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November 1, 2017

## Consolidated Financial Results for the Nine Months Ended September 30, 2017 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)  
Listed Stock Exchange: Tokyo Stock Exchange  
URL: <https://www.jti.co.jp/>  
Representative: Mitsuomi Koizumi, President,  
Chief Executive Officer and Representative Director  
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Scheduled date to file Quarterly Securities Report: November 2, 2017  
Scheduled starting date of the dividend payments: –  
Drawing up supplementary documents on quarterly financial results: Yes  
Holding quarterly investors' meeting: Yes (for analysts and institutional investors)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

### 1. Consolidated financial results for the nine months of the fiscal year ending December 31, 2017 (from January 1, 2017 to September 30, 2017)

#### (1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
September 30, 2017	1,592,899	(1.6)	469,668	(5.0)	453,935	(6.3)	336,266	(4.8)
September 30, 2016	1,618,537	(4.1)	494,580	8.5	484,275	5.9	353,253	(13.4)

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
Nine months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
September 30, 2017	333,698	(4.7)	444,955	-	186.32	186.21
September 30, 2016	350,008	(13.4)	(25,874)	-	195.44	195.33

#### (2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity attributable to owners of the parent company per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
September 30, 2017	4,915,527	2,728,061	2,654,421	54.0	1,482.10
December 31, 2016	4,744,374	2,528,041	2,456,091	51.8	1,371.39

## 2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2016	-	64.00	-	66.00	130.00
Year ending December 31, 2017	-	70.00	-		
Year ending December 31, 2017 (Forecast)				70.00	140.00

Note: Revisions to the cash dividends forecasts most recently announced: None

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

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending December 31, 2017	2,130,000	(0.6)	565,000	(4.8)	402,000	(4.7)	224.46

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

[Additional Information] Growth rate in adjusted operating profit at constant rates of exchange:

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.

(Percentages indicate year-on-year changes.)

	Adjusted operating profit at constant rates of exchange	
	Millions of yen	%
Nine months ended September 30, 2017 (Cumulative)	489,651	2.8
Year ending December 31, 2017 (Forecast)	592,000	0.9

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

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. For details of these financial measures, please refer to "Proper use of earnings forecasts, and other special matters, (2)."

For detailed information on the consolidated financial results, please visit the Company's website (<https://www.jti.co.jp/>), where materials for investors' meeting have been released today, and refer to the quarterly securities report scheduled to be submitted on November 2, 2017.

## Notes

- (1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
- a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
  - b. Changes in accounting policies due to other reasons: None
  - c. Changes in accounting estimates: None
- For details, please refer to “1. Matters regarding summary information, (1) Changes in accounting policies and changes in accounting estimates.”
- (3) Number of shares issued (ordinary shares)
- a. Total number of shares issued at the end of the period (including treasury shares)

As of September 30, 2017	2,000,000,000 shares
As of December 31, 2016	2,000,000,000 shares
  - b. Number of treasury shares at the end of the period

As of September 30, 2017	209,012,545 shares
As of December 31, 2016	209,044,267 shares
  - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended September 30, 2017	1,790,983,795 shares
Nine months ended September 30, 2016	1,790,859,796 shares

\* Quarterly financial results reports are not required to be subjected to quarterly reviews.

### \* Proper use of earnings forecasts, and other special matters

- (1) The forward-looking statements, including forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions and suppositions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future. Please refer to “FORWARD-LOOKING STATEMENTS” for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.
- (2) 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.

#### 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, 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.

## Attached Materials

### Index

1. Matters regarding summary information .....	2
(1) Changes in accounting policies and changes in accounting estimates.....	2
(2) Revisions to the consolidated earnings forecasts most recently announced.....	2
2. Condensed interim consolidated financial statements .....	4
(1) Condensed interim consolidated statement of financial position.....	4
(2) Condensed interim consolidated statement of income and consolidated statement of comprehensive income .....	6
(3) Condensed interim consolidated statement of changes in equity .....	8
(4) Condensed interim consolidated statement of cash flows .....	10
(5) Segment information .....	12
(6) Notes on premise of going concern .....	15
(7) Subsequent events.....	15

## 1. Matters regarding summary information

### (1) Changes in accounting policies and changes in accounting estimates

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, with the exception of the items described below.

The Group calculated income taxes for the nine months ended September 30, 2017, 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	Additional disclosures about changes in liabilities arising from financing activities

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

### (2) Revisions to the consolidated earnings forecasts most recently announced

For revenue, despite a downward revision in the Domestic Tobacco Business, there was a revision of exchange rate assumptions in the International Tobacco Business, upwardly revising the forecast for revenue by ¥5.0 billion to ¥2,130.0 billion, down ¥13.3 billion or 0.6% year on year.

For adjusted operating profit inclusive of exchange rate effect, despite a downward revision in the Domestic Tobacco Business, there was a revision of exchange rate assumptions in the International Tobacco Business and an upward revision in the Pharmaceutical Business, upwardly revising the forecast for adjusted operating profit inclusive of exchange rate effect by ¥2.0 billion to ¥591.0 billion, a rise of ¥4.2 billion or 0.7% year on year.

For operating profit, despite an upward revision of the forecast for adjusted operating profit inclusive of exchange rate effect, partially due to the recording of expenses related to acquisitions in the International Tobacco Business, the forecast for operating profit was left unchanged from the most recently announced forecast at ¥565.0 billion, a fall of ¥28.3 billion or 4.8% year on year.

The forecast for profit attributable to owners of the parent company was left unchanged from the most recently announced forecast at ¥402.0 billion, a fall of ¥19.7 billion or 4.7% year on year.

The forecast for adjusted operating profit at constant rates of exchange was downwardly revised by ¥5.0 billion to ¥592.0 billion, a rise of ¥5.2 billion or 0.9% year on year.

## FORWARD-LOOKING STATEMENTS

This material contains forward-looking statements. These statements appear in a number of places in this presentation and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized. Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) decrease in demand for tobacco products in key markets;
- (2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;
- (3) increases in excise, consumption or other taxes on tobacco products in markets in which we operate;
- (4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (5) our ability to realize anticipated results of our acquisition or other similar investments;
- (6) competition in markets in which we operate or into which we seek to expand;
- (7) deterioration in economic conditions in areas that matter to us;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

## 2. 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	680,835	707,175
Goodwill	1,601,987	1,719,023
Intangible assets	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

	As of December 31, 2016	As of September 30, 2017
(Millions of yen)		
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	<u>1,356,574</u>	<u>1,375,990</u>
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	<u>859,759</u>	<u>811,475</u>
Total liabilities	<u>2,216,333</u>	<u>2,187,465</u>
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	<u>2,456,091</u>	<u>2,654,421</u>
Non-controlling interests	71,950	73,640
Total equity	<u>2,528,041</u>	<u>2,728,061</u>
Total liabilities and equity	<u><u>4,744,374</u></u>	<u><u>4,915,527</u></u>



**(2) Condensed interim consolidated statement of income and consolidated statement of comprehensive income**

**Condensed interim consolidated statement of income**

	(Millions of yen)	
	Nine months ended September 30, 2016	Nine months ended September 30, 2017
Revenue	1,618,537	1,592,899
Cost of sales	<u>(652,015)</u>	<u>(619,334)</u>
Gross profit	966,523	973,565
Other operating income	66,225	34,340
Share of profit in investments accounted for using the equity method	4,834	5,032
Selling, general and administrative expenses	<u>(543,001)</u>	<u>(543,269)</u>
Operating profit	494,580	469,668
Financial income	5,143	3,657
Financial costs	<u>(15,448)</u>	<u>(19,390)</u>
Profit before income taxes	484,275	453,935
Income taxes	<u>(131,022)</u>	<u>(117,669)</u>
Profit for the period	<u><u>353,253</u></u>	<u><u>336,266</u></u>
Attributable to:		
Owners of the parent company	350,008	333,698
Non-controlling interests	<u>3,245</u>	<u>2,568</u>
Profit for the period	<u><u>353,253</u></u>	<u><u>336,266</u></u>
Interim earnings per share		
Basic (Yen)	195.44	186.32
Diluted (Yen)	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)	<u>9,262</u>	<u>7,476</u>
Adjusted operating profit	<u><u>476,544</u></u>	<u><u>486,051</u></u>

## Condensed interim consolidated statement of comprehensive income

	(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

### (3) Condensed interim consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
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	—	—	—	—	—	—	—
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	<u>100,000</u>	<u>736,400</u>	<u>(443,931)</u>	<u>1,795</u>	<u>(510,856)</u>	<u>(506)</u>	<u>30,727</u>
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	—	—	—	—	—	—	—
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	<u>100,000</u>	<u>736,410</u>	<u>(443,754)</u>	<u>1,969</u>	<u>(229,346)</u>	<u>(116)</u>	<u>32,551</u>

(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	—	—	(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	—	—	(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

**(4) 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	(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	(Millions of yen) Nine months ended September 30, 2017
Cash flows from financing activities		
Dividends paid to owners of the parent company	(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

## **(5) Segment information**

### **a. Outline of reportable segments**

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

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

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

b. Revenues and performances of reportable segments

Revenues and performances of reportable segments 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					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
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	<u>527,355</u>	<u>941,953</u>	<u>60,720</u>	<u>120,114</u>	<u>1,650,142</u>	<u>14,265</u>	<u>(45,869)</u>	<u>1,618,537</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>198,977</u>	<u>284,996</u>	<u>4,227</u>	<u>3,709</u>	<u>491,908</u>	<u>(15,697)</u>	<u>333</u>	<u>476,544</u>

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	<u>474,938</u>	<u>951,038</u>	<u>74,222</u>	<u>117,314</u>	<u>1,617,512</u>	<u>11,543</u>	<u>(36,156)</u>	<u>1,592,899</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>177,967</u>	<u>307,096</u>	<u>15,824</u>	<u>2,951</u>	<u>503,837</u>	<u>(17,886)</u>	<u>100</u>	<u>486,051</u>



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 “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” .

## **(6) Notes on premise of going concern**

No items to report

## **(7) 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.