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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 1, 2018
Quarterly accounting period:	Third quarter of the 34th term (from July 1, 2018 to September 30, 2018)
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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A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Nine months ended September 30, 2017	Nine months ended September 30, 2018	33rd term
Accounting period	From January 1, 2017 to September 30, 2017	From January 1, 2018 to September 30, 2018	From January 1, 2017 to December 31, 2017
Revenue [Third quarter] (Millions of yen)	1,592,899 [547,569]	1,675,819 [600,548]	2,139,653
Profit before income taxes (Millions of yen)	453,935	449,402	538,532
Profit for the period (Millions of yen)	336,266	334,878	396,749
Profit attributable to owners of the parent company [Third quarter] (Millions of yen)	333,698 [108,064]	332,686 [116,593]	392,409
Comprehensive income (loss) for the period (Millions of yen)	444,955	153,784	554,198
Total equity (Millions of yen)	2,728,061	2,725,266	2,842,027
Total assets (Millions of yen)	4,915,527	5,347,070	5,221,484
Basic earnings per share [Third quarter] (Yen)	186.32 [60.34]	185.73 [65.09]	219.10
Diluted earnings per share (Yen)	186.21	185.64	218.97
Ratio of equity attributable to owners of the parent company to total assets (%)	54.00	49.64	52.89
Net cash flows from operating activities (Millions of yen)	334,452	427,618	419,212
Net cash flows from investing activities (Millions of yen)	(171,256)	(233,925)	(352,632)
Net cash flows from financing activities (Millions of yen)	(242,588)	(176,789)	(77,032)
Cash and cash equivalents at the end of the period (Millions of yen)	216,980	283,280	285,486

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, 2018, there were neither material changes in the business of the Group (the Company, 221 consolidated subsidiaries and 11 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, 2018, 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.

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 7 of March 31, 2018) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 3 of March 31, 2018) were established as part of the 2018 Tax Reform. However, in regard to the details of a review of the tobacco excise tax, there were no changes to the "II. Review of operations, 4. Business and other risks, (1) Items relating to the business, profit structure and management policy of the Group, d. Outline of the Tax Reform Proposals" mentioned in the previous fiscal year's Annual Securities Report.

Furthermore, the Act for Partial Amendment of the Health Promotion Act (Act No. 78 of July 25, 2018), which was described in the "II. Review of operations, 4. Business and other risks, (2) Risks relating to the Group's tobacco business, d. Regulations on tobacco products" of the previous fiscal year's Annual Securities Report, was enacted in July 2018.

2. Important operational contracts

No important operational contracts were determined or entered into during the third quarter ended September 30, 2018.

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, 2018.

(IFRS 15)

From the first quarter ended March 31, 2018, the Group has adopted IFRS 15 "Revenue from Contracts with Customers." As a result, compared to the application of the former accounting standard, "Revenue" and "Selling, general and administrative expenses" decreased by ¥6,874 million and ¥52,080 million respectively (including promotion expenses of ¥5,611 million accounted for as reductions of revenue, as well as shipping and warehousing expenses of ¥21,192 million accounted for as cost of sales), and "Cost of sales" increased by ¥45,206 million on the condensed interim consolidated statement of income for the nine months ended September 30, 2018. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 3. Significant accounting policies."

(Non-GAAP financial measures)

The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP 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.

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, 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 will continue to pursue this goal.

(Core revenue from tobacco business)

Regarding tobacco business, core revenue is disclosed 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 RRP, 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 RRP, but excludes revenue related to the distribution business and contract manufacturing, among others.

(RRP)

Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as E-Vapor products and T-Vapor products.

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 the leaf, they use methods such as heating the leaf to generate vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.

At the Group, we are committed to developing, testing and bringing to market such new and innovative products for sustainable growth.

(1) Operating results

<Revenue>

Revenue increased by ¥82.9 billion, or 5.2%, from the same period of the previous year to ¥1,675.8 billion due to increases in revenue in the International Tobacco Business and the Pharmaceutical Business despite unfavorable foreign exchange effects on the International Tobacco Business.

(Billions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
Revenue	1,592.9	1,675.8	82.9	5.2%
Domestic Tobacco Business	468.4	472.4	4.0	0.9%
Of which, core revenue	443.1	444.4	1.3	0.3%
International Tobacco Business	927.5	999.4	71.9	7.8%
Of which, core revenue	882.9	953.2	70.3	8.0%
Pharmaceutical Business	74.2	81.8	7.5	10.1%
Processed Food Business	117.3	117.2	(0.1)	(0.1)%

* Figures exclude intersegment revenue.

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

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

Adjusted operating profit including foreign exchange effects increased by ¥24.9 billion, or 5.1%, from the same period of the previous year to ¥511.0 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 unfavorable foreign exchange effects on the International Tobacco Business. Adjusted operating profit at constant rates of exchange increased by 9.2% from the same period of the previous year.

Operating profit increased by ¥7.4 billion, or 1.6%, from the same period of the previous year to ¥477.1 billion due to the increase in adjusted operating profit including foreign exchange effects, despite countering factors, including the relative negative effect arising from the posting in the same period of the previous year of a gain on reversal of impairment losses on investments in associates, and separate to this, the increase in amortization cost of acquired intangibles arising from business acquisitions.

Profit attributable to owners of the parent company decreased by 0.3% from the same period of the previous year to ¥332.7 billion, a similar level to that of the same period of the previous year. This was the result of the increase in financial costs offsetting the increase in operating profit.

(Billions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
Adjusted operating profit	486.1	511.0	24.9	5.1%
Domestic Tobacco Business	178.0	172.8	(5.2)	(2.9)%
International Tobacco Business	307.1	336.9	29.8	9.7%
Pharmaceutical Business	15.8	19.3	3.5	21.8%
Processed Food Business	3.0	2.1	(0.9)	(30.0)%
Operating profit	469.7	477.1	7.4	1.6%
Profit attributable to owners of the parent company	333.7	332.7	(1.0)	(0.3)%

* 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

JT cigarette sales volume(Note 1) in the nine months ended September 30, 2018 was affected by a decline in cigarette industry volume(Note 2) caused by the expansion of RRP market and the downtrend in total demand despite a one off increase in demand ahead of retail price amendments in October 2018. As a result, JT cigarette sales volume fell by 8.7% from the same period of the previous year. Market share for cigarettes was 61.9% (compared with a share of 61.3% for the previous fiscal year).

(Billions of cigarettes)

Domestic Tobacco Business	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
JT cigarette sales volume	70.3	64.2	(6.1)	(8.7)%

Core revenue remained at the similar level as the same period of the previous year, with the impact of lower JT cigarette sales volume being offset by the increase in revenue related to RRP and other factors.

Adjusted operating profit decreased by 2.9% from the same period of the previous year due mainly to an increase in promotion expenses related to RRP.

(Billions of yen)

Domestic Tobacco Business	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
Revenue	468.4	472.4	4.0	0.9%
Of which, core revenue	443.1	444.4	1.3	0.3%
Adjusted operating profit	178.0	172.8	(5.2)	(2.9)%

Note: 1 In addition to the figure stated above for sales volume, during the nine months ended September 30, 2018, 3.1 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 RRP and the like.

Note: 2 Cigarette industry volume includes sales volume for the whole Japanese cigarette market. Note also that this does not include the sales volume associated with RRP and the like.

International Tobacco Business

In the nine months ended September 30, 2018, despite factors including the impact of a decline in total demand in Russia, etc., total shipment volume(Note 3) grew by 7.4% from the same period of the previous year. This mainly reflected the effects of acquisitions in the Philippines, Indonesia, Russia, Ethiopia and other countries. GFB(Note 4) shipment volume rose by 1.9% from the same period of the previous year.

(Billions of cigarettes)

International Tobacco Business	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
Total shipment volume	298.0	320.1	22.2	7.4%
Of which, GFBs	197.5	201.3	3.8	1.9%

Despite unfavorable foreign exchange effects related to local currencies, dollar-based core revenue including foreign exchange effects increased by 10.1% from the same period of the previous year as a result of the effects of favorable pricing and the increase in total shipment volume.

Dollar-based adjusted operating profit including foreign exchange effects rose by 11.8% from the same period of the previous year, due mainly to higher core revenue despite the increase in investments to strengthen the business foundation in the markets where the Company made acquisitions and unfavorable foreign exchange effects related to local currencies. Adjusted operating profit at constant rates of exchange (dollar-based) increased by 16.2% from the same period of the previous year.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
Revenue	8,293	9,117	823	9.9%
Of which, core revenue	7,895	8,695	800	10.1%
Adjusted operating profit	2,747	3,071	324	11.8%

Yen-based core revenue and adjusted operating profit rose by 8.0% and 9.7% from the same period of the previous year respectively, as a result of the effects of the stronger yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	Nine months ended September 30, 2017	Nine months ended September 30, 2018	Change	
Revenue	927.5	999.4	71.9	7.8%
Of which, core revenue	882.9	953.2	70.3	8.0%
Adjusted operating profit	307.1	336.9	29.8	9.7%

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

Note: 4 GFBs (Global Flagship Brands) consist of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS and LD.

* 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, 2017	Nine months ended September 30, 2018
Yen	111.89	109.60
Ruble	58.32	61.41
Pounds sterling	0.78	0.74
EUR	0.90	0.84

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.

Revenue in the nine months ended September 30, 2018 increased by ¥7.5 billion, or 10.1%, from the same period of the previous year to ¥81.8 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed, and other factors. Adjusted operating profit increased by ¥3.5 billion, or 21.8%, from the same period of the previous year to ¥19.3 billion, due to the increase in revenue despite the increase in research and development expenses.

Processed Food Business

In the third quarter ended September 30, 2018, the Group 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, 2018, increases in sales of staple food products and seasonings were offset by the decrease in sales of other products, leading to revenue of a similar level to that of the same period of the previous year, at ¥117.2 billion, a decrease of 0.1% from the same period of the previous year. Adjusted operating profit decreased by ¥0.9 billion, or 30.0%, from the same period of the previous year to ¥2.1 billion, due mainly to higher raw material costs.

(2) Management policy, management strategy, etc.

During the nine months ended September 30, 2018, there were no material changes in management policy, management strategy, etc. stipulated by the Group mentioned in the previous fiscal year's Annual Securities Report.

(3) Operational and financial issues to be addressed

During the nine months ended September 30, 2018, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(4) Research and development activities

Research and development expenses of the entire Group during the nine months ended September 30, 2018, were ¥47.4 billion.

During the nine months ended September 30, 2018, 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.

(5) 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, 2018 decreased by ¥2.2 billion from the end of the previous fiscal year to ¥283.3 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥217.0 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the nine months ended September 30, 2018 were ¥427.6 billion, compared with ¥334.5 billion provided in the same period of the previous year. This was mainly due to the generation of a stable cash inflow from the tobacco business, and payments of national and international tobacco excise taxes and income taxes.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the nine months ended September 30, 2018 were 233.9 billion, compared with ¥171.3 billion used in the same period of the previous year. This was mainly due to the acquisition of tobacco companies in Russia and the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the nine months ended September 30, 2018 were ¥176.8 billion, compared with ¥242.6 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends and the repayment of loans, despite the issuance of bonds and other factors.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2017 and as of September 30, 2018 accounted for ¥332.2 billion and ¥621.5 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥71.9 billion and ¥72.6 billion respectively. Long-term lease obligations totaled ¥9.3 billion as of December 31, 2017 and ¥9.1 billion as of September 30, 2018.

Short-term debt

Short-term borrowings from financial institutions totaled ¥274.2 billion as of December 31, 2017 and ¥159.8 billion as of September 30, 2018. Commercial paper outstanding totaled ¥66.8 billion as of December 31, 2017 and ¥22.7 billion as of September 30, 2018. Short-term lease obligations totaled ¥1.3 billion as of December 31, 2017 and ¥1.1 billion as of September 30, 2018.

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, 2018, 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, 2018)	Number of shares issued (Share; as of the date of filing: November 1, 2018)	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, 2018 are as follows.

Resolution date	June 15, 2018
Number of subscription rights to shares	891
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	178,200 shares(Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share
Exercise period of subscription rights to shares	From July 3, 2018 to July 2, 2048
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥300,000 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 Regulation on Accounting of Companies. 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 subscription right to shares (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 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 subscription right to shares, 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 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 subscription right to shares 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 subscription right to shares, 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, 2018 to September 30, 2018	–	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, 2018)

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 208,635,200	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,791,281,600	17,912,816	(Note 2)
Shares less than one unit	Ordinary shares 83,200	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,912,816	–

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 40 shares of treasury shares.

b. Treasury shares

(as of September 30, 2018)

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	208,635,200	–	208,635,200	10.43
Total	–	208,635,200	–	208,635,200	10.43

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, 2018.

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, 2018 to September 30, 2018) and for the nine months ended September 30, 2018 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, 2017	As of September 30, 2018
Assets		
Current assets		
Cash and cash equivalents	285,486	283,280
Trade and other receivables	431,199	492,914
Inventories	612,954	632,924
Other financial assets	14,016	29,589
Other current assets	361,715	366,796
Subtotal	1,705,370	1,805,505
Non-current assets held-for-sale	2,396	119
Total current assets	1,707,767	1,805,624
Non-current assets		
Property, plant and equipment (Note 6)	745,607	734,875
Goodwill (Notes 6,16)	1,891,210	1,935,805
Intangible assets (Note 6)	479,175	483,429
Investment property	16,700	18,033
Retirement benefit assets	51,377	56,845
Investments accounted for using the equity method	81,253	70,053
Other financial assets	114,970	116,576
Deferred tax assets	133,425	125,831
Total non-current assets	3,513,717	3,541,446
Total assets	5,221,484	5,347,070

	As of December 31, 2017	As of September 30, 2018
		(Millions of yen)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	395,733	393,905
Bonds and borrowings	398,182	183,435
Income tax payables	46,452	48,918
Other financial liabilities	6,906	12,140
Provisions	13,028	10,495
Other current liabilities	618,322	732,078
Total current liabilities	1,478,623	1,380,971
Non-current liabilities		
Bonds and borrowings (Note 7)	346,955	693,153
Other financial liabilities	11,013	10,570
Retirement benefit liabilities	330,762	322,322
Provisions	4,005	3,829
Other non-current liabilities	120,779	117,357
Deferred tax liabilities	87,319	93,602
Total non-current liabilities	900,833	1,240,833
Total liabilities	2,379,456	2,621,804
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(443,636)	(442,954)
Other components of equity	(167,338)	(346,784)
Retained earnings	2,536,262	2,607,660
Equity attributable to owners of the parent company	2,761,687	2,654,323
Non-controlling interests	80,340	70,943
Total equity	2,842,027	2,725,266
Total liabilities and equity	5,221,484	5,347,070

(2) 【Condensed interim consolidated statement of income】

(For the nine-month period)

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Revenue (Notes 5, 9)	1,592,899	1,675,819
Cost of sales	(619,334)	(685,128)
Gross profit	973,565	990,691
Other operating income (Note 10)	34,340	23,958
Share of profit in investments accounted for using the equity method	5,032	2,987
Selling, general and administrative expenses (Note 11)	(543,269)	(540,543)
Operating profit (Note 5)	469,668	477,093
Financial income (Note 12)	3,657	4,063
Financial costs (Note 12)	(19,390)	(31,755)
Profit before income taxes	453,935	449,402
Income taxes	(117,669)	(114,523)
Profit for the period	336,266	334,878
Attributable to:		
Owners of the parent company	333,698	332,686
Non-controlling interests	2,568	2,192
Profit for the period	336,266	334,878
Interim earnings per share		
Basic (Yen) (Note 13)	186.32	185.73
Diluted (Yen) (Note 13)	186.21	185.64

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

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Operating profit	469,668	477,093
Amortization cost of acquired intangibles arising from business acquisitions	36,002	44,722
Adjustment items (income)	(27,095)	(17,043)
Adjustment items (costs)	7,476	6,218
Adjusted operating profit (Note 5)	486,051	510,991

(For the three-month period)

	Three months ended September 30, 2017	Three months ended September 30, 2018
	(Millions of yen)	
Revenue (Note 5)	547,569	600,548
Cost of sales	(208,823)	(241,617)
Gross profit	338,746	358,931
Other operating income	2,072	5,183
Share of profit in investments accounted for using the equity method	1,548	40
Selling, general and administrative expenses	(185,983)	(189,391)
Operating profit (Note 5)	156,383	174,763
Financial income	737	1,088
Financial costs	(6,098)	(16,816)
Profit before income taxes	151,022	159,035
Income taxes	(42,078)	(41,717)
Profit for the period	108,944	117,318
Attributable to:		
Owners of the parent company	108,064	116,593
Non-controlling interests	881	725
Profit for the period	108,944	117,318
Interim earnings per share		
Basic (Yen) (Note 13)	60.34	65.09
Diluted (Yen) (Note 13)	60.30	65.06

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

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Operating profit	156,383	174,763
Amortization cost of acquired intangibles arising from business acquisitions	12,379	15,749
Adjustment items (income)	(1,208)	(153)
Adjustment items (costs)	3,839	2,820
Adjusted operating profit (Note 5)	171,393	193,179

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

(For the nine-month period)

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Profit for the period	336,266	334,878
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	3,153	(3,876)
Remeasurements of defined benefit plans	(895)	(2,790)
Total of items that will not be reclassified to profit or loss	2,258	(6,666)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	106,525	(174,178)
Net gain (loss) on derivatives designated as cash flow hedges	(94)	(250)
Total of items that may be reclassified subsequently to profit or loss	106,430	(174,428)
Other comprehensive income (loss), net of taxes	108,689	(181,094)
Comprehensive income (loss) for the period	444,955	153,784
Attributable to:		
Owners of the parent company	442,112	151,733
Non-controlling interests	2,843	2,052
Comprehensive income (loss) for the period	444,955	153,784

(For the three-month period)

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Profit for the period	108,944	117,318
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	(1,514)	417
Remeasurements of defined benefit plans	(95)	–
Total of items that will not be reclassified to profit or loss	(1,609)	417
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	69,168	(8,814)
Net gain (loss) on derivatives designated as cash flow hedges	(283)	(48)
Total of items that may be reclassified subsequently to profit or loss	68,885	(8,862)
Other comprehensive income (loss), net of taxes	67,276	(8,445)
Comprehensive income (loss) for the period	176,220	108,873
Attributable to:		
Owners of the parent company	175,085	107,728
Non-controlling interests	1,136	1,145
Comprehensive income (loss) for the period	176,220	108,873

(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, 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 8)	—	—	—	—	—	—	—
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
As of January 1, 2018	100,000	736,400	(443,636)	1,964	(207,884)	(88)	38,670
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(173,975)	(250)	(3,939)
Comprehensive income (loss) for the period	—	—	—	—	(173,975)	(250)	(3,939)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	682	(601)	—	—	—
Share-based payments	—	—	—	207	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
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	—	—	—	—	—	—	(810)
Other increase (decrease)	—	—	—	—	—	(77)	—
Total transactions with the owners	—	—	682	(394)	—	(77)	(810)
As of September 30, 2018	100,000	736,400	(442,954)	1,570	(381,859)	(416)	33,921

(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, 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 8)	−	−	(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
As of January 1, 2018	−	(167,338)	2,536,262	2,761,687	80,340	2,842,027
Profit for the period	−	−	332,686	332,686	2,192	334,878
Other comprehensive income (loss)	(2,790)	(180,954)	−	(180,954)	(140)	(181,094)
Comprehensive income (loss) for the period	(2,790)	(180,954)	332,686	151,733	2,052	153,784
Acquisition of treasury shares	−	−	−	(0)	−	(0)
Disposal of treasury shares	−	(601)	(81)	0	−	0
Share-based payments	−	207	2	208	36	244
Dividends (Note 8)	−	−	(259,724)	(259,724)	(1,793)	(261,517)
Changes in the scope of consolidation	−	−	−	−	28	28
Changes in the ownership interest in a subsidiary without a loss of control	−	−	495	495	(9,719)	(9,224)
Transfer from other components of equity to retained earnings	2,790	1,979	(1,979)	−	−	−
Other increase (decrease)	−	(77)	−	(77)	−	(77)
Total transactions with the owners	2,790	1,508	(261,287)	(259,097)	(11,448)	(270,546)
As of September 30, 2018	−	(346,784)	2,607,660	2,654,323	70,943	2,725,266

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

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	453,935	449,402
Depreciation and amortization	106,192	116,291
Impairment losses	1,550	870
Reversal of impairment losses on investments in associates	(8,848)	－
Interest and dividend income	(3,458)	(4,061)
Interest expense	8,285	10,803
Share of profit in investments accounted for using the equity method	(5,032)	(2,987)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(15,979)	(13,156)
(Increase) decrease in trade and other receivables	(18,246)	(64,446)
(Increase) decrease in inventories	(6,755)	(35,400)
Increase (decrease) in trade and other payables	(40,359)	10,644
Increase (decrease) in retirement benefit liabilities	(11,610)	(11,458)
(Increase) decrease in prepaid tobacco excise taxes	(30,327)	(14,251)
Increase (decrease) in tobacco excise tax payables	1,900	89,304
Increase (decrease) in consumption tax payables	4,174	1,229
Other	(3,136)	(2,400)
Subtotal	432,286	530,382
Interest and dividends received	8,871	9,687
Interest paid	(6,752)	(9,556)
Income taxes paid	(99,953)	(102,896)
Net cash flows from operating activities	334,452	427,618
Cash flows from investing activities		
Purchase of securities	(4,752)	(25,300)
Proceeds from sale and redemption of securities	3,740	3,912
Purchase of property, plant and equipment	(86,078)	(90,164)
Proceeds from sale of investment property	17,805	23,851
Purchase of intangible assets	(10,065)	(16,506)
Payments into time deposits	(223)	(64)
Proceeds from withdrawal of time deposits	214	56
Payments for business combinations (Note 16)	(82,372)	(131,919)
Purchase of investments in associates	(40)	－
Other	(9,483)	2,210
Net cash flows from investing activities	(171,256)	(233,925)

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(243,426)	(259,375)
Dividends paid to non-controlling interests	(1,271)	(1,514)
Capital contribution from non-controlling interests	14	9
Increase (decrease) in short-term borrowings and commercial paper	(217)	(191,790)
Proceeds from long-term borrowings	850	1,632
Repayments of long-term borrowings	(385)	(2,479)
Proceeds from issuance of bonds	—	341,516
Redemption of bonds	—	(54,086)
Proceeds from sale and leaseback transactions	2,819	—
Repayments of finance lease obligations	(972)	(1,281)
Acquisition of treasury shares	(0)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(9,420)
Other	0	0
Net cash flows from financing activities	(242,588)	(176,789)
Net increase (decrease) in cash and cash equivalents	(79,392)	16,904
Cash and cash equivalents at the beginning of the period	294,157	285,486
Effect of exchange rate changes on cash and cash equivalents	2,216	(19,110)
Cash and cash equivalents at the end of the period	216,980	283,280

【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, 2018 and for the nine-month period ended September 30, 2018 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on October 31, 2018 by Masamichi Terabatake, 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 accordance 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 accordance 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, 2017.

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, 2017 except the following items.

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

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the first quarter ended March 31, 2018.

IFRS		Description of new standards and amendments
IFRS 9	Financial Instruments	Limited changes to classification and measurement of financial assets, and introduction of an expected credit loss impairment model
IFRS 15	Revenue from Contracts with Customers	Amendments to accounting treatment for recognizing revenue

The effect of adopting IFRS 9 on the condensed interim consolidated financial statements is immaterial.

In adopting IFRS 15, the Group used a transition method by which the cumulative effect of initially applying this Standard was recognized at the date of initial application.

In accordance with IFRS 15, revenue is recognized based on the following five-step approach.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group mainly engages in the sale of tobacco products, prescription drugs, and processed foods. Revenue is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group evaluates that the performance obligation is satisfied. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax.

The tobacco excise taxes and other transactions in which the Group is involved as an agency are excluded from revenue. The amount after deducting the tobacco excise taxes and other transactions is presented as “Revenue” in the condensed interim consolidated statement of income.

As a result of identification of performance obligations under contracts with customers based on the above five-step approach, the sales promotion and other expenses paid by the Group to customers, which have been previously accounted for as selling, general and administrative expenses, are partially deducted from revenue from the first quarter ended March 31, 2018. In addition, shipping and warehousing expenses and other expenses necessary for satisfying performance obligations that have been previously accounted for as selling, general and administrative expenses are accounted for as cost of sales from the first quarter ended March 31, 2018.

As a result, compared to the application of the former accounting standard, “Revenue” and “Selling, general and administrative expenses” decreased by ¥6,874 million and ¥52,080 million respectively, and “Cost of sales” increased by ¥45,206 million on the condensed interim consolidated statement of income for the nine months ended September 30, 2018. The above effects include promotion expenses (¥5,611 million) accounted for as reductions of revenue, as well as shipping and warehousing expenses (¥21,192million) accounted for as cost of sales.

These changes have no effect on operating profit and profit for the period.

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, 2017.

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, 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)	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

For the nine months ended September 30, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	472,390	999,409	81,754	117,163	1,670,716	5,103	―	1,675,819
Intersegment revenue	5,983	19,366	―	0	25,349	4,332	(29,681)	―
Total revenue	478,373	1,018,774	81,754	117,163	1,696,065	9,435	(29,681)	1,675,819
Segment profit (loss)								
Adjusted operating profit (Note 1)	172,800	336,864	19,281	2,064	531,008	(20,062)	44	510,991

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

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 5)	(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

For the nine months ended September 30, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	172,800	336,864	19,281	2,064	531,008	(20,062)	44	510,991
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(32,538)	—	—	(44,722)	—	—	(44,722)
Adjustment items (income) (Note 4)	5	1,599	—	35	1,640	15,403	—	17,043
Adjustment items (costs) (Note 5)	(286)	(1,153)	—	(1,194)	(2,633)	(3,586)	—	(6,218)
Operating profit (loss)	160,335	304,772	19,281	906	485,293	(8,244)	44	477,093
Financial income								4,063
Financial costs								(31,755)
Profit before income taxes								449,402

(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, 2017	Nine months ended September 30, 2018
Domestic Tobacco	443,100	444,388
International Tobacco	882,871	953,159

(Note 4) The breakdown of "Adjustment items (income)" is as follows:

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Restructuring incomes	16,338	15,991
Reversal of impairment losses on investments in associates	8,848	−
Other	1,909	1,052
Adjustment items (income)	27,095	17,043

Restructuring incomes for the nine months ended September 30, 2017 and 2018 mainly relate to gains on sale of real estate. The breakdown of restructuring income is described in "10. Other operating income."

(Note 5) The breakdown of "Adjustment items (costs)" is as follows:

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Restructuring costs	7,476	5,166
Other	−	1,053
Adjustment items (costs)	7,476	6,218

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." Restructuring costs for the nine months ended September 30, 2018 mainly relate to disposal of real estate and rationalization of the production and distribution system in some markets in the "International Tobacco Business."

Restructuring costs included in "Cost of sales" were ¥12 million for the nine months ended September 30, 2018 and those costs included in "Selling, general and administrative expenses" were ¥7,476 million and ¥5,153 million for the nine months ended September 30, 2017 and 2018, respectively.

The breakdown of restructuring costs is described in "11. Selling, general and administrative expenses." Other for the nine months ended September 30, 2018 relates to settlement of the litigation in September 2018.

For the three 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)	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

For the three months ended September 30, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	181,686	348,509	28,550	40,133	598,879	1,669	－	600,548
Intersegment revenue	1,964	6,280	－	0	8,244	1,378	(9,622)	－
Total revenue	183,650	354,789	28,550	40,134	607,123	3,047	(9,622)	600,548
Segment profit (loss)								
Adjusted operating profit (Note 1)	69,274	122,558	7,908	629	200,370	(7,012)	(179)	193,179

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

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 5)	(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

For the three months ended September 30, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	69,274	122,558	7,908	629	200,370	(7,012)	(179)	193,179
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(11,688)	−	−	(15,749)	−	−	(15,749)
Adjustment items (income) (Note 4)	4	34	−	16	55	98	−	153
Adjustment items (costs) (Note 5)	(0)	(1,550)	−	(1,189)	(2,739)	(81)	−	(2,820)
Operating profit (loss)	65,218	109,354	7,908	(543)	181,937	(6,995)	(179)	174,763
Financial income								1,088
Financial costs								(16,816)
Profit before income taxes								159,035

(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, 2017	Three months ended September 30, 2018
Domestic Tobacco	148,676	172,173
International Tobacco	305,642	333,136

(Note 4) The breakdown of "Adjustment items (income)" is as follows:

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Restructuring incomes	1,208	153
Adjustment items (income)	1,208	153

(Note 5) The breakdown of "Adjustment items (costs)" is as follows:

(Millions of yen)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Restructuring costs	3,839	1,768
Other	—	1,053
Adjustment items (costs)	3,839	2,820

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, 2018	745,607	1,891,210	479,175
Individual acquisition	86,481	—	15,239
Acquisition through business combinations	6,140	153,334	60,803
Transfer to investment property	(2,985)	—	—
Transfer to non-current assets held-for-sale	(1,949)	—	—
Depreciation or amortization	(61,195)	—	(54,667)
Impairment losses	(337)	—	—
Reversal of impairment losses	692	—	0
Sale or disposal	(3,164)	—	(1,563)
Exchange differences on translation of foreign operations	(34,417)	(108,621)	(15,814)
Other	3	(119)	257
As of September 30, 2018	734,875	1,935,805	483,429

7. Bonds

The straight bonds issued for the nine months ended September 30, 2018 are as follows:

			(Millions of yen)	(%)		
Company	Name of bond	Date of issuance	Carrying amount	Interest rate	Collateral	Date of maturity
Japan Tobacco Inc.	12th domestic straight bond	September 10, 2018	60,000	0.110	Yes	September 8, 2023
Japan Tobacco Inc.	13th domestic straight bond	September 10, 2018	30,000	0.355	Yes	September 8, 2028
Japan Tobacco Inc.	14th domestic straight bond	September 10, 2018	10,000	0.758	Yes	September 10, 2038
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	59,194 [USD 525 mil.]	3.500	No	September 28, 2023
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	56,085 [USD 500 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	71,768 [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	57,933 [GBP 400 mil.]	2.750	No	September 28, 2033

(Note) The figure in parentheses [ ] represents the amount of foreign currency-denominated bond.

8. Dividends

Dividends paid for each interim period are as follows:

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

For the nine months ended September 30, 2018

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 27, 2018)	Ordinary shares	125,373	70	December 31, 2017	March 28, 2018
Board of Directors (August 1, 2018)	Ordinary shares	134,351	75	June 30, 2018	September 3, 2018

9. Revenue

(1) Disaggregation of revenue

The disaggregation of “Revenue” for the nine months ended September 30, 2018 is as follows. The amounts are presented after eliminations of intercompany transactions.

For the nine months ended September 30, 2018

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business	444,388	953,159	—	—	—	1,397,547
Other	28,002	46,250	81,754	117,163	5,103	278,272
	472,390	999,409	81,754	117,163	5,103	1,675,819

(2) Gross turnover

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

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Gross turnover	5,394,393	5,718,082
Tobacco excise taxes and agency transaction amount	(3,801,494)	(4,042,264)
Revenue	1,592,899	1,675,819

10. Other operating income

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

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Reversal of impairment losses on investments in associates	8,848	—
Gains on sale of property, plant and equipment, intangible assets and investment property (Note)	18,140	15,910
Other (Note)	7,351	8,048
Total	34,340	23,958

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

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Gains on sale of property, plant and equipment, intangible assets and investment property	16,330	15,291
Other	8	700
Total	16,338	15,991

11. 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, 2017	Nine months ended September 30, 2018
Advertising expenses	16,105	18,432
Promotion expenses	75,428	67,707
Commission	35,492	36,323
Employee benefit expenses (Note)	185,309	199,647
Research and development expenses	43,870	47,429
Depreciation and amortization	59,218	63,966
Impairment losses on other than financial assets (Note)	1,550	870
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	3,553	6,171
Other (Note)	122,743	99,998
Total	543,269	540,543

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

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Employee benefit expenses	1,193	81
Impairment losses on other than financial assets	927	615
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	820	2,872
Other	4,536	1,586
Total	7,476	5,153

12. 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, 2017	Nine months ended September 30, 2018
Dividend income	1,486	1,631
Interest income	1,972	2,430
Other	199	2
Total	3,657	4,063

(Millions of yen)

Financial costs	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Interest expenses (Note 2)	8,285	10,803
Foreign exchange losses (Note 1)	7,656	16,452
Employee benefit expenses (Note 3)	2,659	2,162
Other	790	2,339
Total	19,390	31,755

(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.

13. 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, 2017	Nine months ended September 30, 2018
Profit for the period attributable to owners of the parent company	333,698	332,686
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	333,698	332,686

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

(Thousands of shares)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Weighted-average number of shares during the period	1,790,984	1,791,257

(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, 2017	Nine months ended September 30, 2018
Profit for the period used for calculation of basic interim earnings per share	333,698	332,686
Adjustment	–	(0)
Profit for the period used for calculation of diluted interim earnings per share	333,698	332,686

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

(Thousands of shares)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Weighted-average number of ordinary shares during the period	1,790,984	1,791,257
Increased number of ordinary shares under subscription rights to shares	1,027	867
Weighted-average number of diluted ordinary shares during the period	1,792,011	1,792,123

(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, 2017	Three months ended September 30, 2018
Profit for the period attributable to owners of the parent company	108,064	116,593
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	108,064	116,593

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

(Thousands of shares)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Weighted-average number of shares during the period	1,790,988	1,791,363

(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, 2017	Three months ended September 30, 2018
Profit for the period used for calculation of basic interim earnings per share	108,064	116,593
Adjustment	(0)	–
Profit for the period used for calculation of diluted interim earnings per share	108,064	116,593

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

(Thousands of shares)

	Three months ended September 30, 2017	Three months ended September 30, 2018
Weighted-average number of ordinary shares during the period	1,790,988	1,791,363
Increased number of ordinary shares under subscription rights to shares	1,057	857
Weighted-average number of diluted ordinary shares during the period	1,792,044	1,792,220

14. 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, 2017		As of September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	71,854	71,829	72,621	72,309
Bonds (Note)	332,242	331,998	621,546	619,112

(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, 2017

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	5,978	—	5,978
Equity securities	71,859	—	5,783	77,642
Other	408	—	3,559	3,967
Total	72,267	5,978	9,342	87,587
Derivative liabilities	—	5,425	—	5,425
Total	—	5,425	—	5,425

As of September 30, 2018

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	4,607	—	4,607
Equity securities	64,814	—	6,102	70,916
Other	438	7,000	4,761	12,198
Total	65,251	11,607	10,863	87,721
Derivative liabilities	—	10,759	—	10,759
Total	—	10,759	—	10,759

15. Commitments

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

(Millions of yen)

	As of December 31, 2017	As of September 30, 2018
Acquisition of property, plant and equipment	74,732	83,468

16. Business combinations

Acquisition of the tobacco company in Russia

(1) Summary of business combinations

On July 31, 2018, the Group acquired 100% of the outstanding shares of JSC Donskoy Tabak ("DT"), a company operating tobacco business in Russia (Note).

DT has well-established brands such as "Donskoy Tabak", "Kiss" and "Play" in the value segment, the largest and growing price segment in Russia.

The purpose of this acquisition is to expand brand portfolio in the value segment and strengthen a distribution and sales network in the Russian tobacco market, a cornerstone of the Group's earnings growth.

(Note) The acquisition also includes purchases of 100% of the outstanding shares of JSC Pereslavl-Tabak and 94.97% of the outstanding shares of Syneteristiki Kapnoviomihania Ellados Sekap S.A.

(2) Financial impact on the Group

Since the acquisition date, the acquired business has contributed to consolidated revenue of ¥6,746 million and consolidated operating profit of ¥1,018 million.

It is assumed that had the business been acquired on January 1, 2018, total consolidated revenue would have increased by ¥19,288 million to ¥1,695,106 million, and total consolidated operating profit would have decreased by ¥5,261 million to ¥471,832 million.

The above operating profit includes the amortization of trademarks acquired from the business combinations, etc.

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

The consideration is ¥166,910 million and paid fully in cash.

Out of the total consideration, ¥134,618 million has been paid as of the interim period end date and ¥32,292 million will be paid after the interim period end date.

(4) Net cash outflow for the business combinations (Total of the acquisition)

(Millions of yen)

	Net cash outflow for the business combinations
Cash consideration	166,910
Cash and cash equivalents in subsidiaries acquired	(300)
Net cash outflow for the business combinations	166,610

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

	(Millions of yen)
	Fair value
Current assets	45,201
Trademarks	61,801
Other non-current assets	8,861
Total assets	115,863
Current liabilities	76,938
Non-current liabilities	28,285
Total liabilities	105,223
Non-controlling interests	(34)
Goodwill	156,237

Goodwill represents future economic benefits from 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 acquisitions

The information of the business combinations other than the above for the nine months ended September 30, 2018, are omitted as they are immaterial both individually and in aggregate.

17. Contingencies

As of September 30, 2018, a significant change to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2017 is as follows:

Japan compensatory damages claim:

The litigation filed by the former President & CEO of Katokichi Co., Ltd. against TableMark Holdings Co., Ltd. (renamed after the acquisition of Katokichi Co., Ltd. by the Company) and its subsidiary was settled in September 2018.

18. Subsequent events

No items to report.

2. 【Other】

(Dividends)

The Board of Directors, at a meeting held on August 1, 2018, declared the following interim dividends for the current fiscal year.

(a) Total amount of interim dividends ¥134,351 million

(b) Amount per share ¥75.00

(c) Effective date of requests for payment, and commencement date of payments September 3, 2018

Note:Dividends have been paid to shareholders registered or recorded on the shareholder registry as of June 30, 2018

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

October 31, 2018

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: 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, 2018, 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, 2018, 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.