[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

[Cover]

Document to be filed:	Quarterly Securities Report
Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	May 2, 2018
Quarterly accounting period:	First quarter of the 34th term (from January 1, 2018 to March 31, 2018)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, President, Chief Executive Officer and Representative Director
Location of head office:	2-1, Toranomon 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, Toranomon 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	Three months ended March 31, 2017	Three months ended March 31, 2018	33rd term
Accounting period	From January 1, 2017 to March 31, 2017	From January 1, 2018 to March 31, 2018	From January 1, 2017 to December 31, 2017
Revenue (Millions of yen)	506,138	515,050	2,139,653
Profit before income taxes (Millions of yen)	142,493	139,891	538,532
Profit for the period (Millions of yen)	106,021	104,494	396,749
Profit attributable to owners of the parent company (Millions of yen)	105,491	104,011	392,409
Comprehensive income (loss) for the period (Millions of yen)	95,717	(11,779)	554,198
Total equity (Millions of yen)	2,504,470	2,704,064	2,842,027
Total assets (Millions of yen)	4,522,724	4,940,056	5,221,484
Basic earnings per share (Yen)	58.90	58.07	219.10
Diluted earnings per share (Yen)	58.87	58.04	218.97
Ratio of equity attributable to owners of the parent company to total assets (%)	53.80	53.14	52.89
Net cash flows from operating activities (Millions of yen)	(70,520)	80,201	419,212
Net cash flows from investing activities (Millions of yen)	(22,375)	(21,256)	(352,632)
Net cash flows from financing activities (Millions of yen)	(53,742)	(152,313)	(77,032)
Cash and cash equivalents at the end of the period (Millions of yen)	147,873	182,632	285,486

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

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

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

4. Revenue does not include consumption taxes.

2. Business description

During the three months ended March 31, 2018, there were neither material changes in the business of the Group (the Company, 209 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 three months ended March 31, 2018, there were no new businesses or other risks.

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

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 7 of March 31, 2018) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 3 of March 31, 2018) were established as part of the 2018 Tax Reform. However, in regard to a review of the tobacco excise tax, there were no changes to the Outline of the Tax Reform Proposals 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 first quarter ended March 31, 2018.

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

Matters concerning the future in this document were determined by the Group as of March 31, 2018.

(IFRS 15)

From the first quarter ended March 31, 2018, the Group has adopted IFRS 15 "Revenue from Contracts with Customers." As a result, compared to the application of the former accounting standard, "Revenue" and "Selling, general and administrative expenses" decreased by ¥1,973 million and ¥17,042 million respectively (including promotion expenses of ¥1,751 million accounted for as reductions of revenue, as well as shipping and warehousing expenses of ¥7,040 million accounted for as cost of sales), and "Cost of sales" increased by ¥15,069 million on the condensed interim consolidated statement of income for the three months ended March 31, 2018. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 3. Significant accounting policies."

(Non-GAAP financial measures)

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

Adjusted operating profit

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

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

(Core revenue from tobacco business)

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

(RRP)

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

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

(1) Operating results

<Revenue>

Revenue increased by ¥8.9 billion, or 1.8%, from the same period of the previous year to ¥515.0 billion due to increases in revenue in the International Tobacco Business and the Pharmaceutical Business despite decrease in revenue in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business.

(Billions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
<Revenue>	506.1	515.0	8.9	1.8%
Domestic Tobacco Business	151.8	138.8	(13.0)	(8.6)%
Of which, core revenue	143.9	129.3	(14.6)	(10.1)%
International Tobacco Business	290.8	310.1	19.3	6.6%
Of which, core revenue	276.0	294.8	18.8	6.8%
Pharmaceutical Business	23.2	26.7	3.5	14.9%
Processed Food Business	38.3	37.7	(0.6)	(1.5)%

* 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 ¥2.3 billion, or 1.5%, from the same period of the previous year to ¥148.1 billion, due mainly to decrease in profit in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business despite increases in profit in the International Tobacco Business and the Pharmaceutical Business. Adjusted operating profit at constant rates of exchange increased by 0.5% from the same period of the previous year.

Operating profit decreased by ¥2.2 billion, or 1.5%, from the same period of the previous year to ¥146.8 billion due mainly to decrease in adjusted operating profit.

Profit attributable to owners of the parent company decreased by ¥1.5 billion, or 1.4%, from the same period of the previous year to ¥104.0 billion due mainly to decrease in operating profit.

(Billions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
Adjusted operating profit	150.3	148.1	(2.3)	(1.5)%
Domestic Tobacco Business	57.2	48.9	(8.3)	(14.4)%
International Tobacco Business	92.0	96.3	4.3	4.7%
Pharmaceutical Business	5.1	7.7	2.6	52.1%
Processed Food Business	1.2	0.7	(0.5)	(39.8)%
Operating profit	149.0	146.8	(2.2)	(1.5)%
Profit attributable to owners of the parent company	105.5	104.0	(1.5)	(1.4)%

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

Operating results by segment are as follows.

Domestic Tobacco Business

JT cigarette sales volume(Note 1) in the three months ended March 31, 2018 was affected by a decline in cigarette industry volume(Note 2) caused by the expansion of RRP market and the downtrend in total demand, among others. As a result, JT cigarette sales volume fell by 15.0% from the same period of the previous year. Market share was 61.4% (compared with a share of 61.3% for the previous fiscal year).

(Billions of cigarettes)

Domestic Tobacco Business	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
JT cigarette sales volume	23.0	19.5	(3.5)	(15.0)%

Core revenue fell by 10.1% from the same period of the previous year, with the impact of lower JT cigarette sales volume being partially offset by the increase in revenue related to RRP.

Adjusted operating profit decreased by 14.4% from the same period of the previous year due to lower core revenue despite lower promotion expenses.

(Billions of yen)

Domestic Tobacco Business	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
Revenue	151.8	138.8	(13.0)	(8.6)%
Of which, core revenue	143.9	129.3	(14.6)	(10.1)%
Adjusted operating profit	57.2	48.9	(8.3)	(14.4)%

Note: 1 In addition to the figure stated above for sales volume, during the three months ended March 31, 2018, 1.0 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 (1.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with RRP and the like.

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

International Tobacco Business

In the three months ended March 31, 2018, despite factors including the impact of a decline in total demand in Russia, etc., total shipment volume(Note 3) grew by 7.3% from the same period of the previous year. This mainly reflected the effects of acquisitions in the Philippines, Indonesia and Ethiopia, and positive one-off impacts from trade inventory adjustments. GFB(Note 4) shipment volume rose by 3.1% from the same period of the previous year, as a result of having gained market share.

(Billions of cigarettes)

International Tobacco Business	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
Total shipment volume	91.7	98.4	6.7	7.3%
Of which, GFBs	60.2	62.0	1.8	3.1%

Dollar-based core revenue including foreign exchange effects increased by 12.1% from the same period of the previous year, due to the favorable pricing effects, the effect of the increase in total shipment volume and favorable foreign exchange effects related to local currencies including the euro.

Dollar-based adjusted operating profit including foreign exchange effects rose by 9.9% from the same period of the previous year, due mainly to higher core revenue and favorable foreign exchange effects related to local currencies including the euro. Adjusted operating profit at constant rates of exchange (dollar-based) increased by 7.9% from the same period of the previous year.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
Revenue	2,560	2,866	306	11.9%
Of which, core revenue	2,429	2,724	295	12.1%
Adjusted operating profit	810	890	80	9.9%

Yen-based core revenue and adjusted operating profit rose by 6.8% and 4.7% from the same period of the previous year respectively, as a result of the effects of the stronger yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	Three months ended March 31, 2017	Three months ended March 31, 2018	Change	
Revenue	290.8	310.1	19.3	6.6%
Of which, core revenue	276.0	294.8	18.8	6.8%
Adjusted operating profit	92.0	96.3	4.3	4.7%

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

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

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

Foreign exchange rate per U.S. dollar	Three months ended March 31, 2017	Three months ended March 31, 2018
Yen	113.60	108.22
Ruble	58.82	56.88
Pounds sterling	0.81	0.72
EUR	0.94	0.81

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, eight compounds are in clinical development.

Revenue in the three months ended March 31, 2018 increased by ¥3.5 billion, or 14.9%, from the same period of the previous year to ¥26.7 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed and strong sales for the Group company Torii Pharmaceutical Co., Ltd. Adjusted operating profit increased by ¥2.6 billion, or 52.1%, from the same period of the previous year to ¥7.7 billion, due to the increase in revenue.

Processed Food Business

In the first quarter ended March 31, 2018, the Group continued to concentrate on frozen and ambient processed foods, primarily staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, as well as bakery and seasonings, while at the same time making efforts to strengthen cost competitiveness and working on initiatives to improve profitability.

Despite growth in sales of staple food products and seasonings, revenue in the three months ended March 31, 2018 decreased by ¥0.6 billion, or 1.5%, from the same period of the previous year to ¥37.7 billion, due to a decline in sales of other products. Adjusted operating profit decreased by ¥0.5 billion, or 39.8%, from the same period of the previous year to ¥0.7 billion, due mainly to the decrease in revenue and higher raw material costs.

(2) Management policy, management strategy, etc.

During the three months ended March 31, 2018, there were no material changes in management policy, management strategy, etc. stipulated by the Group mentioned in the previous fiscal year’s Annual Securities Report.

(3) Operational and financial issues to be addressed

During the three months ended March 31, 2018, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year’s Annual Securities Report.

(4) Research and development activities

Research and development expenses of the entire Group during the three months ended March 31, 2018, were ¥14.6 billion.

During the three months ended March 31, 2018, there were no material changes in the status of the Group’s research and development activities mentioned in the previous fiscal year’s Annual Securities Report.

(5) Analysis of capital resources and liquidity of funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

Cash and cash equivalents at the end of the three months ended March 31, 2018 decreased by ¥102.9 billion from the end of the previous fiscal year to ¥182.6 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥147.9 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the three months ended March 31, 2018 were ¥80.2 billion, compared with ¥70.5 billion used in the same period of the previous year. This was mainly due to the generation of a stable cash inflow from the tobacco business, and payments of national and international tobacco excise taxes and income taxes.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended March 31, 2018 were ¥21.3 billion, compared with ¥22.4 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 three months ended March 31, 2018 were ¥152.3 billion, compared with ¥53.7 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends and the repayment of loans.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2017 and as of March 31, 2018 accounted for ¥332.2 billion and ¥320.5 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥71.9 billion and ¥72.0 billion respectively. Long-term lease obligations totaled ¥9.3 billion as of December 31, 2017 and ¥8.9 billion as of March 31, 2018.

Short-term debt

Short-term borrowings from financial institutions totaled ¥274.2 billion as of December 31, 2017 and ¥224.0 billion as of March 31, 2018. Commercial paper outstanding totaled ¥66.8 billion as of December 31, 2017 and ¥67.3 billion as of March 31, 2018. Short-term lease obligations totaled ¥1.3 billion as of December 31, 2017 and ¥1.3 billion as of March 31, 2018.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of March 31, 2018, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2018)	Number of shares issued (Share; as of the date of filing: May 2, 2018)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

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

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

(2) Status of subscription rights to shares

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)
January 1, 2018 to March 31, 2018	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

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

(7) Status of voting rights

a. Shares issued

(As of March 31, 2018)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 208,911,300	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,791,022,500	17,910,225	(Note 2)
Shares less than one unit	Ordinary shares 66,200	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,910,225	–

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 89 shares of treasury shares.

b. Treasury shares

(As of March 31, 2018)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	208,911,300	–	208,911,300	10.45
Total	–	208,911,300	–	208,911,300	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 three months ended March 31, 2018.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

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

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

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for the three months ended March 31, 2018 were reviewed by Deloitte Touche Tohmatsu LLC.

1. 【Condensed interim consolidated financial statements】

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

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	285,486	182,632
Trade and other receivables	431,199	410,613
Inventories	612,954	598,729
Other financial assets	14,016	17,287
Other current assets	361,715	351,393
Subtotal	1,705,370	1,560,654
Non-current assets held-for-sale	2,396	1,424
Total current assets	1,707,767	1,562,078
Non-current assets		
Property, plant and equipment (Note 6)	745,607	729,558
Goodwill (Note 6)	1,891,210	1,816,878
Intangible assets (Note 6)	479,175	448,710
Investment property	16,700	15,918
Retirement benefit assets	51,377	56,326
Investments accounted for using the equity method	81,253	76,196
Other financial assets	114,970	105,645
Deferred tax assets	133,425	128,747
Total non-current assets	3,513,717	3,377,978
Total assets	5,221,484	4,940,056

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	395,733	354,266
Bonds and borrowings	398,182	345,035
Income tax payables	46,452	40,641
Other financial liabilities	6,906	5,917
Provisions	13,028	11,203
Other current liabilities	618,322	617,287
Total current liabilities	1,478,623	1,374,350
Non-current liabilities		
Bonds and borrowings	346,955	338,730
Other financial liabilities	11,013	10,568
Retirement benefit liabilities	330,762	315,880
Provisions	4,005	4,050
Other non-current liabilities	120,779	109,173
Deferred tax liabilities	87,319	83,241
Total non-current liabilities	900,833	861,642
Total liabilities	2,379,456	2,235,992
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(443,636)	(443,540)
Other components of equity	(167,338)	(283,182)
Retained earnings	2,536,262	2,515,296
Equity attributable to owners of the parent company	2,761,687	2,624,974
Non-controlling interests	80,340	79,090
Total equity	2,842,027	2,704,064
Total liabilities and equity	5,221,484	4,940,056

(2) 【Condensed interim consolidated statement of income】

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Revenue (Notes 5, 8)	506,138	515,050
Cost of sales	(199,460)	(216,783)
Gross profit	306,678	298,267
Other operating income (Note 9)	11,770	17,645
Share of profit in investments accounted for using the equity method	1,631	506
Selling, general and administrative expenses (Note 10)	(171,122)	(169,643)
Operating profit (Note 5)	148,957	146,775
Financial income (Note 11)	1,826	1,764
Financial costs (Note 11)	(8,290)	(8,648)
Profit before income taxes	142,493	139,891
Income taxes	(36,472)	(35,397)
Profit for the period	106,021	104,494
Attributable to:		
Owners of the parent company	105,491	104,011
Non-controlling interests	531	482
Profit for the period	106,021	104,494
Interim earnings per share		
Basic (Yen) (Note 12)	58.90	58.07
Diluted (Yen) (Note 12)	58.87	58.04

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Operating profit	148,957	146,775
Amortization cost of acquired intangibles arising from business acquisitions	11,832	14,534
Adjustment items (income)	(11,197)	(16,505)
Adjustment items (costs)	734	3,253
Adjusted operating profit (Note 5)	150,326	148,057

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Profit for the period	106,021	104,494
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	(262)	(6,478)
Remeasurements of defined benefit plans	(922)	(23)
Total of items that will not be reclassified to profit or loss	(1,184)	(6,501)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(9,297)	(109,870)
Net gain (loss) on derivatives designated as cash flow hedges	177	98
Total of items that may be reclassified subsequently to profit or loss	(9,120)	(109,772)
Other comprehensive income (loss), net of taxes	(10,305)	(116,273)
Comprehensive income (loss) for the period	95,717	(11,779)
Attributable to:		
Owners of the parent company	95,447	(11,470)
Non-controlling interests	270	(310)
Comprehensive income (loss) for the period	95,717	(11,779)

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

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2017	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(9,047)	177	(252)
Comprehensive income (loss) for the period	—	—	—	—	(9,047)	177	(252)
Disposal of treasury shares	—	13	57	(70)	—	—	—
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	—	—	—	—	—	—	(134)
Other increase (decrease)	—	—	—	—	—	(115)	—
Total transactions with the owners	—	13	57	(45)	—	(115)	(134)
As of March 31, 2017	100,000	736,413	(443,765)	1,749	(344,688)	502	29,469
As of January 1, 2018	100,000	736,400	(443,636)	1,964	(207,884)	(88)	38,670
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(109,112)	98	(6,444)
Comprehensive income (loss) for the period	—	—	—	—	(109,112)	98	(6,444)
Disposal of treasury shares	—	—	96	(66)	—	—	—
Share-based payments	—	—	—	32	—	—	—
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	—	—	—	—	—	—	(428)
Other increase (decrease)	—	—	—	—	—	77	—
Total transactions with the owners	—	—	96	(34)	—	77	(428)
As of March 31, 2018	100,000	736,400	(443,540)	1,930	(316,996)	87	31,797

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2017	―	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	―	―	105,491	105,491	531	106,021
Other comprehensive income (loss)	(922)	(10,043)	―	(10,043)	(261)	(10,305)
Comprehensive income (loss) for the period	(922)	(10,043)	105,491	95,447	270	95,717
Disposal of treasury shares	―	(70)	―	0	―	0
Share-based payments	―	24	―	24	1	26
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	922	788	(788)	―	―	―
Other increase (decrease)	―	(115)	―	(115)	―	(115)
Total transactions with the owners	922	628	(118,991)	(118,294)	(994)	(119,288)
As of March 31, 2017	―	(312,969)	2,353,566	2,433,245	71,225	2,504,470
As of January 1, 2018	―	(167,338)	2,536,262	2,761,687	80,340	2,842,027
Profit for the period	―	―	104,011	104,011	482	104,494
Other comprehensive income (loss)	(23)	(115,481)	―	(115,481)	(792)	(116,273)
Comprehensive income (loss) for the period	(23)	(115,481)	104,011	(11,470)	(310)	(11,779)
Disposal of treasury shares	―	(66)	(30)	0	―	0
Share-based payments	―	32	―	32	1	33
Dividends (Note 7)	―	―	(125,373)	(125,373)	(910)	(126,283)
Changes in the scope of consolidation	―	―	―	―	59	59
Changes in the ownership interest in a subsidiary without a loss of control	―	―	20	20	(91)	(71)
Transfer from other components of equity to retained earnings	23	(406)	406	―	―	―
Other increase (decrease)	―	77	―	77	―	77
Total transactions with the owners	23	(363)	(124,977)	(125,244)	(940)	(126,184)
As of March 31, 2018	―	(283,182)	2,515,296	2,624,974	79,090	2,704,064

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	142,493	139,891
Depreciation and amortization	35,207	38,451
Impairment losses	292	476
Interest and dividend income	(1,784)	(1,760)
Interest expense	2,859	3,352
Share of profit in investments accounted for using the equity method	(1,631)	(506)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(10,512)	(14,423)
(Increase) decrease in trade and other receivables	14,965	5,381
(Increase) decrease in inventories	1,531	(11,454)
Increase (decrease) in trade and other payables	(33,042)	(29,920)
Increase (decrease) in retirement benefit liabilities	(8,055)	(14,132)
(Increase) decrease in prepaid tobacco excise taxes	6,466	2,472
Increase (decrease) in tobacco excise tax payables	(140,469)	28,640
Increase (decrease) in consumption tax payables	(10,231)	(5,698)
Other	(27,468)	(23,182)
Subtotal	(29,381)	117,588
Interest and dividends received	971	1,907
Interest paid	(1,554)	(2,464)
Income taxes paid	(40,556)	(36,830)
Net cash flows from operating activities	(70,520)	80,201
Cash flows from investing activities		
Purchase of securities	(1,693)	(6,382)
Proceeds from sale and redemption of securities	1,347	906
Purchase of property, plant and equipment	(26,740)	(27,319)
Proceeds from sale of investment property	11,386	16,687
Purchase of intangible assets	(3,101)	(4,630)
Payments into time deposits	(201)	(31)
Proceeds from withdrawal of time deposits	190	37
Other	(3,563)	(522)
Net cash flows from investing activities	(22,375)	(21,256)

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 7)	(117,000)	(123,484)
Dividends paid to non-controlling interests	(617)	(672)
Increase (decrease) in short-term borrowings and commercial paper	64,085	(27,862)
Proceeds from long-term borrowings	–	343
Repayments of long-term borrowings	(62)	(121)
Repayments of finance lease obligations	(147)	(447)
Payments for acquisition of interests in subsidiaries from non-controlling interests	–	(70)
Other	0	0
Net cash flows from financing activities	(53,742)	(152,313)
Net increase (decrease) in cash and cash equivalents	(146,636)	(93,368)
Cash and cash equivalents at the beginning of the period	294,157	285,486
Effect of exchange rate changes on cash and cash equivalents	352	(9,486)
Cash and cash equivalents at the end of the period	147,873	182,632

【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 March 31, 2018 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on May 1, 2018 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of preparation

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

The condensed interim consolidated financial statements are prepared in accordance with IAS 34 and do not include all information required for the consolidated financial statements for the fiscal year. They should be read along with the consolidated financial statements for the fiscal year ended December 31, 2017.

3. Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2017 except the following items.

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

(Changes in accounting policies)

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

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

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

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

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

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

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

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

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

As a result, compared to the application of the former accounting standard, “Revenue” and “Selling, general and administrative expenses” decreased by ¥1,973 million and ¥17,042 million respectively, and “Cost of sales” increased by ¥15,069 million on the condensed interim consolidated statement of income for the three months ended March 31, 2018. The above effects include promotion expenses (¥1,751 million) accounted for as reductions of revenue, as well as shipping and warehousing expenses (¥7,040 million) accounted for as cost of sales.

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

4. Significant accounting estimates and judgments

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

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

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the fiscal year ended December 31, 2017.

5. Operating segments

(1) Outline of reportable segments

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

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

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

(2) Revenues and performances of reportable segments

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

For the three months ended March 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)	151,783	290,784	23,217	38,271	504,055	2,083	―	506,138
Intersegment revenue	2,512	7,240	―	6	9,757	2,318	(12,075)	―
Total revenue	154,294	298,024	23,217	38,276	513,812	4,401	(12,075)	506,138
Segment profit (loss)								
Adjusted operating profit (Note 1)	57,204	91,975	5,061	1,172	155,412	(5,075)	(11)	150,326

For the three months ended March 31, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	138,800	310,111	26,686	37,693	513,289	1,760	―	515,050
Intersegment revenue	1,811	6,206	―	0	8,016	1,461	(9,477)	―
Total revenue	140,611	316,316	26,686	37,693	521,306	3,221	(9,477)	515,050
Segment profit (loss)								
Adjusted operating profit (Note 1)	48,942	96,286	7,697	705	153,630	(6,020)	447	148,057

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

For the three months ended March 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)	57,204	91,975	5,061	1,172	155,412	(5,075)	(11)	150,326
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,770)	−	−	(11,832)	−	−	(11,832)
Adjustment items (income) (Note 4)	−	13	−	−	13	11,184	−	11,197
Adjustment items (costs) (Note 5)	(10)	(119)	−	−	(130)	(604)	−	(734)
Operating profit (loss)	53,132	84,099	5,061	1,172	143,464	5,504	(11)	148,957
Financial income								1,826
Financial costs								(8,290)
Profit before income taxes								142,493

For the three months ended March 31, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	48,942	96,286	7,697	705	153,630	(6,020)	447	148,057
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(10,473)	−	−	(14,534)	−	−	(14,534)
Adjustment items (income) (Note 4)	1	1,183	−	19	1,202	15,303	−	16,505
Adjustment items (costs) (Note 5)	(278)	19	−	−	(259)	(2,994)	−	(3,253)
Operating profit (loss)	44,604	87,014	7,697	724	140,038	6,290	447	146,775
Financial income								1,764
Financial costs								(8,648)
Profit before income taxes								139,891

(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 March 31, 2017	Three months ended March 31, 2018
Domestic Tobacco	143,900	129,327
International Tobacco	275,974	294,798

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Restructuring incomes	11,184	15,515
Others	13	990
Adjustment items (income)	11,197	16,505

Restructuring incomes for the three months ended March 31, 2017 and 2018 mainly relate to gains on sale of real estate. The breakdown of restructuring income is described in "9. Other operating income."

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Restructuring costs	734	3,253
Adjustment items (costs)	734	3,253

The breakdown of restructuring costs is described in "10. Selling, general and administrative expenses."

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

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

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2018	745,607	1,891,210	479,175
Individual acquisition	26,907	—	3,654
Acquisition through business combinations	7	41	163
Transfer to investment property	(282)	—	—
Depreciation or amortization	(20,163)	—	(18,144)
Impairment losses	(158)	—	—
Reversal of impairment losses	336	—	—
Sale or disposal	(1,040)	—	(85)
Exchange differences on translation of foreign operations	(23,875)	(75,376)	(15,609)
Other	2,220	1,003	(444)
As of March 31, 2018	729,558	1,816,878	448,710

7. Dividends

Dividends paid for each interim period are as follows:

For the three months ended March 31, 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

For the three months ended March 31, 2018

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders’ Meeting (March 27, 2018)	Ordinary shares	125,373	70	December 31, 2017	March 28, 2018

8. Revenue

(1) Disaggregation of revenue

The disaggregation of “Revenue” for the three months ended March 31, 2018 is as follows. The amounts are presented after eliminations of intercompany transactions.

For the three months ended March 31, 2018

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business	129,327	294,798	－	－	－	424,125
Other	9,473	15,313	26,686	37,693	1,760	90,925
	138,800	310,111	26,686	37,693	1,760	515,050

(2) Gross turnover

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Gross turnover	1,666,645	1,769,488
Tobacco excise taxes and agency transaction amount	(1,160,507)	(1,254,439)
Revenue	506,138	515,050

9. Other operating income

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Gains on sale of property, plant and equipment, intangible assets and investment property (Note)	11,436	15,492
Other (Note)	334	2,153
Total	11,770	17,645

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Gains on sale of property, plant and equipment, intangible assets and investment property	11,183	15,312
Other	1	203
Total	11,184	15,515

10. Selling, general and administrative expenses

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Advertising expenses	5,127	4,921
Promotion expenses	21,366	17,513
Commission	11,336	10,552
Employee benefit expenses (Note)	63,204	65,989
Research and development expenses	13,832	14,619
Depreciation and amortization	19,686	21,146
Impairment losses on other than financial assets (Note)	292	476
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	1,106	3,042
Other (Note)	35,173	31,385
Total	171,122	169,643

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

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Employee benefit expenses	123	278
Impairment losses on other than financial assets	0	318
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	302	1,885
Other	309	771
Total	734	3,253

11. Financial income and financial costs

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

(Millions of yen)

Financial income	Three months ended March 31, 2017	Three months ended March 31, 2018
Dividend income	1,035	1,149
Interest income	749	612
Other	41	3
Total	1,826	1,764

(Millions of yen)

Financial costs	Three months ended March 31, 2017	Three months ended March 31, 2018
Interest expenses (Note 2)	2,859	3,352
Foreign exchange losses (Note 1)	4,239	3,557
Employee benefit expenses (Note 3)	878	728
Other	314	1,010
Total	8,290	8,648

(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

(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 March 31, 2017	Three months ended March 31, 2018
Profit for the period attributable to owners of the parent company	105,491	104,011
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	105,491	104,011

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

(Thousands of shares)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Weighted-average number of shares during the period	1,790,979	1,791,073

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Profit for the period used for calculation of basic interim earnings per share	105,491	104,011
Adjustment	—	(0)
Profit for the period used for calculation of diluted interim earnings per share	105,491	104,011

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

(Thousands of shares)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Weighted-average number of ordinary shares during the period	1,790,979	1,791,073
Increased number of ordinary shares under subscription rights to shares	954	1,001
Weighted-average number of diluted ordinary shares during the period	1,791,932	1,792,074

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, 2017		As of March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	71,854	71,829	72,026	71,995
Bonds (Note)	332,242	331,998	320,483	318,106

(Note) Current portion is included.

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

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

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

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

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

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

As of December 31, 2017 (Millions of yen)

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

As of March 31, 2018 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	–	4,390	–	4,390
Equity securities	62,957	–	4,717	67,673
Other	401	–	3,458	3,859
Total	63,358	4,390	8,175	75,923
Derivative liabilities	–	4,502	–	4,502
Total	–	4,502	–	4,502

14. Commitments

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

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Acquisition of property, plant and equipment	74,732	70,875

15. Contingencies

As of March 31 2018, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2017.

16. Subsequent events

No items to report

2. 【Other】

No items to report

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

May 1, 2018

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

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

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2018, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three 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 March 31, 2018, and the consolidated results of their operations and their cash flows for the three 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.