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February 6, 2018

Consolidated Financial Results for the Fiscal Year Ended December 31, 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, Representative Director
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Telephone: +81-3-3582-3111
Scheduled date of Annual General Meeting of Shareholders: March 27, 2018
Scheduled date to file Securities Report: March 27, 2018
Scheduled starting date of the dividend payments: March 28, 2018
Drawing up supplementary documents on financial results: Yes
Holding investors' meeting: Yes (for analysts and institutional investors)

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

1. Consolidated financial results for the fiscal year ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the year	
Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2017	2,139,653	(0.2)	561,101	(5.4)	538,532	(6.9)	396,749	(6.8)
December 31, 2016	2,143,287	(4.9)	593,329	5.0	578,237	2.3	425,773	(13.2)

	Profit attributable to owners of the parent company		Comprehensive income for the year		Basic earnings per share	Diluted earnings per share
Year ended	Millions of yen	%	Millions of yen	%	Yen	Yen
December 31, 2017	392,409	(6.9)	554,198	135.6	219.10	218.97
December 31, 2016	421,695	(13.2)	235,250	13.3	235.47	235.33

	Ratio of profit to equity attributable to owners of the parent company	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
Year ended	%	%	%
December 31, 2017	15.0	10.8	26.2
December 31, 2016	17.2	12.4	27.7

Reference: Share of profit (loss) in investments accounted for using the equity method:

Fiscal year ended December 31, 2017: ¥6,194 million; Fiscal year ended December 31, 2016: ¥6,489 million

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity attributable to owners of the parent company per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2017	5,221,484	2,842,027	2,761,687	52.9	1,541.94
December 31, 2016	4,744,374	2,528,041	2,456,091	51.8	1,371.39

(3) Consolidated cash flows

	Net cash flows from (used in) operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at the end of the year
Year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2017	419,212	(352,632)	(77,032)	285,486
December 31, 2016	376,549	(687,509)	91,318	294,157

2. Cash dividends

	Annual dividends per share					Total amount of dividends (total)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the parent company (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended December 31, 2016	-	64.00	-	66.00	130.00	232,820	55.2	9.5
Year ended December 31, 2017	-	70.00	-	70.00	140.00	250,742	63.9	9.6
Year ending December 31, 2018 (Forecast)	-	75.00	-	75.00	150.00		68.2	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(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, 2018	2,220,000	3.8	561,000	(0.0)	394,000	0.4	219.98

[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	%
Year ended December 31, 2017	583,151	(0.6)
Year ending December 31, 2018 (Forecast)	607,000	3.7

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 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.

Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): Yes

Newly included: One company (Name: PT. Karyadibya Mahardhika)

(2) Changes in accounting policies and changes in accounting estimates

a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

For details, please refer to "Consolidated financial statements and major notes (IFRS), (6) Notes to consolidated financial statements (Changes in accounting policies)."

(3) Number of shares issued (ordinary shares)

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

As of December 31, 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 December 31, 2017 208,956,589 shares

As of December 31, 2016 209,044,267 shares

c. Average number of shares during the period

Fiscal year ended December 31, 2017 1,790,995,180 shares

Fiscal year ended December 31, 2016 1,790,878,041 shares

* Financial results reports are not required to be audited.

* Proper use of earnings forecasts, and other special matters

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.

FORWARD-LOOKING STATEMENTS

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

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

Consolidated financial statements and major notes (IFRS)

(1) Consolidated statement of financial position

(Millions of yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	294,157	285,486
Trade and other receivables	396,934	431,199
Inventories	558,846	612,954
Other financial assets	14,921	14,016
Other current assets	340,312	361,715
Subtotal	1,605,169	1,705,370
Non-current assets held-for-sale	821	2,396
Total current assets	1,605,990	1,707,767
Non-current assets		
Property, plant and equipment	680,835	745,607
Goodwill	1,601,987	1,891,210
Intangible assets	423,970	479,175
Investment property	18,184	16,700
Retirement benefit assets	23,680	51,377
Investments accounted for using the equity method	123,753	81,253
Other financial assets	99,358	114,970
Deferred tax assets	166,617	133,425
Total non-current assets	3,138,384	3,513,717
Total assets	4,744,374	5,221,484

	(Millions of yen)	
	As of December 31, 2016	As of December 31, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	377,933	395,733
Bonds and borrowings	208,521	398,182
Income tax payables	54,940	46,452
Other financial liabilities	13,023	6,906
Provisions	12,529	13,028
Other current liabilities	689,629	618,322
Total current liabilities	1,356,574	1,478,623
Non-current liabilities		
Bonds and borrowings	339,036	346,955
Other financial liabilities	9,009	11,013
Retirement benefit liabilities	333,410	330,762
Provisions	4,423	4,005
Other non-current liabilities	102,221	120,779
Deferred tax liabilities	71,660	87,319
Total non-current liabilities	859,759	900,833
Total liabilities	2,216,333	2,379,456
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(443,822)	(443,636)
Other components of equity	(303,554)	(167,338)
Retained earnings	2,367,067	2,536,262
Equity attributable to owners of the parent company	2,456,091	2,761,687
Non-controlling interests	71,950	80,340
Total equity	2,528,041	2,842,027
Total liabilities and equity	4,744,374	5,221,484

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

Consolidated statement of income

(Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Revenue	2,143,287	2,139,653
Cost of sales	(872,433)	(843,558)
Gross profit	1,270,854	1,296,094
Other operating income	70,101	45,724
Share of profit in investments accounted for using the equity method	6,489	6,194
Selling, general and administrative expenses	(754,115)	(786,911)
Operating profit	593,329	561,101
Financial income	6,618	4,780
Financial costs	(21,710)	(27,349)
Profit before income taxes	578,237	538,532
Income taxes	(152,464)	(141,783)
Profit for the period	425,773	396,749
Attributable to:		
Owners of the parent company	421,695	392,409
Non-controlling interests	4,078	4,340
Profit for the period	425,773	396,749
Earnings per share		
Basic (Yen)	235.47	219.10
Diluted (Yen)	235.33	218.97

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

(Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Operating profit	593,329	561,101
Amortization cost of acquired intangibles arising from business acquisitions	46,767	50,414
Adjustment items (income)	(65,212)	(37,569)
Adjustment items (costs)	11,894	11,354
Adjusted operating profit	586,777	585,300

Consolidated statement of comprehensive income

	(Millions of yen)	
	Year ended December 31, 2016	Year ended December 31, 2017
Profit for the period	425,773	396,749
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	(3,159)	9,402
Remeasurements of defined benefit plans	(22,202)	20,028
Total of items that will not be reclassified to profit or loss	(25,361)	29,430
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(163,683)	128,073
Net gain (loss) on derivatives designated as cash flow hedges	(1,479)	(54)
Total of items that may be reclassified subsequently to profit or loss	(165,162)	128,019
Other comprehensive income (loss), net of taxes	(190,523)	157,449
Comprehensive income (loss) for the period	235,250	554,198
Attributable to:		
Owners of the parent company	231,590	549,309
Non-controlling interests	3,660	4,889
Comprehensive income (loss) for the period	235,250	554,198

(3) Consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(163,169)	(1,479)	(3,069)
Comprehensive income (loss) for the period	—	—	—	—	(163,169)	(1,479)	(3,069)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	512	(413)	—	—	—
Share-based payments	—	—	—	265	—	—	—
Dividends	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(360)
Other increase (decrease)	—	—	—	—	—	1,794	—
Total transactions with the owners	—	—	512	(147)	—	1,794	(360)
As of December 31, 2016	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	127,758	(54)	9,276
Comprehensive income (loss) for the period	—	—	—	—	127,758	(54)	9,276
Acquisition of treasury shares	—	—	(1)	—	—	—	—
Disposal of treasury shares	—	—	187	(166)	—	—	—
Share-based payments	—	—	—	336	—	—	—
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	—	—	—	—	—	—	(461)
Other increase (decrease)	—	—	—	—	—	(475)	—
Total transactions with the owners	—	—	186	170	—	(475)	(461)
As of December 31, 2017	100,000	736,400	(443,636)	1,964	(207,884)	(88)	38,670

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity		Retained earnings	Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total				
As of January 1, 2016	—	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	—	—	421,695	421,695	4,078	425,773
Other comprehensive income (loss)	(22,387)	(190,105)	—	(190,105)	(419)	(190,523)
Comprehensive income (loss) for the period	(22,387)	(190,105)	421,695	231,590	3,660	235,250
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(413)	(99)	0	—	0
Share-based payments	—	265	—	265	4	270
Dividends	—	—	(229,223)	(229,223)	(2,038)	(231,261)
Changes in the scope of consolidation	—	—	—	—	1,069	1,069
Changes in the ownership interest in a subsidiary without a loss of control	—	—	69	69	(675)	(606)
Transfer from other components of equity to retained earnings	22,387	22,027	(22,027)	—	—	—
Other increase (decrease)	—	1,794	—	1,794	—	1,794
Total transactions with the owners	22,387	23,674	(251,280)	(227,094)	(1,639)	(228,733)
As of December 31, 2016	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	392,409	392,409	4,340	396,749
Other comprehensive income (loss)	19,919	156,900	—	156,900	550	157,449
Comprehensive income (loss) for the period	19,919	156,900	392,409	549,309	4,889	554,198
Acquisition of treasury shares	—	—	—	(1)	—	(1)
Disposal of treasury shares	—	(166)	(21)	0	—	0
Share-based payments	—	336	—	336	5	341
Dividends	—	—	(243,572)	(243,572)	(1,547)	(245,119)
Changes in the scope of consolidation	—	—	—	—	4,884	4,884
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(1)	(1)	159	158
Transfer from other components of equity to retained earnings	(19,919)	(20,380)	20,380	—	—	—
Other increase (decrease)	—	(475)	—	(475)	—	(475)
Total transactions with the owners	(19,919)	(20,684)	(223,214)	(243,713)	3,501	(240,212)
As of December 31, 2017	—	(167,338)	2,536,262	2,761,687	80,340	2,842,027

(4) Consolidated statement of cash flows

(Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Cash flows from operating activities		
Profit before income taxes	578,237	538,532
Depreciation and amortization	140,794	145,407
Impairment losses	1,239	3,427
Reversal of impairment losses on investments in associates	—	(8,848)
Interest and dividend income	(6,372)	(4,381)
Interest expense	8,680	11,604
Share of profit in investments accounted for using the equity method	(6,489)	(6,194)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(33,473)	(21,221)
(Gains) losses on sale of investments in subsidiaries	(26,106)	—
(Increase) decrease in trade and other receivables	(20,128)	(28,810)
(Increase) decrease in inventories	(686)	(41,102)
Increase (decrease) in trade and other payables	16,157	15,655
Increase (decrease) in retirement benefit liabilities	(4,724)	(15,296)
(Increase) decrease in prepaid tobacco excise taxes	(48,228)	(10,281)
Increase (decrease) in tobacco excise tax payables	(14,192)	(60,250)
Increase (decrease) in consumption tax payables	2,787	1,117
Other	(31,938)	12,228
Subtotal	555,557	531,587
Interest and dividends received	13,064	11,250
Interest paid	(6,788)	(11,035)
Income taxes paid	(185,285)	(112,591)
Net cash flows from operating activities	376,549	419,212
Cash flows from investing activities		
Purchase of securities	(2,303)	(11,479)
Proceeds from sale and redemption of securities	5,340	4,893
Purchase of property, plant and equipment	(101,072)	(123,726)
Proceeds from sale of investment property	42,046	21,195
Purchase of intangible assets	(9,929)	(16,412)
Payments into time deposits	(346)	(84)
Proceeds from withdrawal of time deposits	298	101
Payments for business combinations	(589,737)	(212,707)
Proceeds from sale of investments in subsidiaries	26,979	—
Purchase of investments in associates	(52,291)	(5,253)
Other	(6,493)	(9,160)
Net cash flows from investing activities	(687,509)	(352,632)

	(Millions of yen)	
	Year ended December 31, 2016	Year ended December 31, 2017
Cash flows from financing activities		
Dividends paid to owners of the parent company	(229,261)	(243,552)
Dividends paid to non-controlling interests	(2,011)	(1,502)
Capital contribution from non-controlling interests	129	15
Increase (decrease) in short-term borrowings and commercial paper	186,570	116,371
Proceeds from long-term borrowings	856	70,861
Repayments of long-term borrowings	(578)	(669)
Proceeds from issuance of bonds	136,181	—
Redemption of bonds	—	(20,000)
Proceeds from sale and leaseback transactions	—	2,819
Repayments of finance lease obligations	(569)	(1,373)
Acquisition of treasury shares	(0)	(1)
Other	0	0
Net cash flows from financing activities	91,318	(77,032)
Net increase (decrease) in cash and cash equivalents	(219,643)	(10,452)
Cash and cash equivalents at the beginning of the period	526,765	294,157
Effect of exchange rate changes on cash and cash equivalents	(12,965)	1,782
Cash and cash equivalents at the end of the period	294,157	285,486

(5) Notes on premise of going concern

No items to report

(6) Notes to consolidated financial statements

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 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 consolidated financial statements is immaterial.

(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.

Year ended December 31, 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)	684,233	1,199,190	87,183	164,078	2,134,683	8,604	—	2,143,287
Intersegment revenue	18,245	30,280	—	30	48,554	9,653	(58,207)	—
Total revenue	702,478	1,229,470	87,183	164,108	2,183,237	18,257	(58,207)	2,143,287
Segment profit (loss)								
Adjusted operating profit (Note 1)	260,205	336,227	9,717	4,998	611,146	(24,725)	356	586,777
Other items								
Depreciation and amortization	57,994	69,129	4,908	6,423	138,453	2,675	(335)	140,794
Impairment losses on other than financial assets	54	615	—	16	685	554	—	1,239
Reversal of impairment losses on other than financial assets	—	27	—	—	27	—	—	27
Share of profit (loss) in investments accounted for using the equity method	33	6,327	—	(4)	6,355	134	—	6,489
Capital expenditures	29,820	70,592	3,823	5,707	109,942	3,902	(847)	112,998

Year ended December 31, 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)	626,758	1,237,577	104,714	163,138	2,132,187	7,466	—	2,139,653
Intersegment revenue	8,558	31,465	—	22	40,045	7,543	(47,588)	—
Total revenue	635,315	1,269,042	104,714	163,159	2,172,232	15,008	(47,588)	2,139,653
Segment profit (loss)								
Adjusted operating profit (Note 1)	232,275	351,302	24,094	5,397	613,069	(28,156)	388	585,300
Other items								
Depreciation and amortization	56,001	76,098	5,120	6,137	143,355	2,288	(237)	145,407
Impairment losses on other than financial assets	53	2,599	—	286	2,938	489	—	3,427
Reversal of impairment losses on other than financial assets	—	455	—	—	455	—	—	455
Share of profit (loss) in investments accounted for using the equity method	22	6,102	—	17	6,140	53	—	6,194
Capital expenditures	51,549	68,427	6,230	10,424	136,631	4,838	(564)	140,905

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

Year ended December 31, 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)	260,205	336,227	9,717	4,998	611,146	(24,725)	356	586,777
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(30,522)	—	—	(46,767)	—	—	(46,767)
Adjustment items (income) (Note 4)	282	34	—	2	318	64,894	—	65,212
Adjustment items (costs) (Note 5)	(137)	(3,960)	—	(8)	(4,105)	(7,789)	—	(11,894)
Operating profit (loss)	244,106	301,779	9,717	4,991	560,592	32,380	356	593,329
Financial income								6,618
Financial costs								(21,710)
Profit before income taxes								578,237

Year ended December 31, 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)	232,275	351,302	24,094	5,397	613,069	(28,156)	388	585,300
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(34,170)	—	—	(50,414)	—	—	(50,414)
Adjustment items (income) (Note 4)	6	16,723	—	—	16,729	20,840	—	37,569
Adjustment items (costs) (Note 5)	(197)	(8,272)	—	(20)	(8,489)	(2,865)	—	(11,354)
Operating profit (loss)	215,839	325,584	24,094	5,377	570,894	(10,181)	388	561,101
Financial income								4,780
Financial costs								(27,349)
Profit before income taxes								538,532

(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)	
	Year ended December 31, 2016	Year ended December 31, 2017
Domestic tobacco	649,744	590,605
International tobacco	1,138,805	1,176,956

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

	(Millions of yen)	
	Year ended December 31, 2016	Year ended December 31, 2017
Restructuring income	65,178	21,645
Reversal of impairment losses on investments in associates	—	8,848
Gains on remeasurement related to the business combination	—	5,042
Others	34	2,034
Adjustment items (income)	65,212	37,569

Restructuring incomes for the year ended December 31, 2016 mainly relate to gains on sale of real estate and gains on sale of investments in subsidiaries. Restructuring incomes for the year ended December 31, 2017 mainly relate to gains on sale of real estate.

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

	(Millions of yen)	
	Year ended December 31, 2016	Year ended December 31, 2017
Restructuring costs	11,894	8,398
Others	—	2,956
Adjustment items (costs)	11,894	11,354

Restructuring costs for the year ended December 31, 2016 mainly relate to disposal of real estate. Restructuring costs for the year ended December 31, 2017 mainly relate to rationalization of the production and distribution system in some markets in the “International Tobacco Business”.

c. Geographic information

The regional breakdown of non-current assets and external revenue as of each fiscal year end is as follows:

Non-current Assets	(Millions of yen)	
	As of December 31, 2016	As of December 31, 2017
Japan	833,543	830,838
Overseas	1,891,433	2,301,854
Consolidated	2,724,975	3,132,692

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue	(Millions of yen)	
	Year ended December 31, 2016	Year ended December 31, 2017
Japan	889,742	831,216
Overseas	1,253,545	1,308,437
Consolidated	2,143,287	2,139,653

(Note) Revenue is segmented by the sales destination.

d. Major customers information

The “International Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥235,932 million (11.0% of consolidated revenue) for the year ended December 31, 2016 and ¥248,881 million (11.6% of consolidated revenue) for the year ended December 31, 2017.

(Per share information)**(1) Basis of Calculating Basic Earnings per Share****a. Profit attributable to ordinary shareholders of the parent company** (Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Profit for the period attributable to owners of the parent company	421,695	392,409
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	421,695	392,409

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

	Year ended December 31, 2016	Year ended December 31, 2017
Weighted-average number of shares during the period	1,790,878	1,790,995

(2) Basis of Calculating Diluted Earnings per Share**a. Profit attributable to diluted ordinary shareholders** (Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Profit for the period used for calculation of basic earnings per share	421,695	392,409
Adjustment	—	(0)
Profit for the period used for calculation of diluted earnings per share	421,695	392,409

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

	Year ended December 31, 2016	Year ended December 31, 2017
Weighted-average number of ordinary shares during the period	1,790,878	1,790,995
Increased number of ordinary shares under subscription rights to shares	1,030	1,042
Weighted-average number of diluted ordinary shares during the period	1,791,908	1,792,037

(Significant subsequent events)

No items to report

Non-consolidated financial statements (Japanese GAAP)

(1) Non-consolidated balance sheet

	(Millions of yen)	
	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	74,565	89,775
Accounts receivable - trade	54,410	47,335
Securities	50,000	50,000
Merchandise and finished goods	30,767	33,448
Semi-finished goods	40,421	47,731
Work in process	2,793	2,480
Raw materials and supplies	43,053	46,057
Advance payments - trade	2,196	1,988
Prepaid expenses	6,826	9,293
Deferred tax assets	13,017	8,991
Short-term loans receivable from subsidiaries and affiliates	44,085	201,555
Other	16,802	17,856
Allowance for doubtful accounts	(27)	(26)
Total current assets	378,907	556,483
Noncurrent assets		
Property, plant and equipment		
Buildings	86,673	86,955
Structures	2,912	2,981
Machinery and equipment	52,941	54,829
Vehicles	1,654	1,416
Tools, furniture and fixtures	18,492	18,262
Land	75,118	73,177
Construction in progress	2,530	10,047
Total property, plant and equipment	240,321	247,668
Intangible assets		
Patent right	363	301
Right of trademark	149,174	132,508
Software	13,172	11,965
Goodwill	321,939	286,168
Other	2,892	7,447
Total intangible assets	487,539	438,389
Investments and other assets		
Investment securities	54,961	65,693
Shares of subsidiaries and affiliates	1,669,714	1,546,411
Long-term loans receivable from subsidiaries and affiliates	3,519	16,552
Long-term prepaid expenses	5,904	7,483
Other	9,338	7,337
Allowance for doubtful accounts	(291)	(255)
Total investments and other assets	1,743,146	1,643,220
Total noncurrent assets	2,471,006	2,329,277
Total assets	2,849,913	2,885,760

	(Millions of yen)	
	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Accounts payable - trade	8,618	7,957
Short-term loans payable	58,245	159,330
Current portion of bonds	20,000	54,158
Lease obligations	3,754	3,059
Accounts payable - other	60,464	47,608
National tobacco excise taxes payable	89,763	77,523
National tobacco special excise taxes payable	13,882	11,989
Local tobacco excise taxes payable	102,616	89,814
Income taxes payable	24,994	21,336
Accrued consumption taxes	31,192	24,677
Cash management system deposits received	278,136	283,490
Provision for bonuses	5,596	4,646
Other	7,785	8,048
Total current liabilities	705,045	793,635
Noncurrent liabilities		
Bonds payable	335,808	276,180
Long-term loans payable	-	70,000
Lease obligations	6,355	5,773
Provision for retirement benefits	131,165	131,472
Deferred tax liabilities	4,987	12,686
Other	2,877	3,047
Total noncurrent liabilities	481,194	499,159
Total liabilities	1,186,238	1,292,794

	(Millions of yen)	
	As of December 31, 2016	As of December 31, 2017
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Total capital surpluses	736,400	736,400
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	28	169
Reserve for reduction entry	43,687	42,987
Special account for reduction entry	3,057	8,356
General reserve	955,300	-
Retained earnings brought forward	225,620	1,092,709
Total retained earnings	1,246,469	1,162,996
Treasury shares	(443,822)	(443,636)
Total shareholders' equity	1,639,047	1,555,760
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	26,207	33,579
Deferred gains or losses on hedges	(3,373)	1,662
Total valuation and translation adjustments	22,833	35,242
Subscription rights to shares	1,794	1,964
Total net assets	1,663,675	1,592,966
Total liabilities and net assets	2,849,913	2,885,760

(2) Non-consolidated statement of income

(Millions of yen)

	Year ended December 31, 2016	Year ended December 31, 2017
Net sales	729,286	681,840
Cost of sales	208,648	182,446
Gross profit	520,638	499,394
Selling, general and administrative expenses	323,938	330,951
Operating income	196,700	168,443
Non-operating income		
Interest income	237	529
Dividends income	6,929	30,386
Other	6,944	6,564
Total non-operating income	14,109	37,479
Non-operating expenses		
Interest expenses	2,020	784
Interest on bonds	3,884	4,827
Other	1,663	975
Total non-operating expenses	7,567	6,586
Ordinary income	203,242	199,336
Extraordinary income		
Gain on sales of noncurrent assets	36,638	20,826
Gain on sales of shares of subsidiaries	28,503	-
Other	1,073	672
Total extraordinary income	66,214	21,499
Extraordinary losses		
Loss on sales of noncurrent assets	1,186	352
Loss on retirement of noncurrent assets	8,680	3,274
Impairment loss	593	518
Other	2,781	1,695
Total extraordinary losses	13,240	5,839
Income before income taxes	256,217	214,996
Income taxes - current	65,901	46,309
Income taxes - deferred	16,708	8,567
Total income taxes	82,609	54,875
Net income	173,607	160,120

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

Year ended December 31, 2016

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus		Retained earnings						
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings					Total retained earnings
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	736,400	18,776	—	47,587	2,582	955,300	277,938	1,302,183
Changes of items during the period										
Provision of reserve for investment loss on developing new business					28				(28)	—
Reversal of reserve for investment loss on developing new business										
Provision of reserve for reduction entry						3,913			(3,913)	—
Reversal of reserve for reduction entry						(8,805)			8,805	—
Adjustment to reserve due to change in tax rate						992			(992)	—
Provision of special account for reduction entry							2,987		(2,987)	—
Reversal of special account for reduction entry							(2,582)		2,582	—
Adjustment to special account due to change in tax rate							69		(69)	—
Reversal of general reserve										
Dividends from surplus									(229,223)	(229,223)
Net income									173,607	173,607
Purchase of treasury shares										
Disposal of treasury shares									(99)	(99)
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	—	—	28	(3,900)	474	—	(52,318)	(55,714)
Balance at the end of current period	100,000	736,400	736,400	18,776	28	43,687	3,057	955,300	225,620	1,246,469

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(444,333)	1,694,250	29,791	(12,914)	16,877	1,941	1,713,068
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—					—
Reversal of reserve for investment loss on developing new business							
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Adjustment to reserve due to change in tax rate		—					—
Provision of special account for reduction entry		—					—
Reversal of special account for reduction entry		—					—
Adjustment to special account due to change in tax rate		—					—
Reversal of general reserve							
Dividends from surplus		(229,223)					(229,223)
Net income		173,607					173,607
Purchase of treasury shares	(0)	(0)					(0)
Disposal of treasury shares	512	413					413
Net changes of items other than shareholders' equity			(3,584)	9,541	5,956	(147)	5,809
Total changes of items during the period	512	(55,203)	(3,584)	9,541	5,956	(147)	(49,394)
Balance at the end of current period	(443,822)	1,639,047	26,207	(3,373)	22,833	1,794	1,663,675

	Shareholders' equity									
	Capital stock	Capital surplus		Retained earnings						
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings					Total retained earnings
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	736,400	18,776	28	43,687	3,057	955,300	225,620	1,246,469
Changes of items during the period										
Provision of reserve for investment loss on developing new business					169				(169)	—
Reversal of reserve for investment loss on developing new business					(28)				28	—
Provision of reserve for reduction entry						4,440			(4,440)	—
Reversal of reserve for reduction entry						(5,141)			5,141	—
Adjustment to reserve due to change in tax rate										
Provision of special account for reduction entry							8,356		(8,356)	—
Reversal of special account for reduction entry							(3,057)		3,057	—
Adjustment to special account due to change in tax rate										
Reversal of general reserve								(955,300)	955,300	—
Dividends from surplus									(243,572)	(243,572)
Net income									160,120	160,120
Purchase of treasury shares										
Disposal of treasury shares									(21)	(21)
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	—	—	140	(700)	(5,299)	(955,300)	867,088	(83,473)
Balance at the end of current period	100,000	736,400	736,400	18,776	169	42,987	8,356	—	1,092,709	1,162,996

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(443,822)	1,639,047	26,207	(3,373)	22,833	1,794	1,663,675
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—					—
Reversal of reserve for investment loss on developing new business		—					—
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Adjustment to reserve due to change in tax rate							
Provision of special account for reduction entry		—					—
Reversal of special account for reduction entry		—					—
Adjustment to special account due to change in tax rate							
Reversal of general reserve		—					—
Dividends from surplus		(243,572)					(243,572)
Net income		160,120					160,120
Purchase of treasury shares	(1)	(1)					(1)
Disposal of treasury shares	187	166					166
Net changes of items other than shareholders' equity			7,373	5,036	12,409	170	12,579
Total changes of items during the period	186	(83,287)	7,373	5,036	12,409	170	(70,708)
Balance at the end of current period	(443,636)	1,555,760	33,579	1,662	35,242	1,964	1,592,966

(4) Notes on premise of going concern

No items to report.