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Document to be filed:	Quarterly Securities Report
Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	November 2, 2017
Quarterly accounting period:	Third quarter of the 33rd term (from July 1, 2017 to September 30, 2017)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
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Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Nine months ended September 30, 2016	Nine months ended September 30, 2017	32nd term
Accounting period	From January 1, 2016 to September 30, 2016	From January 1, 2017 to September 30, 2017	From January 1, 2016 to December 31, 2016
Revenue [Third quarter] (Millions of yen)	1,618,537 [541,658]	1,592,899 [547,569]	2,143,287
Profit before income taxes (Millions of yen)	484,275	453,935	578,237
Profit for the period (Millions of yen)	353,253	336,266	425,773
Profit attributable to owners of the parent company [Third quarter] (Millions of yen)	350,008 [102,914]	333,698 [108,064]	421,695
Comprehensive income (loss) for the period (Millions of yen)	(25,874)	444,955	235,250
Total equity (Millions of yen)	2,267,386	2,728,061	2,528,041
Total assets (Millions of yen)	4,257,997	4,915,527	4,744,374
Basic earnings per share [Third quarter] (Yen)	195.44 [57.47]	186.32 [60.34]	235.47
Diluted earnings per share (Yen)	195.33	186.21	235.33
Ratio of equity attributable to owners of the parent company to total assets (%)	51.59	54.00	51.77
Net cash flows from operating activities (Millions of yen)	79,716	334,452	376,549
Net cash flows from investing activities (Millions of yen)	(655,745)	(171,256)	(687,509)
Net cash flows from financing activities (Millions of yen)	236,805	(242,588)	91,318
Cash and cash equivalents at the end of the period (Millions of yen)	164,238	216,980	294,157

Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

2. Filing company's trends in principal management benchmarks are not disclosed as the Company prepares quarterly consolidated financial statements.

3. The yen amounts are rounded to the nearest million.

4. Revenue does not include consumption taxes.

2. Business description

During the nine months ended September 30, 2017, there were neither material changes in the business of the Group (the Company, 202 consolidated subsidiaries and 14 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

II. Review of operations

1. Business and other risks

During the nine months ended September 30, 2017, there were no new businesses or other risks.

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

2. Important operational contracts

No important operational contracts were determined or entered into during the third quarter ended September 30, 2017.

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

Matters concerning the future in this document were determined by the Group as of September 30, 2017.

(Non-GAAP financial measures)

The Group also discloses certain additional financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group's target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group's performance.

Core revenue from tobacco business

Regarding tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the Domestic Tobacco Business includes revenue from the domestic duty-free market as well as from markets in China, Hong Kong and Macau that are under the control of the Company's China Division, in addition to revenue related to emerging products, but it excludes revenue related to imported tobacco delivery charges, among others. In addition, the International Tobacco Business includes revenue related to waterpipe tobacco products and emerging products, but excludes revenue related to the distribution business and contract manufacturing, among others.

Adjusted operating profit

Adjusted operating profit presented is operating profit (loss) less amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, and restructuring income and costs, and other items.

Furthermore, growth rate in adjusted operating profit at constant rates of exchange is also presented as additional information. This is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous year. The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant rates of exchange, at mid to high single-digit over the mid- to long-term, and is aiming to achieve it.

(Emerging products)

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

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

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

(1) Operating results

<Revenue>

Revenue decreased by ¥25.6 billion, or 1.6%, from the same period of the previous year to ¥1,592.9 billion due mainly to decrease in revenue in the Domestic Tobacco Business, despite increase in revenue in the Pharmaceutical Business and other factors.

(Billions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
<Revenue>	1,618.5	1,592.9	(25.6)	(1.6)%
Domestic Tobacco Business	511.5	468.4	(43.1)	(8.4)%
Of which, core revenue	485.5	443.1	(42.4)	(8.7)%
International Tobacco Business	919.2	927.5	8.3	0.9%
Of which, core revenue	873.1	882.9	9.8	1.1%
Pharmaceutical Business	60.7	74.2	13.5	22.2%
Processed Food Business	120.1	117.3	(2.8)	(2.3)%

* Figures exclude intersegment revenue.

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

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

Adjusted operating profit including foreign exchange effects increased by ¥9.5 billion, or 2.0%, from the same period of the previous year to ¥486.1 billion, due to increases in profit in the International Tobacco Business and the Pharmaceutical Business, despite decrease in profit in the Domestic Tobacco Business and other factors. Adjusted operating profit at constant rates of exchange increased by 2.8%.

Despite the increase in adjusted operating profit, the gain on sales of real estate and the like decreased in the period under review compared to the same period of the previous year, in which a very significant gain on sales of real estate and the like was recorded, and accordingly operating profit declined by ¥24.9 billion, or 5.0%, from the same period of the previous year to ¥469.7 billion.

Profit attributable to owners of the parent company decreased by ¥16.3 billion, or 4.7%, from the same period of the previous year to ¥333.7 billion due mainly to decrease in operating profit.

(Billions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
Adjusted operating profit	476.5	486.1	9.5	2.0%
Domestic Tobacco Business	199.0	178.0	(21.0)	(10.6)%
International Tobacco Business	285.0	307.1	22.1	7.8%
Pharmaceutical Business	4.2	15.8	11.6	274.4%
Processed Food Business	3.7	3.0	(0.8)	(20.4)%
Operating profit	494.6	469.7	(24.9)	(5.0)%
Profit attributable to owners of the parent company	350.0	333.7	(16.3)	(4.7)%

* Adjusted operating profit and operating profit include business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

Operating results by segment are as follows.

Domestic Tobacco Business

Sales volume of cigarettes in the nine months ended September 30, 2017(Note 1) was affected by a decline in cigarette industry volume(Note 2) caused by the expansion of the T-Vapor market and the downtrend in total demand, among others. As a result, sales volume fell by 11.8% from the same period of the previous year. Market share was 61.0% (compared with a share of 61.0% for the previous year).

(Billions of cigarettes)

Domestic Tobacco Business	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
Sales volume of cigarettes	79.7	70.3	(9.4)	(11.8)%

Core revenue from the tobacco business fell by 8.7% from the same period of the previous year, with the effects of retail price amendments implemented in April 2016 for some brands such as Mevius, and the growing sales of Ploom TECH, a T-Vapor product, among others, not offsetting the impact of lower cigarette sales volume.

Adjusted operating profit decreased by 10.6% from the same period of the previous year partly due to lower core revenue despite cost reductions.

(Billions of yen)

Domestic Tobacco Business	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
Revenue	511.5	468.4	(43.1)	(8.4)%
Of which, core revenue	485.5	443.1	(42.4)	(8.7)%
Adjusted operating profit	199.0	178.0	(21.0)	(10.6)%

Note: 1 In addition to the figure stated above for sales volume, during the nine months ended September 30, 2017, 3.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (3.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with emerging products and the like.

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

International Tobacco Business

For the nine months ended September 30, 2017, sales grew in markets such as Iran and Taiwan and were affected by acquisitions in the Philippines, but due mainly to the impact of the decline in total demand in Russia etc., total shipment volume(Note 3) decreased by 2.0% from the same period of the previous year. On the other hand, GFB(Note 4) shipment volume rose by 0.2% from the same period of the previous year, as a result of having gained market share.

(Billions of cigarettes)

International Tobacco Business	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
Total shipment volume	304.2	298.0	(6.2)	(2.0)%
Of which, GFBs	216.3	216.8	0.5	0.2%

Despite favorable pricing, dollar-based core revenue including foreign exchange effects decreased by 2.1% from the same period of the previous year, as a result of the impact of decrease in shipment volume and unfavorable foreign exchange effects related to local currencies including the pound.

Dollar-based adjusted operating profit, including foreign exchange effects, rose by 4.6% from the same period of the previous year, due to the results of optimization of manufacturing facilities and other cost reduction efforts, despite disadvantageous exchange rates in local currencies such as the pound. Adjusted operating profit at constant rates of exchange (dollar-based) increased by 9.2%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
Revenue	8,485	8,293	(192)	(2.3)%
Of which, core revenue	8,062	7,895	(167)	(2.1)%
Adjusted operating profit	2,626	2,747	121	4.6%

Yen-based core revenue and adjusted operating profit rose by 1.1% and 7.8% from the same period of the previous year respectively, as a result of the effects of the weaker yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	Nine months ended September 30, 2016	Nine months ended September 30, 2017	Change	
Revenue	919.2	927.5	8.3	0.9%
Of which, core revenue	873.1	882.9	9.8	1.1%
Adjusted operating profit	285.0	307.1	22.1	7.8%

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

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

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

Foreign exchange rate per U.S. dollar	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Yen	108.57	111.89
Ruble	68.40	58.32
Pounds sterling	0.72	0.78
EUR	0.90	0.90

Pharmaceutical Business

The Company has been striving to make a stable contribution to the Group's profits by promoting R&D on next-generation strategic products and by maximizing the value of each product. In the area of product development, seven compounds are in clinical development.

In the nine months ended September 30, 2017, revenue increased by ¥13.5 billion, or 22.2%, from the same period of the previous year to ¥74.2 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed and strong sales for the Group company Torii Pharmaceutical Co., Ltd. Adjusted operating profit increased by ¥11.6 billion, or 274.4%, from the same period of the previous year to ¥15.8 billion, due to the increase in revenue.

Processed Food Business

In the third quarter ended September 30, 2017, we continued to concentrate on frozen and ambient processed foods, primarily staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, as well as bakery and seasonings, while at the same time making efforts to strengthen cost competitiveness and working on initiatives to improve profitability.

In the nine months ended September 30, 2017, despite growth in sales of seasonings and so on, revenue decreased by ¥2.8 billion, or 2.3%, from the same period of the previous year to ¥117.3 billion, due to a decline in sales of other products. Adjusted operating profit decreased by ¥0.8 billion, or 20.4%, from the same period of the previous year to ¥3.0 billion, due mainly to the decrease in revenue.

(2) Operational and financial issues to be addressed

During the nine months ended September 30, 2017, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(3) Research and development activities

Research and development expenses of the entire Group during the nine months ended September 30, 2017, were ¥43.9 billion.

During the nine months ended September 30, 2017, there were no material changes in the status of the Group's research and development activities mentioned in the previous fiscal year's Annual Securities Report.

(4) Status of production, orders received and sales

The volume of cigarettes manufactured in Japan during the nine months ended September 30, 2017 decreased by 17.2 billion cigarettes, or 19.0%, from the same period of the previous year to 73.3 billion cigarettes.

This was due to declining sales volume in Japan, as well as the transfer to overseas factories of some of the manufacture of cigarettes for export.

(5) Plans for new installation and retirement of facilities

The Group expects capital expenditures for the fiscal year ending December 31, 2017 in the Domestic Tobacco Business to total ¥54.0 billion, an increase of ¥12.0 billion from the amount provided in the previous fiscal year's Annual Securities Report.

With a portion of capital expenditures expected to be carried over to the following fiscal year in other businesses, the Group expects its capital expenditures for the fiscal year ending December 31, 2017 to total ¥143.0 billion, an increase of ¥7.0 billion.

(6) Analysis of capital resources and liquidity of funds

a. Funding requirements

Funds are mainly allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

b. Resources of funds

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

<Cash flows>

Cash and cash equivalents at the end of the nine months ended September 30, 2017 decreased by ¥77.2 billion from the end of the previous fiscal year to ¥217.0 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥164.2 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the nine months ended September 30, 2017 were ¥334.5 billion, compared with ¥79.7 billion provided in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes despite the generation of a stable cash inflow from the tobacco business.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the nine months ended September 30, 2017 were ¥171.3 billion, compared with ¥655.7 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment and the purchase of assets of a tobacco company in the Philippines.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the nine months ended September 30, 2017 were ¥242.6 billion, compared with ¥236.8 billion provided in the same period of the previous year. This was mainly due to the payment of cash dividends.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2016 and as of September 30, 2017 accounted for ¥358.2 billion and ¥351.7 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥1.4 billion and ¥2.0 billion respectively. Long-term lease obligations totaled ¥7.3 billion as of December 31, 2016 and ¥9.3 billion as of September 30, 2017.

Short-term debt

Short-term borrowings from financial institutions totaled ¥187.9 billion as of December 31, 2016 and ¥111.8 billion as of September 30, 2017. There was no commercial paper outstanding as of December 31, 2016, but as of September 30, 2017, the outstanding balance was ¥77.8 billion. Short-term lease obligations totaled ¥0.4 billion as of December 31, 2016 and ¥1.4 billion as of September 30, 2017.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of September 30, 2017, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of September 30, 2017)	Number of shares issued (Share; as of the date of filing: November 2, 2017)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

Notes: 1. The provisions of Article 2 of the Act on Japan Tobacco Inc. prescribe that the Japanese government must continue to hold more than one-third of all shares issued by the Company (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the General Meeting of Shareholders).

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

(2) Status of subscription rights to shares

Subscription rights to shares issued during the third quarter ended September 30, 2017 are as follows.

Resolution date	June 14, 2017
Number of subscription rights to shares	712
Of which, the number of treasury subscription rights to shares	–
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (The Company's standard class of shares with no rights limitations and the share trading unit is 100 shares.)
Number of shares to be issued upon exercise of subscription rights to shares	142,400 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share
Exercise period of subscription rights to shares	From July 4, 2017 to July 3, 2047
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥482,200 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Corporate Accounting Rules. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen. b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.

Conditions for exercising subscription rights to shares	a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as Member of the Board (including *sikkoyaku* at a company with committees), Audit & Supervisory Board Member and Executive Officer of the Company. b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.
Matters regarding surrogate payments	–
Provisions for acquiring subscription rights to shares	(Note 2)
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 3)

Notes: 1. The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each stock acquisition right (hereinafter, "Number of Shares Granted") shall be 200. However, in cases where the Company conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of the Company after the date on which the Company allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

Number of Shares Granted after adjustment = Number of Shares Granted before adjustment × Ratio of stock split or stock consolidation

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of the Company and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, the Company shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, the Company shall later do so as soon as possible.

2. In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "in cases where the resolution of a meeting of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made"), the Company may acquire subscription rights to shares on the date separately provided for by the Board of Directors. In this case, the Company shall, in exchange for acquiring each stock acquisition right, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

   Value per share = Closing price for regular transactions of ordinary shares of the Company on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "the resolution of a meeting of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made") – ¥1

   a. Proposal to ask approval of a contract of merger where the Company is not to be the surviving company
   b. Proposal to ask approval of a contract or plan of company split where the Company would be the split company
   c. Proposal to ask approval of a share exchange contract or share transfer plan where the Company becomes a wholly-owned subsidiary

3. In cases where the Company merges (limited to cases where the Company is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where the Company becomes the split company in either case), or exchanges or transfers shares (limited to cases where the Company becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, "Reorganization"), the Company shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, "Remaining Subscription rights to shares"). However, it is subject to a condition that the provision that the subscription rights to shares of

the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.

a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
   Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
   Ordinary shares of the Company Subject to Reorganization
c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
   To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
d. Value of property to be contributed when subscription rights to shares are exercised
   The value of the property to be contributed when each stock acquisition right to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to be issued upon exercise of each stock acquisition right, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.
e. Period during which subscription rights to shares can be exercised
   From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in “Exercise period of subscription rights to shares” mentioned above.
f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
   To be determined in the same manner as “Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares” mentioned above.
g. Restrictions on transferring of subscription rights to shares
   Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.
h. Provisions for acquiring subscription rights to shares
   To be determined in the same manner as Note 2 above.
i. Other conditions for exercising subscription rights to shares
   To be determined in the same manner as “Conditions for exercising subscription rights to shares” mentioned above.

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2017 to September 30, 2017	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

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

(7) Status of voting rights

a. Shares issued

(As of September 30, 2017)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 209,012,500	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,947,500	17,909,475	(Note 2)
Shares less than one unit	Ordinary shares 40,000	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,909,475	–

Notes: 1. The number of "Shares with full voting rights (Other)" includes 33,600 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 336 units of voting rights related to shares with full voting rights in its name.
2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.
3. Includes 45 shares of treasury shares.

b. Treasury shares

(As of September 30, 2017)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	209,012,500	–	209,012,500	10.45
Total	–	209,012,500	–	209,012,500	10.45

2. Status of officers

After filing of the previous fiscal year's Annual Securities Report, there were no personnel changes of officers during the nine months ended September 30, 2017.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

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

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

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for this third quarter period (from July 1, 2017 to September 30, 2017) and for the nine months ended September 30, 2017 were reviewed by Deloitte Touche Tohmatsu LLC.

1. 【Condensed interim consolidated financial statements】

(1) 【Condensed interim consolidated statement of financial position】

(Millions of yen)

	As of December 31, 2016	As of September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	294,157	216,980
Trade and other receivables	396,934	413,625
Inventories	558,846	564,404
Other financial assets	14,921	18,800
Other current assets	340,312	382,676
Subtotal	1,605,169	1,596,485
Non-current assets held-for-sale	821	2,495
Total current assets	1,605,990	1,598,979
Non-current assets		
Property, plant and equipment (Note 6)	680,835	707,175
Goodwill (Notes 6,15)	1,601,987	1,719,023
Intangible assets (Note 6)	423,970	449,650
Investment property	18,184	17,334
Retirement benefit assets	23,680	25,700
Investments accounted for using the equity method	123,753	129,316
Other financial assets	99,358	113,791
Deferred tax assets	166,617	154,559
Total non-current assets	3,138,384	3,316,547
Total assets	4,744,374	4,915,527

(Millions of yen)

	As of December 31, 2016	As of September 30, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	377,933	331,358
Bonds and borrowings	208,521	266,719
Income tax payables	54,940	50,927
Other financial liabilities	13,023	10,886
Provisions	12,529	16,147
Other current liabilities	689,629	699,953
Total current liabilities	1,356,574	1,375,990
Non-current liabilities		
Bonds and borrowings	339,036	276,596
Other financial liabilities	9,009	11,003
Retirement benefit liabilities	333,410	332,971
Provisions	4,423	4,013
Other non-current liabilities	102,221	110,451
Deferred tax liabilities	71,660	76,441
Total non-current liabilities	859,759	811,475
Total liabilities	2,216,333	2,187,465
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,410
Treasury shares	(443,822)	(443,754)
Other components of equity	(303,554)	(194,942)
Retained earnings	2,367,067	2,456,707
Equity attributable to owners of the parent company	2,456,091	2,654,421
Non-controlling interests	71,950	73,640
Total equity	2,528,041	2,728,061
Total liabilities and equity	4,744,374	4,915,527

(2) 【Condensed interim consolidated statement of income】

(For the nine-month period)

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Revenue (Notes 5, 8)	1,618,537	1,592,899
Cost of sales	(652,015)	(619,334)
Gross profit	966,523	973,565
Other operating income (Note 9)	66,225	34,340
Share of profit in investments accounted for using the equity method	4,834	5,032
Selling, general and administrative expenses (Note 10)	(543,001)	(543,269)
Operating profit (Note 5)	494,580	469,668
Financial income (Note 11)	5,143	3,657
Financial costs (Note 11)	(15,448)	(19,390)
Profit before income taxes	484,275	453,935
Income taxes	(131,022)	(117,669)
Profit for the period	353,253	336,266
Attributable to:		
Owners of the parent company	350,008	333,698
Non-controlling interests	3,245	2,568
Profit for the period	353,253	336,266
Interim earnings per share		
Basic (Yen) (Note 12)	195.44	186.32
Diluted (Yen) (Note 12)	195.33	186.21

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Operating profit	494,580	469,668
Amortization cost of acquired intangibles arising from business acquisitions	35,270	36,002
Adjustment items (income)	(62,568)	(27,095)
Adjustment items (costs)	9,262	7,476
Adjusted operating profit (Note 5)	476,544	486,051

(For the three-month period)

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Revenue (Note 5)	541,658	547,569
Cost of sales	(218,302)	(208,823)
Gross profit	323,356	338,746
Other operating income	6,320	2,072
Share of profit in investments accounted for using the equity method	2,184	1,548
Selling, general and administrative expenses	(182,301)	(185,983)
Operating profit (Note 5)	149,560	156,383
Financial income	1,280	737
Financial costs	(5,930)	(6,098)
Profit before income taxes	144,911	151,022
Income taxes	(40,938)	(42,078)
Profit for the period	103,973	108,944
Attributable to:		
Owners of the parent company	102,914	108,064
Non-controlling interests	1,058	881
Profit for the period	103,973	108,944
Interim earnings per share		
Basic (Yen) (Note 12)	57.47	60.34
Diluted (Yen) (Note 12)	57.43	60.30

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

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Operating profit	149,560	156,383
Amortization cost of acquired intangibles arising from business acquisitions	11,189	12,379
Adjustment items (income)	(4,408)	(1,208)
Adjustment items (costs)	1,871	3,839
Adjusted operating profit (Note 5)	158,212	171,393

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

(For the nine-month period)

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Profit for the period	353,253	336,266
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2,342)	3,153
Remeasurements of defined benefit plans	(34,578)	(895)
Total of items that will not be reclassified to profit or loss	(36,921)	2,258
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(339,896)	106,525
Net gain (loss) on derivatives designated as cash flow hedges	(2,310)	(94)
Total of items that may be reclassified subsequently to profit or loss	(342,206)	106,430
Other comprehensive income (loss), net of taxes	(379,127)	108,689
Comprehensive income (loss) for the period	(25,874)	444,955
Attributable to:		
Owners of the parent company	(27,506)	442,112
Non-controlling interests	1,632	2,843
Comprehensive income (loss) for the period	(25,874)	444,955

(For the three-month period)

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Profit for the period	103,973	108,944
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(274)	(1,514)
Remeasurements of defined benefit plans	(21,408)	(95)
Total of items that will not be reclassified to profit or loss	(21,682)	(1,609)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(32,385)	69,168
Net gain (loss) on derivatives designated as cash flow hedges	(212)	(283)
Total of items that may be reclassified subsequently to profit or loss	(32,597)	68,885
Other comprehensive income (loss), net of taxes	(54,280)	67,276
Comprehensive income (loss) for the period	49,693	176,220
Attributable to:		
Owners of the parent company	48,726	175,085
Non-controlling interests	967	1,136
Comprehensive income (loss) for the period	49,693	176,220

(4) 【Condensed interim consolidated statement of changes in equity】

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(338,383)	(2,310)	(2,240)
Comprehensive income (loss) for the period	—	—	—	—	(338,383)	(2,310)	(2,240)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	402	(350)	—	—	—
Share-based payments	—	—	—	204	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(317)
Other increase (decrease)	—	—	—	—	—	1,679	—
Total transactions with the owners	—	—	402	(146)	—	1,679	(317)
As of September 30, 2016	100,000	736,400	(443,931)	1,795	(510,856)	(506)	30,727
As of January 1, 2017	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	106,296	(94)	3,106
Comprehensive income (loss) for the period	—	—	—	—	106,296	(94)	3,106
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	10	68	(77)	—	—	—
Share-based payments	—	—	—	253	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(410)
Other increase (decrease)	—	—	—	—	—	(462)	—
Total transactions with the owners	—	10	67	175	—	(462)	(410)
As of September 30, 2017	100,000	736,410	(443,754)	1,969	(229,346)	(116)	32,551

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2016	—	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	—	—	350,008	350,008	3,245	353,253
Other comprehensive income (loss)	(34,581)	(377,514)	—	(377,514)	(1,613)	(379,127)
Comprehensive income (loss) for the period	(34,581)	(377,514)	350,008	(27,506)	1,632	(25,874)
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(350)	(52)	0	—	0
Share-based payments	—	204	—	204	3	207
Dividends (Note 7)	—	—	(229,223)	(229,223)	(2,039)	(231,261)
Changes in the scope of consolidation	—	—	—	—	1,212	1,212
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(117)	(117)	16	(101)
Transfer from other components of equity to retained earnings	34,581	34,263	(34,263)	—	—	—
Other increase (decrease)	—	1,679	—	1,679	—	1,679
Total transactions with the owners	34,581	35,796	(263,655)	(227,457)	(808)	(228,265)
As of September 30, 2016	—	(478,840)	2,283,005	2,196,633	70,753	2,267,386
As of January 1, 2017	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	333,698	333,698	2,568	336,266
Other comprehensive income (loss)	(895)	108,413	—	108,413	275	108,689
Comprehensive income (loss) for the period	(895)	108,413	333,698	442,112	2,843	444,955
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(77)	—	0	—	0
Share-based payments	—	253	—	253	4	257
Dividends (Note 7)	—	—	(243,572)	(243,572)	(1,547)	(245,119)
Changes in the scope of consolidation	—	—	—	—	362	362
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	28	28
Transfer from other components of equity to retained earnings	895	485	(485)	—	—	—
Other increase (decrease)	—	(462)	—	(462)	—	(462)
Total transactions with the owners	895	199	(244,058)	(243,782)	(1,153)	(244,935)
As of September 30, 2017	—	(194,942)	2,456,707	2,654,421	73,640	2,728,061

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	484,275	453,935
Depreciation and amortization	105,601	106,192
Impairment losses	1,477	1,550
Reversal of impairment losses on investments in associates	―	(8,848)
Interest and dividend income	(5,143)	(3,458)
Interest expense	6,339	8,285
Share of profit in investments accounted for using the equity method	(4,834)	(5,032)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(33,225)	(15,979)
(Gains) losses on sale of investments in subsidiaries	(26,106)	―
(Increase) decrease in trade and other receivables	(7,843)	(18,246)
(Increase) decrease in inventories	12,568	(6,755)
Increase (decrease) in trade and other payables	(47,123)	(40,359)
Increase (decrease) in retirement benefit liabilities	(4,990)	(11,610)
(Increase) decrease in prepaid tobacco excise taxes	(19,213)	(30,327)
Increase (decrease) in tobacco excise tax payables	(180,915)	1,900
Increase (decrease) in consumption tax payables	(2,645)	4,174
Other	(30,080)	(3,136)
Subtotal	248,141	432,286
Interest and dividends received	10,013	8,871
Interest paid	(3,440)	(6,752)
Income taxes paid	(174,998)	(99,953)
Net cash flows from operating activities	79,716	334,452
Cash flows from investing activities		
Purchase of securities	(1,452)	(4,752)
Proceeds from sale and redemption of securities	2,739	3,740
Purchase of property, plant and equipment	(69,746)	(86,078)
Proceeds from sale of investment property	38,630	17,805
Purchase of intangible assets	(6,911)	(10,065)
Payments into time deposits	(207)	(223)
Proceeds from withdrawal of time deposits	201	214
Payments for business combinations (Note 15)	(587,173)	(82,372)
Proceeds from sale of investments in subsidiaries	26,979	―
Purchase of investments in associates	(52,291)	(40)
Other	(6,513)	(9,483)
Net cash flows from investing activities	(655,745)	(171,256)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
		(Millions of yen)
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 7)	(229,125)	(243,426)
Dividends paid to non-controlling interests	(1,652)	(1,271)
Capital contribution from non-controlling interests	16	14
Increase (decrease) in short-term borrowings and commercial paper	331,075	(217)
Proceeds from long-term borrowings	841	850
Repayments of long-term borrowings	(126)	(385)
Proceeds from issuance of bonds	136,181	—
Proceeds from sale and leaseback transactions	—	2,819
Repayments of finance lease obligations	(405)	(972)
Acquisition of treasury shares	(0)	(0)
Other	0	0
Net cash flows from financing activities	236,805	(242,588)
Net increase (decrease) in cash and cash equivalents	(339,223)	(79,392)
Cash and cash equivalents at the beginning of the period	526,765	294,157
Effect of exchange rate changes on cash and cash equivalents	(23,303)	2,216
Cash and cash equivalents at the end of the period	164,238	216,980

【Notes to condensed interim consolidated financial statements】

1. Reporting entity

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

The condensed interim consolidated financial statements for the three-month period ended September 30, 2017 and for the nine-month period ended September 30, 2017 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on November 1, 2017 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of preparation

The Group's condensed interim consolidated financial statements, which satisfy the requirements concerning the "Specified Company applying Designated International Financial Reporting Standards" prescribed in Article 1-2 of the Ordinance on QCFS, are prepared in conformity with International Financial Reporting Standards pursuant to the provision of Article 93 of the Ordinance on QCFS.

The condensed interim consolidated financial statements are prepared in conformity with IAS 34 and do not include all information required for the consolidated financial statements for the fiscal year. They should be read along with the consolidated financial statements for the fiscal year ended December 31, 2016.

3. Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2016 except the following item.

The Group computes income taxes for the interim period based on the estimated average annual effective tax rate.

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the first quarter ended March 31, 2017.

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

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

4. Significant accounting estimates and judgments

Preparation of condensed interim consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the interim period end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the interim period end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change and future periods.

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the fiscal year ended December 31, 2016.

5. Operating segments

(1) Outline of reportable segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.” They are determined by types of products, characteristics, and markets.

The “Domestic Tobacco Business” manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company’s China Division operates). The “International Tobacco Business” manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations.
The “Pharmaceutical Business” consists of research and development, and the manufacture and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods, bakery products and seasonings.

(2) Revenues and performances of reportable segments

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

For the nine months ended September 30, 2016

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	511,491	919,183	60,720	120,096	1,611,489	7,048	―	1,618,537
Intersegment revenue	15,864	22,770	―	18	38,653	7,217	(45,869)	―
Total revenue	527,355	941,953	60,720	120,114	1,650,142	14,265	(45,869)	1,618,537
Segment profit (loss)								
Adjusted operating profit (Note 1)	198,977	284,996	4,227	3,709	491,908	(15,697)	333	476,544

For the nine months ended September 30, 2017

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	468,389	927,480	74,222	117,297	1,587,388	5,511	―	1,592,899
Intersegment revenue	6,549	23,558	―	17	30,124	6,032	(36,156)	―
Total revenue	474,938	951,038	74,222	117,314	1,617,512	11,543	(36,156)	1,592,899
Segment profit (loss)								
Adjusted operating profit (Note 1)	177,967	307,096	15,824	2,951	503,837	(17,886)	100	486,051

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

For the nine months ended September 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	198,977	284,996	4,227	3,709	491,908	(15,697)	333	476,544
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(23,086)	–	–	(35,270)	–	–	(35,270)
Adjustment items (income) (Note 4)	39	–	–	–	39	62,529	–	62,568
Adjustment items (costs) (Note 4)	137	(3,653)	–	(5)	(3,521)	(5,741)	–	(9,262)
Operating profit (loss)	186,969	258,256	4,227	3,704	453,156	41,091	333	494,580
Financial income								5,143
Financial costs								(15,448)
Profit before income taxes								484,275

For the nine months ended September 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	177,967	307,096	15,824	2,951	503,837	(17,886)	100	486,051
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(23,819)	–	–	(36,002)	–	–	(36,002)
Adjustment items (income) (Note 4)	6	10,797	–	–	10,802	16,292	–	27,095
Adjustment items (costs) (Note 4)	(26)	(5,618)	–	(20)	(5,665)	(1,811)	–	(7,476)
Operating profit (loss)	165,763	288,455	15,824	2,930	472,972	(3,404)	100	469,668
Financial income								3,657
Financial costs								(19,390)
Profit before income taxes								453,935

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

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

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Domestic Tobacco	485,487	443,100
International Tobacco	873,089	882,871

(Note 4) "Adjustment items (income)" include restructuring income of gain on sale of real estate and reversal of impairment losses on investments in associates. "Adjustment items (costs)" include restructuring costs related to rationalization of the production and distribution system. The breakdown of restructuring income is described in "9. Other operating income." The breakdown of restructuring costs is described in "10. Selling, general and administrative expenses."

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Restructuring costs	9,262	7,476
Adjustment items (costs)	9,262	7,476

Restructuring costs for the nine months ended September 30, 2016 mainly relate to disposal of real estate. Restructuring costs for the nine months ended September 30, 2017 mainly relate to rationalization of the production and distribution system in some markets in the "International Tobacco Business".

For the three months ended September 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	175,580	303,201	20,425	40,154	539,360	2,298	—	541,658
Intersegment revenue	4,608	6,889	—	6	11,504	2,388	(13,892)	—
Total revenue	180,187	310,091	20,425	40,160	550,864	4,687	(13,892)	541,658
Segment profit (loss)								
Adjusted operating profit (Note 1)	69,353	91,882	1,461	561	163,257	(5,119)	74	158,212

For the three months ended September 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	158,037	320,788	27,029	39,843	545,696	1,872	—	547,569
Intersegment revenue	1,890	8,037	—	4	9,932	1,530	(11,462)	—
Total revenue	159,928	328,825	27,029	39,846	555,628	3,402	(11,462)	547,569
Segment profit (loss)								
Adjusted operating profit (Note 1)	57,971	111,956	6,849	774	177,550	(6,319)	162	171,393

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

For the three months ended September 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	69,353	91,882	1,461	561	163,257	(5,119)	74	158,212
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,127)	—	—	(11,189)	—	—	(11,189)
Adjustment items (income) (Note 4)	22	—	—	—	22	4,385	—	4,408
Adjustment items (costs) (Note 4)	(1)	(1,120)	—	(4)	(1,124)	(746)	—	(1,871)
Operating profit (loss)	65,313	83,634	1,461	557	150,966	(1,480)	74	149,560
Financial income								1,280
Financial costs								(5,930)
Profit before income taxes								144,911

For the three months ended September 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	57,971	111,956	6,849	774	177,550	(6,319)	162	171,393
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(8,317)	—	—	(12,379)	—	—	(12,379)
Adjustment items (income) (Note 4)	—	13	—	—	13	1,195	—	1,208
Adjustment items (costs) (Note 4)	(16)	(3,196)	—	(20)	(3,232)	(607)	—	(3,839)
Operating profit (loss)	53,894	100,455	6,849	754	161,952	(5,732)	162	156,383
Financial income								737
Financial costs								(6,098)
Profit before income taxes								151,022

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

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

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

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Domestic Tobacco	166,873	148,676
International Tobacco	289,030	305,642

(Note 4) “Adjustment items (income)” include restructuring income of gain on sale of real estate. “Adjustment items (costs)” include restructuring costs related to rationalization of the production and distribution system.

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

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Restructuring costs	1,871	3,839
Adjustment items (costs)	1,871	3,839

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

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

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2017	680,835	1,601,987	423,970
Individual acquisition	76,142	—	14,541
Acquisition through business combinations	6,428	41,730	48,131
Transfer to investment property	(1,218)	—	—
Transfer to non-current assets held-for-sale	(2,126)	—	—
Depreciation or amortization	(58,191)	—	(47,578)
Impairment losses	(1,027)	—	(5)
Reversal of impairment losses	417	—	—
Sale or disposal	(5,079)	—	(70)
Exchange differences on translation of foreign operations	8,530	75,306	10,900
Other	2,463	—	(239)
As of September 30, 2017	707,175	1,719,023	449,650

7. Dividends

Dividends paid for each interim period are as follows:

For the nine months ended September 30, 2016

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 23, 2016)	Ordinary shares	114,606	64	December 31, 2015	March 24, 2016
Board of Directors (August 1, 2016)	Ordinary shares	114,617	64	June 30, 2016	September 1, 2016

For the nine months ended September 30, 2017

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2017)	Ordinary shares	118,203	66	December 31, 2016	March 27, 2017
Board of Directors (August 2, 2017)	Ordinary shares	125,369	70	June 30, 2017	September 1, 2017

8. Revenue

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Gross turnover	5,320,574	5,394,393
Tobacco excise taxes and agency transaction amount	(3,702,037)	(3,801,494)
Revenue	1,618,537	1,592,899

9. Other operating income

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Reversal of impairment losses on investments in associates	—	8,848
Gains on sale of property, plant and equipment, intangible assets and investment property (Note)	38,272	18,140
Gains on sale of investments in subsidiaries (Note)	26,106	—
Other (Note)	1,847	7,351
Total	66,225	34,340

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Gains on sale of property, plant and equipment, intangible assets and investment property	36,364	16,330
Gains on sale of investments in subsidiaries	26,106	—
Other	98	8
Total	62,568	16,338

10. Selling, general and administrative expenses

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Advertising expenses	17,847	16,105
Promotion expenses	82,921	75,428
Shipping and warehousing expenses	19,969	19,461
Commission	34,058	35,492
Employee benefit expenses (Note)	183,804	185,309
Research and development expenses	42,143	43,870
Depreciation and amortization	59,664	59,218
Impairment losses on other than financial assets (Note)	1,477	1,550
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	7,709	3,553
Other (Note)	93,409	103,282
Total	543,001	543,269

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

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Employee benefit expenses	845	1,193
Impairment losses on other than financial assets	287	927
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	4,444	820
Other	3,685	4,536
Total	9,262	7,476

11. Financial income and financial costs

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

(Millions of yen)

Financial income	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Dividend income	1,375	1,486
Interest income	3,768	1,972
Other	–	199
Total	5,143	3,657

(Millions of yen)

Financial costs	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Interest expenses (Note 2)	6,339	8,285
Foreign exchange losses (Note 1)	5,560	7,656
Employee benefit expenses (Note 3)	2,605	2,659
Other	944	790
Total	15,448	19,390

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

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

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

12. Interim earnings per share

(For the nine-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Profit for the period attributable to owners of the parent company	350,008	333,698
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	350,008	333,698

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

(Thousands of shares)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Weighted-average number of shares during the period	1,790,860	1,790,984

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Profit for the period used for calculation of basic interim earnings per share	350,008	333,698
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	350,008	333,698

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

(Thousands of shares)

	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Weighted-average number of ordinary shares during the period	1,790,860	1,790,984
Increased number of ordinary shares under subscription rights to shares	1,032	1,027
Weighted-average number of diluted ordinary shares during the period	1,791,892	1,792,011

(For the three-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Profit for the period attributable to owners of the parent company	102,914	108,064
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	102,914	108,064

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

(Thousands of shares)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Weighted-average number of shares during the period	1,790,894	1,790,988

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Profit for the period used for calculation of basic interim earnings per share	102,914	108,064
Adjustment	–	(0)
Profit for the period used for calculation of diluted interim earnings per share	102,914	108,064

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

(Thousands of shares)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Weighted-average number of ordinary shares during the period	1,790,894	1,790,988
Increased number of ordinary shares under subscription rights to shares	1,018	1,057
Weighted-average number of diluted ordinary shares during the period	1,791,911	1,792,044

13. Financial instruments

(Fair value of financial instruments)

The carrying amount and fair value of financial instruments measured at amortized cost are as follows:

(Millions of yen)

	As of December 31, 2016		As of September 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	1,449	1,449	1,974	1,974
Bonds (Note)	358,158	357,126	351,728	352,157

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value of bonds issued by the Group is based on the market price for those having market prices, and based on the present value that is obtained by discounting the total of principal and interest by the interest rate, for which the remaining period and credit risk of such bonds are taken into consideration.

The fair value hierarchy of financial instruments is categorized as follows from Level 1 to Level 3:

Level 1: Fair value measured at the quoted price in an active market
Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly
Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

The fair value hierarchy of financial instruments measured at fair value is as follows:

As of December 31, 2016 (Millions of yen)

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

As of September 30, 2017 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	–	14,331	–	14,331
Equity securities	63,382	–	5,403	68,785
Other	391	–	3,270	3,661
Total	63,773	14,331	8,673	86,777
Derivative liabilities	–	9,330	–	9,330
Total	–	9,330	–	9,330

14. Commitments

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

(Millions of yen)

	As of December 31, 2016	As of September 30, 2017
Acquisition of property, plant and equipment	41,889	75,609

15. Business combinations

Acquisition of assets and intellectual property rights related to the tobacco business of Mighty Corporation

(1) Summary of business combinations

On September 7, 2017, the Group acquired the tobacco business of Mighty Corporation ("MC"), a company operating tobacco business in the Philippines, including its assets and intellectual property rights.

MC holds brands such as "Mighty" and "Marvels" which have strong brand equity in the Philippine tobacco market. In addition, MC also has a well-established distribution and sales network throughout the Philippines.

The purpose of this acquisition is to strengthen our brand portfolio and expand our distribution and sales area.

(2) Consideration and details (Total of the acquisition)

The consideration is ¥102,147 million and paid fully in cash.

Out of the total consideration, ¥79,277 million has been paid as of the interim period end date and ¥22,870 million will be paid after the interim period end date.

(3) Fair values of the assets acquired and liabilities assumed

(Millions of yen)

	Fair value
Current assets	12,264
Trademarks	41,587
Other non-current assets	9,730
Total assets	63,581
Current liabilities	2,822
Non-current liabilities	68
Total liabilities	2,890
Goodwill	41,456

Goodwill represents future economic benefits for integration synergies including enhanced business scale. Fair values of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and may change during the measurement period (one year from the acquisition date).

Other acquisition

In addition to the above, the Group acquired another entity through a business combination for the nine months ended September 30, 2017, which is omitted as it is immaterial.

16. Contingencies

As of September 30 2017, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2016.

17. Subsequent events

The Group has signed an agreement to purchase 100% of outstanding shares of PT. Karyadibya Mahardhika (KDM) which operates the kretek tobacco business in Indonesia and its distributor, PT. Surya Mustika Nusantara (SMN) on August 4, 2017. The acquisition of KDM and SMN gives the Group immediate scale and presence in the Indonesian kretek tobacco market through KDM's supply chain including the procurement and manufacturing, and SMN's distribution and sales network throughout the country.

Following this agreement, the Group has completed the transfer of the shares of KDM and SMN on October, 31, 2017. The Group expects to complete the acquisition within the fiscal year 2017, and the acquisition cost is expected to be $658 million (approximately ¥74.4 billion).

The Group has raised $375 million (approximately ¥42.7 billion) of the necessary funds for the acquisition from an external financial institution.

2. 【Other】

(Dividends)

The Board of Directors, at a meeting held on August 2, 2017, declared the following interim dividends for the current fiscal year.

(a) Total amount of interim dividends ¥125,369 million

(b) Amount per share ¥70.00

(c) Effective date of requests for payment, and commencement date of payments September 1, 2017

Note: Dividends have been paid to shareholders registered or recorded on the shareholder registry as of June 30, 2017

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

No items to report

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

November 1, 2017

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant:	Masahiko Tezuka	(Seal)
Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant:	Yasuhiko Haga	(Seal)
Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant:	Takenao Ohashi	(Seal)
Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant:	Yoichi Matsushita	(Seal)

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of September 30, 2017, and the related condensed interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the nine-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

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

Accountant's Responsibility

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

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

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

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of September 30, 2017, and the consolidated results of their operations for the three-month and nine-month periods then ended, and their cash flows for the nine-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

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

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