tax assets	166,617	**Total liabilities**	2,216,333
Total non-current assets	3,138,384	**Equity**	
		Share capital	100,000
		Capital surplus	736,400
		Treasury shares	(443,822)
		Other components of equity	(303,554)
		Retained earnings	2,367,067
		Equity attributable to owners of the parent company	2,456,091
		Non-controlling interests	71,950
		Total equity	2,528,041
Total assets	4,744,374	**Total liabilities and equity**	4,744,374

Consolidated Statement of Income

(Year ended December 31, 2016)

(Millions of yen)

Account title	Amount
Revenue	2,143,287
Cost of sales	(872,433)
Gross profit	1,270,854
Other operating income	70,101
Share of profit in investments accounted for using the equity method	6,489
Selling, general and administrative expenses	(754,115)
Operating profit	593,329
Financial income	6,618
Financial costs	(21,710)
Profit before income taxes	578,237
Income taxes	(152,464)
Profit for the period	425,773
Attributable to:	
Owners of the parent company	421,695
Non-controlling interests	4,078

Consolidated Statement of Changes in Equity

(Year ended December 31, 2016)

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(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				Non-controlling interests	Total equity
	Other components of equity		Retained earnings	Total		
	Remeasurements of defined benefit plans	Total				
As of January 1, 2016	—	(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

Nonconsolidated Balance Sheet

(As of December 31, 2016)

(Millions of yen)

Account title	Amount	Account title	Amount
ASSETS		**LIABILITIES**	
Current assets	378,907	**Current liabilities**	705,045
Cash and deposits	74,565	Accounts payable–trade	8,618
Accounts receivable–trade	54,410	Short-term loans payable	58,245
Securities	50,000	Current portion of bonds	20,000
Merchandise and finished goods	30,767	Lease obligations	3,754
Semi-finished goods	40,421	Accounts payable–other	60,464
Work in process	2,793	National tobacco excise taxes payable	89,763
Raw materials and supplies	43,053	National tobacco special excise taxes payable	13,882
Advance payments–trade	2,196	Local tobacco excise taxes payable	102,616
Prepaid expenses	6,826	Income taxes payable	24,994
Deferred tax assets	13,017	Accrued consumption taxes	31,192
Short-term loans receivable from subsidiaries and affiliates	44,085	Cash management system deposits received	278,136
		Provision for bonuses	5,596
Other	16,802	Other	7,785
Allowance for doubtful accounts	(27)	**Noncurrent liabilities**	481,194
Noncurrent assets	2,471,006	Bonds payable	335,808
		Lease obligations	6,355
Property, plant and equipment	240,321	Provision for retirement benefits	131,165
Buildings	86,673	Deferred tax liabilities	4,987
Structures	2,912	Other	2,877
Machinery and equipment	52,941	**Total liabilities**	1,186,238
Vehicles	1,654	**NET ASSETS**	
Tools, furniture and fixtures	18,492	**Shareholders' equity**	1,639,047
Land	75,118	**Capital stock**	100,000
Construction in progress	2,530	**Capital surplus**	736,400
Intangible assets	487,539	Legal capital surplus	736,400
		Retained earnings	1,246,469
Patent right	363	Legal retained earnings	18,776
Right of trademark	149,174	Other retained earnings	1,227,692
Software	13,172	Reserve for investment loss on developing new business	28
Goodwill	321,939	Reserve for reduction entry	43,687
Other	2,892	Special account for reduction entry	3,057
Investments and other assets	1,743,146	General reserve	955,300
Investment securities	54,961	Retained earnings brought forward	225,620
Shares of subsidiaries and affiliates	1,669,714	**Treasury shares**	(443,822)
Long-term loans receivable from subsidiaries and affiliates	3,519	**Valuation and translation adjustments**	22,833
		Valuation difference on available-for-sale securities	26,207
Long-term prepaid expenses	5,904	Deferred gains or losses on hedges	(3,373)
Other	9,338	**Subscription rights to shares**	1,794
Allowance for doubtful accounts	(291)	**Total net assets**	1,663,675
Total assets	2,849,913	**Total liabilities and net assets**	2,849,913

Nonconsolidated Statement of Income

(Year ended December 31, 2016)

(Millions of yen)

Account title	Amount	
Net sales		729,286
Cost of sales		208,648
Gross profit		520,638
Selling, general and administrative expenses		323,938
Operating income		196,700
Non-operating income		
Interest income	237	
Dividends income	6,929	
Other	6,944	14,109
Non-operating expenses		
Interest expenses	2,020	
Interest on bonds	3,884	
Other	1,663	7,567
Ordinary income		203,242
Extraordinary income		
Gain on sales of noncurrent assets	36,638	
Gain on sales of shares of subsidiaries	28,503	
Other	1,073	66,214
Extraordinary losses		
Loss on sales of noncurrent assets	1,186	
Loss on retirement of noncurrent assets	8,680	
Impairment loss	593	
Other	2,781	13,240
Income before income taxes		256,217
Income taxes–current	65,901	
Income taxes–deferred	16,708	82,609
Net income		173,607

Nonconsolidated Statement of Changes in Net Assets

(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
As of January 1, 2016	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)
As of December 31, 2016	100,000	736,400	736,400	18,776	28	43,687	3,057	955,300	225,620	1,246,469

(Millions of yen)

	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		
As of January 1, 2016	(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)
As of December 31, 2016	(443,822)	1,639,047	26,207	(3,373)	22,833	1,794	1,663,675

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 7, 2017

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masahiko Tezuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

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

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of December 31, 2016 of Japan Tobacco Inc. and its consolidated subsidiaries, and the related consolidated statements of income and changes in equity for the fiscal year from January 1, 2016 to December 31, 2016, and the related notes of significant matters for preparing consolidated financial statements and other related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above, prepared with the omission of a part of the disclosures required under IFRS pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of December 31, 2016, and the results of their operations for the year then ended.

Interest

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

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

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 7, 2017

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Masahiko Tezuka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

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

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements, namely, the nonconsolidated balance sheet as of December 31, 2016 of Japan Tobacco Inc. and the related nonconsolidated statements of income and changes in net assets for the 32nd fiscal year from January 1, 2016 to December 31, 2016, and the related notes of significant accounting policies and other related notes to nonconsolidated financial statements, and the accompanying supplemental schedules.

Management's Responsibility for the Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these nonconsolidated financial statements and the accompanying supplemental schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these nonconsolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the nonconsolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the nonconsolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the nonconsolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the nonconsolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the nonconsolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the nonconsolidated financial position of Japan Tobacco Inc. as of December 31, 2016, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Interest

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

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

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

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Members of the Board for the 32nd fiscal year from January 1, 2016 to December 31, 2016, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

1. Auditing Methods Employed by Audit & Supervisory Board Members and the Audit & Supervisory Board and Details of Such Methods

(1) The Audit & Supervisory Board established auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding his or her audits and results thereof, as well as received reports from the Members of the Board, other relevant personnel, and Independent Auditors regarding performance of their duties, and sought explanations as necessary.

(2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Members of the Board, and any other relevant personnel, and made efforts to optimize the environment for information collection and audit, and conducted his or her audits in the following methods:

i) We participated in the Board of Directors' meetings and other important meetings, received reports from the Members of the Board, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important documents, and studied the operations and financial positions at the head office and principal offices. With respect to subsidiaries, we communicated and exchanged information with Members of the Board, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.

ii) We monitored and verified the details of the resolution of the Board of Directors related to the system that ensures Members of the Boards are carrying out their duties in compliance with laws and regulations and the Articles of Incorporation, and other systems that ensure the propriety of the operations of the corporate group comprised of a stock company and its subsidiaries, which are described in paragraphs 1 and 3 of Article 100 of the Ordinance for Enforcement of the Companies Act. We also monitored and verified the condition of the system (internal control system) put in place in accordance with the aforesaid resolution.

iii) We monitored and verified whether the Independent Auditors maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditors that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance on Accounting of Companies) is organized in accordance with the "Quality Management Standards Regarding Audits" (Business Accounting Council, October 28, 2005) and other relevant regulations, and sought explanations as necessary.

Based on the above methods, we examined the business report and the accompanying supplemental schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of

income, and non-consolidated statement of changes in net assets) and the accompanying supplemental schedules, as well as consolidated financial statements (consolidated statement of financial position, consolidated statement of income, and consolidated statement of changes in equity, which omit some disclosure items required under International Financial Reporting Standards (IFRS) in accordance with the provision of the second sentence of Article 120, paragraph 1 of the Ordinance on Accounting of Companies) related to the relevant business year.

2. Audit Results

(1) Results of Audit of Business Report and Other Relevant Documents

1. In our opinion, the business report and the accompanying supplemental schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent JT's condition.
2. With regard to the performance of duties by the Members of the Board, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
3. In our opinion, the contents of the resolutions of the Board of Directors regarding the internal controls system are fair and reasonable, and, furthermore, the development, implementation and maintenance of the internal controls system are appropriate.

(2) Results of Audit of Non-Consolidated Financial Statements and the accompanying supplemental schedules

In our opinion, the methods and results employed and rendered by the Independent Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by the Independent Auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

February 10, 2017

The Audit & Supervisory Board, Japan Tobacco Inc.

Standing Audit & Supervisory Board Member	Futoshi Nakamura	(seal)
Standing Audit & Supervisory Board Member	Tomotaka Kojima	(seal)
Audit & Supervisory Board Member	Yoshinori Imai	(seal)
Audit & Supervisory Board Member	Hiroshi Obayashi	(seal)

(Note) Audit & Supervisory Board Members Yoshinori Imai and Hiroshi Obayashi are Outside Audit & Supervisory Board Members provided for by Article 2, item 16 and Article 335, paragraph 3 of the Companies Act.