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Company name (Japanese):	日本たばこ産業株式会社 (<i>Nihon Tabako Sangyo Kabushiki-Kaisha</i>)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
Location of head office:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Kei Nakano, Senior Vice President, Communications
Place of contact:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Kei Nakano, Senior Vice President, Communications
Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Six months ended June 30, 2016	Six months ended June 30, 2017	32nd term
Accounting period	From January 1, 2016 to June 30, 2016	From January 1, 2017 to June 30, 2017	From January 1, 2016 to December 31, 2016
Revenue [Second quarter] (Millions of yen)	1,076,879 [542,791]	1,045,330 [539,192]	2,143,287
Profit before income taxes (Millions of yen)	339,364	302,913	578,237
Profit for the period (Millions of yen)	249,280	227,322	425,773
Profit attributable to owners of the parent company [Second quarter] (Millions of yen)	247,094 [101,649]	225,635 [120,144]	421,695
Comprehensive income (loss) for the period (Millions of yen)	(75,567)	268,734	235,250
Total equity (Millions of yen)	2,332,078	2,677,274	2,528,041
Total assets (Millions of yen)	4,360,233	4,618,364	4,744,374
Basic earnings per share [Second quarter] (Yen)	137.98 [56.76]	125.98 [67.08]	235.47
Diluted earnings per share (Yen)	137.90	125.92	235.33
Ratio of equity attributable to owners of the parent company to total assets (%)	51.88	56.40	51.77
Net cash flows from operating activities (Millions of yen)	(106,667)	40,485	376,549
Net cash flows from investing activities (Millions of yen)	(579,547)	(52,555)	(687,509)
Net cash flows from financing activities (Millions of yen)	371,375	(123,643)	91,318
Cash and cash equivalents at the end of the period (Millions of yen)	190,982	160,481	294,157

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

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

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

4. Revenue does not include consumption taxes.

2. Business description

During the six months ended June 30, 2017, there were neither material changes in the business of the Group (the Company, 199 consolidated subsidiaries and 12 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 six months ended June 30, 2017, there were no new businesses or other risks.

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

2. Important operational contracts

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

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

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

(Non-GAAP financial measures)

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

Core revenue from tobacco business

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

Adjusted operating profit

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

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

(Emerging products)

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

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

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

(1) Operating results

<Revenue>

Revenue decreased by ¥31.5 billion, or 2.9%, from the same period of the previous year to ¥1,045.3 billion due to decrease in revenue in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business, despite increase in revenue in the Pharmaceutical Business.

(Billions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
<Revenue>	1,076.9	1,045.3	(31.5)	(2.9)%
Domestic Tobacco Business	335.9	310.4	(25.6)	(7.6)%
Of which, core revenue	318.6	294.4	(24.2)	(7.6)%
International Tobacco Business	616.0	606.7	(9.3)	(1.5)%
Of which, core revenue	584.1	577.2	(6.8)	(1.2)%
Pharmaceutical Business	40.3	47.2	6.9	17.1%
Processed Food Business	79.9	77.5	(2.5)	(3.1)%

* 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 decreased by ¥3.7 billion, or 1.2%, from the same period of the previous year to ¥314.7 billion, due mainly to decrease in profit in the Domestic Tobacco Business, despite increases in profit in the Pharmaceutical Business and the International Tobacco Business. Adjusted operating profit at constant rates of exchange increased by 3.6% from the same period of the previous year.

In addition to the decline in adjusted operating profit, the gain on sales of real estate and the like decreased in the period under review compared to the same period of the previous year, in which a very significant gain on sales of real estate and the like was recorded, and accordingly operating profit declined by ¥31.7 billion, or 9.2%, from the same period of the previous year to ¥313.3 billion.

Profit attributable to owners of the parent company decreased by ¥21.5 billion, or 8.7%, from the same period of the previous year to ¥225.6 billion due mainly to decrease in operating profit.

(Billions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
Adjusted operating profit	318.3	314.7	(3.7)	(1.2)%
Domestic Tobacco Business	129.6	120.0	(9.6)	(7.4)%
International Tobacco Business	193.1	195.1	2.0	1.0%
Pharmaceutical Business	2.8	9.0	6.2	224.5%
Processed Food Business	3.1	2.2	(1.0)	(30.9)%
Operating profit	345.0	313.3	(31.7)	(9.2)%
Profit attributable to owners of the parent company	247.1	225.6	(21.5)	(8.7)%

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

Operating results by segment are as follows.

Domestic Tobacco Business

Sales volume of cigarettes in the six months ended June 30, 2017^(Note 1) was affected by a decline in cigarette industry volume^(Note 2) caused by the expansion of the T-Vapor market and the downtrend in total demand, among others. As a result, sales volume fell by 11.2% from the same period of the previous year. Market share was 61.0% (compared with a share of 61.1% for the previous year).

(Billions of cigarettes)

Domestic Tobacco Business	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
Sales volume of cigarettes	52.7	46.8	(5.9)	(11.2)%

Core revenue from the tobacco business fell by 7.6% from the same period of the previous year, with the effects of retail price amendments implemented in April 2016 for some brands such as Mevius not offsetting the impact of lower cigarette sales volume.

Adjusted operating profit decreased by 7.4% from the same period of the previous year partly due to lower core revenue despite cost reductions.

(Billions of yen)

Domestic Tobacco Business	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
Revenue	335.9	310.4	(25.6)	(7.6)%
Of which, core revenue	318.6	294.4	(24.2)	(7.6)%
Adjusted operating profit	129.6	120.0	(9.6)	(7.4)%

Note: 1 In addition to the figure stated above for sales volume, during the six months ended June 30, 2017, 2.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (2.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with emerging products and the like.

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

International Tobacco Business

For the six months ended June 30, 2017, performance was strong in markets such as Iran and Taiwan, but due to the impact of the decline in total demand in Russia etc. and the negative effects in relative terms of the trade inventory adjustment that occurred in the first quarter of the previous year, total shipment volume^(Note 3) decreased by 3.3% from the same period of the previous year. On the other hand, GFB^(Note 4) shipment volume maintained the similar level to that of the same period of the previous year, as a result of having gained market share.

(Billions of cigarettes)

International Tobacco Business	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
Total shipment volume	199.7	193.2	(6.5)	(3.3)%
Of which, GFBs	140.7	140.8	0.1	0.0%

Despite favorable pricing, dollar-based core revenue including foreign exchange effects decreased by 1.9% from the same period of the previous year, as a result of the impact of decrease in shipment volume and unfavorable foreign exchange effects related to local currencies including the pound.

Dollar-based adjusted operating profit, including foreign exchange effects, rose by 0.5% from the same period of the previous year, due to the results of optimization of manufacturing facilities and other cost reduction efforts, despite disadvantageous exchange rates in local currencies such as the pound. Adjusted operating profit at constant rates of exchange (dollar-based) increased by 9.1% from the same period of the previous year.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
Revenue	5,524	5,403	(121)	(2.2)%
Of which, core revenue	5,239	5,141	(98)	(1.9)%
Adjusted operating profit	1,729	1,738	9	0.5%

Yen-based core revenue fell by 1.2% and adjusted operating profit rose by 1.0% from the same period of the previous year respectively, as a result of the effects of the weaker yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	Six months ended June 30, 2016	Six months ended June 30, 2017	Change	
Revenue	616.0	606.7	(9.3)	(1.5)%
Of which, core revenue	584.1	577.2	(6.8)	(1.2)%
Adjusted operating profit	193.1	195.1	2.0	1.0%

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

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

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

Foreign exchange rate per U.S. dollar	Six months ended June 30, 2016	Six months ended June 30, 2017
Yen	111.70	112.34
Ruble	70.29	57.98
Pounds sterling	0.70	0.79
EUR	0.90	0.92

Pharmaceutical Business

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

In the six months ended June 30, 2017, revenue increased by ¥6.9 billion, or 17.1%, from the same period of the previous year to ¥47.2 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed. Adjusted operating profit increased by ¥6.2 billion, or 224.5%, from the same period of the previous year to ¥9.0 billion, due to the increase in revenue.

Processed Food Business

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

In the six months ended June 30, 2017, despite growth in sales of seasonings and so on, revenue decreased by ¥2.5 billion, or 3.1%, from the same period of the previous year to ¥77.5 billion, due to a decline in sales of other products. Adjusted operating profit decreased by ¥1.0 billion, or 30.9%, from the same period of the previous year to ¥2.2 billion, due to the decrease in revenue.

(2) Operational and financial issues to be addressed

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

(3) Research and development activities

Research and development expenses of the entire Group during the six months ended June 30, 2017, were ¥28.5 billion.

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

(4) Status of production, orders received and sales

The volume of cigarettes manufactured in Japan during the six months ended June 30, 2017 decreased by 12.4 billion cigarettes, or 20.0%, from the same period of the previous year to 49.5 billion cigarettes.

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

(5) 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 six months ended June 30, 2017 decreased by ¥133.7 billion from the end of the previous fiscal year to ¥160.5 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥191.0 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the six months ended June 30, 2017 were ¥40.5 billion, compared with ¥106.7 billion used in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes despite the generation of a stable cash inflow from the tobacco business.

The last day of the previous fiscal year was a holiday for financial institutions. As a result, the amount of national tobacco excise tax payable for the six months ended June 30, 2017 is for seven months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the six months ended June 30, 2017 were ¥52.6 billion, compared with ¥579.5 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the six months ended June 30, 2017 were ¥123.6 billion, compared with ¥371.4 billion provided in the same period of the previous year. This was mainly due to the repayment of loans and the payment of cash dividends, despite commercial paper issuances.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2016 and as of June 30, 2017 accounted for ¥358.2 billion and ¥350.4 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥1.4 billion and ¥2.0 billion respectively. Long-term lease obligations totaled ¥7.3 billion as of December 31, 2016 and ¥9.3 billion as of June 30, 2017.

Short-term debt

Short-term borrowings from financial institutions totaled ¥187.9 billion as of December 31, 2016 and ¥152.3 billion as of June 30, 2017. There was no commercial paper outstanding as of December 31, 2016, but as of June 30, 2017, the outstanding balance was ¥28.0 billion. Short-term lease obligations totaled ¥0.4 billion as of December 31, 2016 and ¥1.3 billion as of June 30, 2017.

c. Liquidity

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

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of June 30, 2017)	Number of shares issued (Share; as of the date of filing: August 3, 2017)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	—	—

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

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

(2) Status of subscription rights to shares

No items to report

(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)
April 1, 2017 to June 30, 2017	—	2,000,000	—	100,000	—	736,400

(6) Status of major shareholders

(As of June 30, 2017)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,927,200	33.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	67,076,400	3.35
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	59,910,700	3.00
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	33,800,000	1.69
GIC Private Limited-C (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	168 Robinson Road #37-01 CAPITAL TOWER SINGAPORE 068912 (Transaction Services Division, 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan)	32,161,638	1.61
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	P.O. Box 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	31,603,666	1.58
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	One Lincoln Street, Boston MA USA 02111 (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	28,491,448	1.42
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	22,868,400	1.14
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	P.O. Box 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	22,531,718	1.13
The Bank of New York 133522 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	RUE MONTROYERSTRAAT 46, 1000 BRUSSELS, BELGIUM (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	20,462,074	1.02
Total	-	985,833,244	49.29

Note: In addition to the above, the Company held 209,012,470 shares of ordinary shares as treasury shares.

(7) Status of voting rights

a. Shares issued

(As of June 30, 2017)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 209,012,400	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,952,000	17,909,520	(Note 2)
Shares less than one unit	Ordinary shares 35,600	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,909,520	–

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 70 shares of treasury shares.

b. Treasury shares

(As of June 30, 2017)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan	209,012,400	–	209,012,400	10.45
Total	–	209,012,400	–	209,012,400	10.45

2. Status of officers

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

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

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

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

2. Audit certification

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

1. 【Condensed interim consolidated financial statements】

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

(Millions of yen)

	As of December 31, 2016	As of June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	294,157	160,481
Trade and other receivables	396,934	387,058
Inventories	558,846	535,920
Other financial assets	14,921	11,624
Other current assets	340,312	354,610
Subtotal	1,605,169	1,449,692
Non-current assets held-for-sale	821	1,775
Total current assets	1,605,990	1,451,468
Non-current assets		
Property, plant and equipment (Note 6)	680,835	686,138
Goodwill (Note 6)	1,601,987	1,629,796
Intangible assets (Note 6)	423,970	403,187
Investment property	18,184	18,633
Retirement benefit assets	23,680	24,230
Investments accounted for using the equity method	123,753	127,624
Other financial assets	99,358	115,432
Deferred tax assets	166,617	161,857
Total non-current assets	3,138,384	3,166,897
Total assets	4,744,374	4,618,364

	As of December 31, 2016	(Millions of yen) As of June 30, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	377,933	301,659
Bonds and borrowings	208,521	200,933
Income tax payables	54,940	58,222
Other financial liabilities	13,023	7,157
Provisions	12,529	10,044
Other current liabilities	689,629	501,830
Total current liabilities	<u>1,356,574</u>	<u>1,079,846</u>
Non-current liabilities		
Bonds and borrowings	339,036	331,764
Other financial liabilities	9,009	11,025
Retirement benefit liabilities	333,410	332,430
Provisions	4,423	4,237
Other non-current liabilities	102,221	106,118
Deferred tax liabilities	71,660	75,671
Total non-current liabilities	<u>859,759</u>	<u>861,244</u>
Total liabilities	<u>2,216,333</u>	<u>1,941,090</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)	(262,045)
Retained earnings	2,367,067	2,473,999
Equity attributable to owners of the parent company	<u>2,456,091</u>	<u>2,604,611</u>
Non-controlling interests	71,950	72,664
Total equity	<u>2,528,041</u>	<u>2,677,274</u>
Total liabilities and equity	<u><u>4,744,374</u></u>	<u><u>4,618,364</u></u>

(2) 【Condensed interim consolidated statement of income】

(For the six-month period)

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Revenue (Notes 5, 8)	1,076,879	1,045,330
Cost of sales	(433,713)	(410,511)
Gross profit	643,166	634,819
Other operating income (Note 9)	59,904	32,268
Share of profit in investments accounted for using the equity method	2,649	3,484
Selling, general and administrative expenses (Note 10)	(360,700)	(357,286)
Operating profit (Note 5)	345,020	313,285
Financial income (Note 11)	3,880	2,921
Financial costs (Note 11)	(9,536)	(13,294)
Profit before income taxes	339,364	302,913
Income taxes	(90,084)	(75,591)
Profit for the period	249,280	227,322
Attributable to:		
Owners of the parent company	247,094	225,635
Non-controlling interests	2,186	1,687
Profit for the period	249,280	227,322
Interim earnings per share		
Basic (Yen) (Note 12)	137.98	125.98
Diluted (Yen) (Note 12)	137.90	125.92

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Operating profit	345,020	313,285
Amortization cost of acquired intangibles arising from business acquisitions	24,081	23,624
Adjustment items (income)	(58,160)	(25,887)
Adjustment items (costs)	7,391	3,636
Adjusted operating profit (Note 5)	318,332	314,659

(For the three-month period)

	(Millions of yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Revenue (Note 5)	542,791	539,192
Cost of sales	(219,042)	(211,051)
Gross profit	323,750	328,141
Other operating income	2,806	20,498
Share of profit in investments accounted for using the equity method	1,789	1,853
Selling, general and administrative expenses	(187,017)	(186,163)
Operating profit (Note 5)	141,327	164,328
Financial income	1,724	1,279
Financial costs	(4,026)	(5,187)
Profit before income taxes	139,025	160,420
Income taxes	(36,148)	(39,119)
Profit for the period	102,877	121,300
Attributable to:		
Owners of the parent company	101,649	120,144
Non-controlling interests	1,228	1,156
Profit for the period	102,877	121,300
Interim earnings per share		
Basic (Yen) (Note 12)	56.76	67.08
Diluted (Yen) (Note 12)	56.73	67.05

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

	(Millions of yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Operating profit	141,327	164,328
Amortization cost of acquired intangibles arising from business acquisitions	11,869	11,792
Adjustment items (income)	(1,862)	(14,690)
Adjustment items (costs)	2,612	2,902
Adjusted operating profit (Note 5)	153,947	164,332

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

(For the six-month period)

	Six months ended June 30, 2016	(Millions of yen) Six months ended June 30, 2017
Profit for the period	249,280	227,322
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	(2,068)	4,667
Remeasurements of defined benefit plans	(13,170)	(800)
Total of items that will not be reclassified to profit or loss	(15,238)	3,867
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(307,511)	37,356
Net gain (loss) on derivatives designated as cash flow hedges	(2,098)	189
Total of items that may be reclassified subsequently to profit or loss	(309,609)	37,545
Other comprehensive income (loss), net of taxes	(324,847)	41,412
Comprehensive income (loss) for the period	(75,567)	268,734
Attributable to:		
Owners of the parent company	(76,232)	267,027
Non-controlling interests	665	1,707
Comprehensive income (loss) for the period	(75,567)	268,734

(For the three-month period)

	Three months ended June 30, 2016	(Millions of yen) Three months ended June 30, 2017
Profit for the period	102,877	121,300
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	1,061	4,929
Remeasurements of defined benefit plans	—	122
Total of items that will not be reclassified to profit or loss	1,061	5,051
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(212,378)	46,654
Net gain (loss) on derivatives designated as cash flow hedges	(665)	12
Total of items that may be reclassified subsequently to profit or loss	(213,043)	46,666
Other comprehensive income (loss), net of taxes	(211,982)	51,717
Comprehensive income (loss) for the period	(109,105)	173,017
Attributable to:		
Owners of the parent company	(109,368)	171,580
Non-controlling interests	263	1,438
Comprehensive income (loss) for the period	(109,105)	173,017

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

(Millions of yen)

	Equity attributable to owners of the parent company			Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(306,107)	(2,098)	(1,948)
Comprehensive income (loss) for the period	—	—	—	—	(306,107)	(2,098)	(1,948)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	372	(327)	—	—	—
Share-based payments	—	—	—	44	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(309)
Other increase (decrease)	—	—	—	—	—	1,242	—
Total transactions with the owners	—	—	371	(284)	—	1,242	(309)
As of June 30, 2016	<u>100,000</u>	<u>736,400</u>	<u>(443,962)</u>	<u>1,658</u>	<u>(478,579)</u>	<u>(731)</u>	<u>31,026</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)	—	—	—	—	37,376	189	4,627
Comprehensive income (loss) for the period	—	—	—	—	37,376	189	4,627
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	10	68	(77)	—	—	—
Share-based payments	—	—	—	24	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(301)
Other increase (decrease)	—	—	—	—	—	(329)	—
Total transactions with the owners	—	10	68	(53)	—	(329)	(301)
As of June 30, 2017	<u>100,000</u>	<u>736,410</u>	<u>(443,754)</u>	<u>1,741</u>	<u>(298,266)</u>	<u>300</u>	<u>34,180</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	—	—	247,094	247,094	2,186	249,280
Other comprehensive income (loss)	(13,172)	(323,326)	—	(323,326)	(1,521)	(324,847)
Comprehensive income (loss) for the period	(13,172)	(323,326)	247,094	(76,232)	665	(75,567)
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(327)	(44)	0	—	0
Share-based payments	—	44	—	44	1	45
Dividends (Note 7)	—	—	(114,606)	(114,606)	(1,377)	(115,983)
Changes in the scope of consolidation	—	—	—	—	933	933
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(117)	(117)	(0)	(117)
Transfer from other components of equity to retained earnings	13,172	12,863	(12,863)	—	—	—
Other increase (decrease)	—	1,242	—	1,242	—	1,242
Total transactions with the owners	13,172	13,822	(127,630)	(113,437)	(443)	(113,879)
As of June 30, 2016	—	(446,626)	2,316,116	2,261,927	70,151	2,332,078
As of January 1, 2017	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	225,635	225,635	1,687	227,322
Other comprehensive income (loss)	(800)	41,392	—	41,392	20	41,412
Comprehensive income (loss) for the period	(800)	41,392	225,635	267,027	1,707	268,734
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(77)	—	0	—	0
Share-based payments	—	24	—	24	3	27
Dividends (Note 7)	—	—	(118,203)	(118,203)	(995)	(119,198)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	(0)	(0)
Transfer from other components of equity to retained earnings	800	499	(499)	—	—	—
Other increase (decrease)	—	(329)	—	(329)	—	(329)
Total transactions with the owners	800	116	(118,702)	(118,508)	(993)	(119,501)
As of June 30, 2017	—	(262,045)	2,473,999	2,604,611	72,664	2,677,274

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

(Millions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017
Cash flows from operating activities		
Profit before income taxes	339,364	302,913
Depreciation and amortization	71,716	70,246
Impairment losses	908	1,049
Reversal of impairment losses on investments in associates	—	(8,848)
Interest and dividend income	(3,875)	(2,902)
Interest expense	4,089	5,488
Share of profit in investments accounted for using the equity method	(2,649)	(3,484)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(28,678)	(15,092)
(Gains) losses on sale of investments in subsidiaries	(26,106)	—
(Increase) decrease in trade and other receivables	570	3,383
(Increase) decrease in inventories	6,541	12,784
Increase (decrease) in trade and other payables	(45,269)	(63,255)
Increase (decrease) in retirement benefit liabilities	(5,573)	(5,952)
(Increase) decrease in prepaid tobacco excise taxes	(72,058)	(25,060)
Increase (decrease) in tobacco excise tax payables	(189,427)	(144,231)
Increase (decrease) in consumption tax payables	(6,370)	(6,050)
Other	(34,626)	(20,951)
Subtotal	8,558	100,036
Interest and dividends received	7,168	6,917
Interest paid	(3,180)	(5,608)
Income taxes paid	(119,212)	(60,860)
Net cash flows from operating activities	(106,667)	40,485
Cash flows from investing activities		
Purchase of securities	(355)	(3,160)
Proceeds from sale and redemption of securities	2,109	2,930
Purchase of property, plant and equipment	(46,290)	(52,285)
Proceeds from sale of investment property	32,944	15,747
Purchase of intangible assets	(4,116)	(6,559)
Payments into time deposits	(199)	(208)
Proceeds from withdrawal of time deposits	182	188
Payments for business combinations	(587,173)	—
Proceeds from sale of investments in subsidiaries	26,979	—
Other	(3,629)	(9,208)
Net cash flows from investing activities	(579,547)	(52,555)

	Six months ended June 30, 2016	(Millions of yen) Six months ended June 30, 2017
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 7)	(114,632)	(118,188)
Dividends paid to non-controlling interests	(1,335)	(962)
Increase (decrease) in short-term borrowings and commercial paper	350,690	(7,344)
Proceeds from long-term borrowings	841	842
Repayments of long-term borrowings	(69)	(284)
Proceeds from issuance of bonds	136,181	—
Proceeds from sale and leaseback transactions	—	2,819
Repayments of finance lease obligations	(301)	(526)
Acquisition of treasury shares	(0)	(0)
Other	0	0
Net cash flows from financing activities	371,375	(123,643)
Net increase (decrease) in cash and cash equivalents	(314,839)	(135,714)
Cash and cash equivalents at the beginning of the period	526,765	294,157
Effect of exchange rate changes on cash and cash equivalents	(20,944)	2,038
Cash and cash equivalents at the end of the period	190,982	160,481

【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 June 30, 2017 and for the six-month period ended June 30, 2017 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on August 2, 2017 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of preparation

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

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

3. Significant accounting policies

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

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

(Changes in accounting policies)

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

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

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

4. Significant accounting estimates and judgments

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

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

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

5. Operating segments

(1) Outline of reportable segments

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

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

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

(2) Revenues and performances of reportable segments

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

For the six months ended June 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)	335,911	615,981	40,295	79,942	1,072,129	4,750	—	1,076,879
Intersegment revenue	11,257	15,881	—	12	27,149	4,828	(31,977)	—
Total revenue	<u>347,168</u>	<u>631,862</u>	<u>40,295</u>	<u>79,953</u>	<u>1,099,279</u>	<u>9,578</u>	<u>(31,977)</u>	<u>1,076,879</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>129,624</u>	<u>193,114</u>	<u>2,766</u>	<u>3,148</u>	<u>328,651</u>	<u>(10,578)</u>	<u>259</u>	<u>318,332</u>

For the six months ended June 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)	310,352	606,692	47,193	77,455	1,041,692	3,638	—	1,045,330
Intersegment revenue	4,658	15,521	—	13	20,192	4,502	(24,694)	—
Total revenue	<u>315,010</u>	<u>622,213</u>	<u>47,193</u>	<u>77,468</u>	<u>1,061,884</u>	<u>8,140</u>	<u>(24,694)</u>	<u>1,045,330</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>119,996</u>	<u>195,140</u>	<u>8,975</u>	<u>2,176</u>	<u>326,287</u>	<u>(11,567)</u>	<u>(62)</u>	<u>314,659</u>

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

For the six months ended June 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)	129,624	193,114	2,766	3,148	328,651	(10,578)	259	318,332
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(15,959)	—	—	(24,081)	—	—	(24,081)
Adjustment items (income) (Note 4)	17	—	—	—	17	58,144	—	58,160
Adjustment items (costs) (Note 4)	138	(2,534)	—	(1)	(2,397)	(4,995)	—	(7,391)
Operating profit (loss)	121,656	174,622	2,766	3,147	302,190	42,571	259	345,020
Financial income								3,880
Financial costs								(9,536)
Profit before income taxes								339,364

For the six months ended June 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)	119,996	195,140	8,975	2,176	326,287	(11,567)	(62)	314,659
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(15,501)	—	—	(23,624)	—	—	(23,624)
Adjustment items (income) (Note 4)	6	10,784	—	—	10,789	15,097	—	25,887
Adjustment items (costs) (Note 4)	(10)	(2,422)	—	—	(2,432)	(1,204)	—	(3,636)
Operating profit (loss)	111,868	188,000	8,975	2,176	311,020	2,327	(62)	313,285
Financial income								2,921
Financial costs								(13,294)
Profit before income taxes								302,913

- (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)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Domestic Tobacco	318,613	294,423
International Tobacco	584,059	577,228

- (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 of the closing down of a factory. The breakdown of restructuring income is described in “9. Other operating income.” The breakdown of restructuring costs is described in “10. Selling, general and administrative expenses.” The breakdown of “Adjustment items (costs)” is as follows:

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Restructuring costs	7,391	3,636
Adjustment items (costs)	7,391	3,636

Restructuring costs for the six months ended June 30, 2016 mainly relate to disposal of real estate.

For the three months ended June 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)	167,541	314,138	18,747	40,526	540,953	1,839	—	542,791
Intersegment revenue	5,558	7,077	—	7	12,642	2,531	(15,173)	—
Total revenue	<u>173,099</u>	<u>321,215</u>	<u>18,747</u>	<u>40,533</u>	<u>553,595</u>	<u>4,370</u>	<u>(15,173)</u>	<u>542,791</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>63,877</u>	<u>93,606</u>	<u>(419)</u>	<u>1,984</u>	<u>159,048</u>	<u>(5,562)</u>	<u>461</u>	<u>153,947</u>

For the three months ended June 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	158,569	315,908	23,976	39,184	537,637	1,555	—	539,192
Intersegment revenue	2,147	8,281	—	8	10,435	2,184	(12,619)	—
Total revenue	<u>160,716</u>	<u>324,189</u>	<u>23,976</u>	<u>39,192</u>	<u>548,072</u>	<u>3,739</u>	<u>(12,619)</u>	<u>539,192</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>62,792</u>	<u>103,165</u>	<u>3,914</u>	<u>1,004</u>	<u>170,874</u>	<u>(6,492)</u>	<u>(51)</u>	<u>164,332</u>

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

For the three months ended June 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)	63,877	93,606	(419)	1,984	159,048	(5,562)	461	153,947
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,807)	—	—	(11,869)	—	—	(11,869)
Adjustment items (income) (Note 4)	15	—	—	—	15	1,847	—	1,862
Adjustment items (costs) (Note 4)	(48)	(1,795)	—	(0)	(1,843)	(769)	—	(2,612)
Operating profit (loss)	59,784	84,003	(419)	1,984	145,351	(4,484)	461	141,327
Financial income								1,724
Financial costs								(4,026)
Profit before income taxes								139,025

For the three months ended June 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)	62,792	103,165	3,914	1,004	170,874	(6,492)	(51)	164,332
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,731)	—	—	(11,792)	—	—	(11,792)
Adjustment items (income) (Note 4)	6	10,771	—	—	10,776	3,914	—	14,690
Adjustment items (costs) (Note 4)	—	(2,303)	—	—	(2,303)	(599)	—	(2,902)
Operating profit (loss)	58,736	103,901	3,914	1,004	167,556	(3,177)	(51)	164,328
Financial income								1,279
Financial costs								(5,187)
Profit before income taxes								160,420

- (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 June 30, 2016	Three months ended June 30, 2017
Domestic Tobacco	158,020	150,523
International Tobacco	299,391	301,255

- (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 of the closing down of a factory.

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

	(Millions of yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Restructuring costs	2,612	2,902
Adjustment items (costs)	2,612	2,902

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:

Carrying Amount	(Millions of yen)		
	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2017	680,835	1,601,987	423,970
Individual acquisition	43,080	—	9,210
Transfer to investment property	(1,044)	—	—
Transfer to non-current assets held-for-sale	(1,491)	—	—
Depreciation or amortization	(38,567)	—	(31,398)
Impairment losses	(1,044)	—	(5)
Reversal of impairment losses	390	—	—
Sale or disposal	(4,580)	—	(51)
Exchange differences on translation of foreign operations	2,606	27,809	1,397
Other	5,954	—	65
As of June 30, 2017	<u>686,138</u>	<u>1,629,796</u>	<u>403,187</u>

7. Dividends

Dividends paid for each interim period are as follows:

For the six months ended June 30, 2016

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

For the six months ended June 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

Dividends, for which the effective date falls in the following quarter period, are as follows:

For the six months ended June 30, 2016

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Board of Directors (August 1, 2016)	Ordinary shares	114,617	64	June 30, 2016	September 1, 2016

For the six months ended June 30, 2017

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Board of Directors (August 2, 2017)	Ordinary shares	125,369	70	June 30, 2017	September 1, 2017

8. Revenue

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Gross turnover	3,507,430	3,490,710
Tobacco excise taxes and agency transaction amount	(2,430,551)	(2,445,379)
Revenue	<u>1,076,879</u>	<u>1,045,330</u>

9. Other operating income

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Reversal of impairment losses on investments in associates	—	8,848
Gains on sale of property, plant and equipment, intangible assets and investment property (Note)	32,786	16,698
Gains on sale of investments in subsidiaries (Note)	26,106	—
Other (Note)	1,013	6,721
Total	<u>59,904</u>	<u>32,268</u>

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Gains on sale of property, plant and equipment, intangible assets and investment property	31,964	15,123
Gains on sale of investments in subsidiaries	26,106	—
Other	90	7
Total	<u>58,160</u>	<u>15,130</u>

10. Selling, general and administrative expenses

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Advertising expenses	11,558	10,115
Promotion expenses	51,253	47,586
Shipping and warehousing expenses	13,229	12,829
Commission	22,501	23,231
Employee benefit expenses (Note)	123,557	129,220
Research and development expenses	28,278	28,521
Depreciation and amortization	40,718	39,184
Impairment losses on other than financial assets (Note)	908	1,049
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	6,370	2,225
Other (Note)	62,329	63,327
Total	360,700	357,286

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Employee benefit expenses	378	1,456
Impairment losses on other than financial assets	497	604
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	4,085	660
Other	2,432	916
Total	7,391	3,636

11. Financial income and financial costs

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

Financial income	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Dividend income	1,363	1,450
Interest income	2,512	1,452
Other	5	19
Total	<u>3,880</u>	<u>2,921</u>

Financial costs	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Interest expenses (Note 2)	4,089	5,488
Foreign exchange losses (Note 1)	2,934	5,744
Employee benefit expenses (Note 3)	1,758	1,750
Other	755	312
Total	<u>9,536</u>	<u>13,294</u>

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

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

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

12. Interim earnings per share

(For the six-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Profit for the period attributable to owners of the parent company	247,094	225,635
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	247,094	225,635

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

	(Thousands of shares)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Weighted-average number of shares during the period	1,790,843	1,790,982

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Profit for the period used for calculation of basic interim earnings per share	247,094	225,635
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	247,094	225,635

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

	(Thousands of shares)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Weighted-average number of ordinary shares during the period	1,790,843	1,790,982
Increased number of ordinary shares under subscription rights to shares	1,004	950
Weighted-average number of diluted ordinary shares during the period	1,791,846	1,791,932

(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 June 30, 2016	Three months ended June 30, 2017
Profit for the period attributable to owners of the parent company	101,649	120,144
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	101,649	120,144

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

	(Thousands of shares)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Weighted-average number of shares during the period	1,790,885	1,790,985

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

	(Millions of yen)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit for the period used for calculation of basic interim earnings per share	101,649	120,144
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	101,649	120,144

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

	(Thousands of shares)	
	Three months ended June 30, 2016	Three months ended June 30, 2017
Weighted-average number of ordinary shares during the period	1,790,885	1,790,985
Increased number of ordinary shares under subscription rights to shares	961	947
Weighted-average number of diluted ordinary shares during the period	1,791,846	1,791,932

13. Financial instruments

(Fair value of financial instruments)

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

	(Millions of yen)			
	As of December 31, 2016		As of June 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	1,449	1,449	2,022	2,022
Bonds (Note)	358,158	357,126	350,411	351,482
(Note) Current portion is included.				

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

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

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

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

Level 1: Fair value measured at the quoted price in an active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

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

As of December 31, 2016		(Millions of yen)			
	Level 1	Level 2	Level 3	Total	
Derivative assets	—	11,769	—	11,769	
Equity securities	60,662	—	4,886	65,548	
Other	368	—	2,316	2,683	
Total	<u>61,030</u>	<u>11,769</u>	<u>7,202</u>	<u>80,001</u>	
Derivative liabilities	—	12,516	—	12,516	
Total	<u>—</u>	<u>12,516</u>	<u>—</u>	<u>12,516</u>	
As of June 30, 2017		(Millions of yen)			
	Level 1	Level 2	Level 3	Total	
Derivative assets	—	10,771	—	10,771	
Equity securities	66,145	—	5,197	71,341	
Other	386	—	3,027	3,413	
Total	<u>66,531</u>	<u>10,771</u>	<u>8,224</u>	<u>85,526</u>	
Derivative liabilities	—	5,771	—	5,771	
Total	<u>—</u>	<u>5,771</u>	<u>—</u>	<u>5,771</u>	

14. Commitments

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

	As of December 31, 2016	(Millions of yen) As of June 30, 2017
Acquisition of property, plant and equipment	41,889	61,473

15. Contingencies

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

16. Subsequent events

No items to report

2. 【Other】

(Dividends)

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

- (a) Total amount of interim dividends ¥125,369 million
- (b) Amount per share ¥70.00
- (c) Effective date of requests for payment, and commencement date of payments September 1, 2017

Note: Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2017.

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

No items to report

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

August 2, 2017

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuhiko Haga (Seal)

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yoichi Matsushita (Seal)

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