[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

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Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
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Date of filing:	October 31, 2014
Quarterly accounting period:	Second quarter of the 30th term (from July 1, 2014 to September 30, 2014)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
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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 September 30, 2013	Six months ended September 30, 2014	29th term
Accounting period	From April 1, 2013 to September 30, 2013	From April 1, 2014 to September 30, 2014	From April 1, 2013 to March 31, 2014
Revenue [Second quarter] (Millions of yen)	1,159,116 [611,179]	1,174,450 [618,002]	2,399,841
Profit before income taxes (Millions of yen)	339,075	302,952	636,203
Profit for the period [Second quarter] (Millions of yen)	241,057 [141,150]	223,149 [115,353]	435,291
Profit attributable to owners of the parent company (Millions of yen)	237,147	219,340	427,987
Comprehensive income (loss) for the period (Millions of yen)	411,292	91,884	850,261
Total equity (Millions of yen)	2,233,255	2,569,219	2,596,091
Total assets (Millions of yen)	4,101,120	4,367,184	4,616,766
Basic earnings per share [Second quarter] (Yen)	130.48 [76.50]	120.68 [62.26]	235.48
Diluted earnings per share (Yen)	130.41	120.61	235.35
Ratio of equity attributable to owners of the parent company to total assets (%)	52.31	56.84	54.27
Net cash flows from (used in) operating activities (Millions of yen)	23,211	204,376	396,496
Net cash flows from (used in) investing activities (Millions of yen)	7,839	(55,198)	(163,473)
Net cash flows from (used in) financing activities (Millions of yen)	(40,330)	(219,075)	(145,189)
Cash and cash equivalents at the end of the period (Millions of yen)	140,288	171,943	253,219

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 JT prepares quarterly consolidated financial statements.
3. The yen amounts are rounded to the nearest million.
4. Revenue does not include consumption taxes.
5. The Group made a partial change to its accounting policies effective from the first quarter ended June 30, 2014. Related principal management benchmarks for the six months ended September 30, 2013, and the fiscal year ended March 31, 2014, have been adjusted retrospectively to reflect the change. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 3. Significant accounting policies, (Changes in accounting policies)."

2. Business description

During the six months ended September 30, 2014, there were neither material changes in the business of the Group (JT, 215 consolidated subsidiaries and 13 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

With the aim of creating a flexible and competitive operational structure, TableMark Co., Ltd., which runs the Group's processed food business, conducted a company split with an effective date of April 1, 2014, into TableMark Co., Ltd., as a business operating company and TableMark Holdings Co., Ltd., a pure holding company.

II. Review of operations

1. Business and other risks

During the six months ended September 30, 2014, 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 decided or entered into during the second quarter ended September 30, 2014.

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

Matters concerning the future in this document were determined by the Group as of September 30, 2014.

(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 JT applies. These financial measures are used internally to manage each of our business operations to understand their underlying performance, in view of our target for med- to long-term sustainable growth, and we believe that they provide useful information for users of our financial statements to assess the Group's performance.

Core revenue

For tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, the revenue for the domestic tobacco business is presented after deducting imported tobacco delivery charges, among others, while the revenue for the international tobacco business is presented after deducting the revenue accounted for in distribution business and contract manufacturing, among others.

Adjusted operating profit

In order to provide useful comparative information on our performance, adjusted operating profit comprised of operating profit less amortization cost of acquired intangibles and adjustment items (income and costs) is presented. Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

Furthermore, adjusted operating profit (at constant rates of exchange) growth rate in the consolidated performance 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 fiscal year.

(1) Operating results

<Revenue>

Revenue increased by ¥15.3 billion or 1.3%, from the same period of the previous fiscal year to ¥1,174.4 billion. This was mainly the result of favorable pricing in the international tobacco business and depreciation in the yen.

(Billions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Revenue	1,159.1	1,174.4	15.3	1.3%
Domestic Tobacco Business	352.3	329.7	(22.6)	(6.4)%
Of which, core revenue	335.8	312.4	(23.3)	(7.0)%
International Tobacco Business	596.2	639.3	43.0	7.2%
Of which, core revenue	559.7	602.0	42.4	7.6%
Pharmaceutical Business	30.4	28.4	(2.0)	(6.6)%
Beverage Business	97.2	93.7	(3.5)	(3.6)%
Processed Food Business	75.8	77.0	1.2	1.6%

* Figures exclude intersegment revenue.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 5. Operating segments, (2) Revenues and performances for reportable segments."

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

Adjusted operating profit increased by ¥9.4 billion, or 3.0%, from the same period of the previous fiscal year to ¥328.3 billion. This was mainly the result of favorable pricing in the international tobacco business and depreciation in the yen. Adjusted operating profit at constant rates of exchange increased by 3.7% from the same period of the previous fiscal year. Operating profit decreased by ¥40.3 billion, or 11.6%, from the same period of the previous fiscal year to ¥307.1 billion, mainly due to a decrease in gain on sales of non-current assets and the partial recording of costs related to measures to strengthen competitiveness in the domestic tobacco business.

Profit attributable to owners of the parent company decreased by ¥17.8 billion, or 7.5%, from the same period of the previous fiscal year to ¥219.3 billion.

(Billions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Adjusted operating profit	318.9	328.3	9.4	3.0%
Domestic Tobacco Business	131.2	121.5	(9.7)	(7.4)%
International Tobacco Business	199.2	219.9	20.7	10.4%
Pharmaceutical Business	(5.4)	(6.4)	(1.0)	–
Beverage Business	(0.7)	(0.1)	0.6	–
Processed Food Business	(0.4)	(0.3)	0.1	–
Operating profit	347.4	307.1	(40.3)	(11.6)%
Profit attributable to owners of the parent company	237.1	219.3	(17.8)	(7.5)%

* Operating profit and adjusted operating profit include operating profit and adjusted operating profit relating to factors other than the segments shown above. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 5. Operating segments, (2) Revenues and performances for reportable segments."

Operating results by segment are as follows.

Domestic Tobacco Business

In the six months ended September 30, 2014, despite our continuing efforts to further strengthen brand equity in order to achieve customer retention, sales volume declined 10.2% due to the demand decline resulting from a rush in demand ahead of a consumption tax hike.

Although market share fell as low as 59.1% in April, it has been firm since May owing to traction from Mevius and other focus brands, and our market share for the six-month period ended at 59.9% (compared with 61.0% for the previous fiscal year).

(Billions of cigarettes)

Domestic Tobacco Business	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Sales volume*	59.6	53.5	(6.1)	(10.2)%

* In addition to the figure stated above, during the six months ended September 30, 2014, 1.7 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 JT's China Division (this amount was 1.7 billion cigarettes in the same period of the previous fiscal year).

Core revenue decreased by 7.0% from the same period of the previous fiscal year as a result of decrease in the sales volume. Domestic cigarette revenue per 1,000 cigarettes was ¥5,665.

In addition, although there were benefits from continued cost reductions and others, these were exceeded by the effect of the decrease in sales volume. As a result, adjusted operating profit decreased by 7.4%.

(Billions of yen)

Domestic Tobacco Business	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Revenue	352.3	329.7	(22.6)	(6.4)%
Of which, core revenue	335.8	312.4	(23.3)	(7.0)%
Adjusted operating profit	131.2	121.5	(9.7)	(7.4)%

International Tobacco Business

In the six months ended September 30, 2014, despite increasing market share in multiple key markets such as U.K. and France, total shipment volume decreased by 5.6% due to negative effects from inventory adjustments in Turkey in addition to a decrease in total demand in Russia, and shipment volume among GFBs(Note 1) decreased by 4.0%.

(Billions of cigarettes)

International Tobacco Business	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Shipment volume	202.0	190.6	(11.4)	(5.6)%
Of which, GFBs	128.1	123.0	(5.2)	(4.0)%

* The translation method for RYO/MYO(Note 2) has been partially amended.

Although there were impacts from the decrease in shipment volume, and from unfavorable foreign exchange effects on local currencies, particularly the ruble, these were exceeded by favorable pricing. As a result, dollar-based core revenue rose by 0.6% and adjusted operating profit increased by 3.3%. Adjusted operating profit at constant rates of exchange increased by 11.7%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Revenue	6,223	6,239	16	0.3%
Of which, core revenue	5,840	5,876	36	0.6%
Adjusted operating profit	2,079	2,147	68	3.3%

As a result of the effects of a weaker yen when making conversions to that currency, yen-based core revenue increased by 7.6% and adjusted operating profit increased by 10.4%.

(Billions of yen)

International Tobacco Business	Six months ended September 30, 2013	Six months ended September 30, 2014	Change	
Revenue	596.2	639.3	43.0	7.2%
Of which, core revenue	559.7	602.0	42.4	7.6%
Adjusted operating profit	199.2	219.9	20.7	10.4%

Note 1: We have identified eight brands which serve as flagships of the Group’s brand portfolio, Winston, Camel, Mevius, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour, which we collectively call the Global Flagship Brands (GFBs).

Note 2: RYO, which is an abbreviation of Roll Your Own, signifies fine cut tobacco to be used by a customer to roll a cigarette by hand, using rolling paper. MYO, which is an abbreviation of Make Your Own, signifies fine cut tobacco to be used by a customer to make a cigarette, using a specialized tool and cigarette tubes.

* In the Six months ended September 30, 2014, the exchange rates of currencies against the U.S. dollar were as follows.

Foreign exchange rate per U.S. dollar	Six months ended September 30, 2013	Six months ended September 30, 2014
Yen	95.73	102.46
Ruble	31.03	34.98
Pounds sterling	0.65	0.60
Euro	0.76	0.73

Pharmaceutical Business

In the pharmaceutical business, we are striving to establish a stronger profit platform by maximizing the value of each product and promoting R&D on next-generation strategic products. In the area of product development, the number of compounds developed in-house that are under clinical development is now 10.

In the six months ended September 30, 2014, Gilead Sciences, Inc. obtained marketing approval from U.S. Food and Drug Administration (FDA) in September 2014 for out-licensed anti-HIV drug "Vitekta" (JTK-303).

Also, "CEDARTOLEN® SUBLINGUAL DROP - Japanese Cedar Pollen," a sublingual immunotherapy drug for Japanese cedar pollinosis, was put on sale in Japan by our subsidiary Torii Pharmaceutical Co., Ltd. in October.

Revenue in the six months ended September 30, 2014, decreased by ¥2.0 billion, or 6.6%, from the same period of the previous fiscal year to ¥28.4 billion because milestone revenue related to progress in development of an original JT compound that has been out-licensed was recorded in the same period of the previous fiscal year, and because there was a demand decline at Torii Pharmaceutical following temporarily heightened demand ahead of the consumption tax hike in April 2014. Owing to the above-mentioned decline in revenue, adjusted operating loss was ¥6.4 billion, a deterioration of ¥1.0 billion from the loss of ¥5.4 billion posted in the same period of the previous fiscal year.

Beverage Business

In the six months ended September 30, 2014, we actively implemented various product launches. In the flagship coffee brand "Roots," we launched a renewal of "Aroma Black Hot Blend," for which we adopted the most aromatic roasting method in the history of Roots, and newly launched "Aroma Gold Low Sugar," which is a blend luxuriously containing high-quality beans (Brazil No. 2). In the energy drink market, which has enjoyed continued growth in recent years, we newly launched "Natural Seven Energy Drink by Roots," a refreshing carbonated beverage boasting a faint coffee aroma and seven naturally derived ingredients. In addition we have started selling of "Momono Tennen Sui Hot," the first hot beverage in the Momono Tennen Sui series.

Revenue in the six months ended September 30, 2014 decreased by ¥3.5 billion, or 3.6%, from the same period of the previous fiscal year to ¥93.7 billion partly due to the effect of unseasonable weather patterns over summer. Adjusted operating loss improved ¥0.6 billion to ¥0.1 billion (compared with an adjusted operating loss of ¥0.7 billion in the same period of the previous year) due to efficient execution of expenditure, despite the effect of lower revenue.

Processed Food Business

In the six months ended September 30, 2014, we continued working to expand sales of staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread. Specifically, we conducted vigorous sales promotions for products including "Sanuki Udon Noodles 5 packs" and "Tannen-jikomi Authentic Sanuki Udon Noodles 3 packs" to mark the 40th anniversary of the launch of our frozen udon noodles, and "Using 1/3 of Recommended Daily Serving of Vegetables" series, which targets consumer health consciousness.

Revenue in the six months ended September 30, 2014 increased by ¥1.2 billion, or 1.6%, from the same period of the previous fiscal year to ¥77.0 billion. Adjusted operating loss was ¥0.3 billion, the same level as the ¥0.4 billion adjusted operating loss in the same period of the previous year, due to the impact of a rise in cost prices in line with the yen's depreciation offsetting the impact of the increase in revenue.

(2) Operational and financial issues to be addressed

During the six months ended September 30, 2014, 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 for the entire Group during the six months ended September 30, 2014 were ¥27.3 billion.

During the six months ended September 30, 2014, 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) Analysis of capital resources and liquidity of funds

a. Funding requirements

Funds are 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 second quarter ended September 30, 2014 decreased by ¥81.3 billion from the end of the previous fiscal year to ¥171.9 billion. Cash and cash equivalents at the end of the same period of the previous fiscal year was ¥140.3 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the six months ended September 30, 2014 were ¥204.4 billion, compared with ¥23.2 billion provided in the same period of the previous fiscal year. This was mainly due to the generation of a stable cash inflow from the tobacco business.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the six months ended September 30, 2014 were ¥55.2 billion, compared with ¥7.8 billion provided in the same period of the previous fiscal 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 September 30, 2014 were ¥219.1 billion, compared with ¥40.3 billion used in the same period of the previous fiscal year. This was mainly due to redemption of bonds and the payment of cash dividends, despite proceeds from borrowings.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of March 31, 2014 and as of September 30, 2014 accounted for ¥303.5 billion and ¥134.4 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥36.3 billion and ¥37.2 billion respectively. Long-term lease obligations totaled ¥9.7 billion as of March 31, 2014 and ¥15.5 billion as of September 30, 2014.

Short-term debt

Short-term borrowings from financial institutions totaled ¥21.9 billion as of March 31, 2014 and ¥93.5 billion as of September 30, 2014, respectively. There was no commercial paper outstanding as of March 31, 2014 and as of September 30, 2014. Short-term lease obligations totaled ¥4.4 billion as of March 31, 2014 and ¥4.5 billion as of September 30, 2014.

c. Liquidity

We have historically had, and expect to continue to have, significant cash flows from operating activities. We expect that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. On September 30, 2014, we had committed lines of credit from major financial institutions both domestic and international. In addition, we have a domestic commercial paper program, uncommitted lines of credit, and a domestic bond shelf registration.

III. Filing company

1. Information on the Company (JT)'s shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of September 30, 2014)	Number of shares issued (Share; as of the date of filing: October 31, 2014)	Name of financial instruments exchange where the stock of JT is traded or the name of authorized financial instruments firms association where JT 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 Japan Tobacco Inc. Act prescribe that the Japanese government must continue to hold more than one-third of all JT shares issued (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 shareholders meeting).

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

(2) Status of subscription rights to shares

There were no subscription rights to shares newly issued during the second quarter ended September 30, 2014.

(3) Exercise of bond certificates with subscription rights to shares with exercise price amendment clause

No items to report

(4) Details of rights plan

No items to report

(5) Trends in total number of shares issued, capital stock

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2014 to September 30, 2014	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

(As of September 30, 2014)

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	666,930,000	33.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	52,747,400	2.64
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	50,828,700	2.54
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)	46,623,333	2.33
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	270 PARK AVENUE, NEW YORK, NY 10017, UNITED STATES OF AMERICA (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	43,323,680	2.17
HSBC BANK PLC A/C THE CHILDRENS INVESTMENT MASTER FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	8 CANADA SQUARE, LONDON E14 5HQ (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	35,402,600	1.77
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. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	34,884,476	1.74
State Street Bank and Trust Company (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	P.O. BOX 351 BOSTON, MASSACHUSETTS 02101 U.S.A. (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	34,716,512	1.74
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
JPMorgan Chase Bank 385632 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (16-13, Tsukishima 4-chome, Chuo-ku, Tokyo, Japan)	15,965,003	0.80
Total	–	1,015,221,704	50.76

Note: In addition to the above, JT held 182,444,388 shares of ordinary shares as treasury stock.

(7) Status of voting rights

a. Shares issued

(As of September 30, 2014)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury stock)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury stock)	Ordinary shares 182,444,300	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,817,534,300	18,175,343	(Note 2)
Shares less than one unit	Ordinary shares 21,400	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	18,175,343	–

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

3. 88 shares of treasury stock are included.

b. Treasury stock

(As of September 30, 2014)

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	182,444,300	–	182,444,300	9.12
Total	–	182,444,300	–	182,444,300	9.12

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 September 30, 2014.

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 conformity 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 July 1, 2014 to September 30, 2014) and for the six months ended September 30, 2014 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 March 31, 2014 Restated*	As of September 30, 2014
Assets		
Current assets		
Cash and cash equivalents (Note 6)	253,219	171,943
Trade and other receivables	440,210	397,329
Inventories	550,987	527,936
Other financial assets	17,333	22,217
Other current assets	226,012	232,374
Subtotal	1,487,761	1,351,799
Non-current assets held-for-sale	1,952	44,141
Total current assets	1,489,713	1,395,941
Non-current assets		
Property, plant and equipment (Note 7)	779,987	764,575
Goodwill (Note 7)	1,584,432	1,520,064
Intangible assets (Note 7)	385,101	362,716
Investment property	61,421	17,973
Retirement benefit assets	16,530	9,502
Investments accounted for using the equity method	106,107	102,359
Other financial assets	92,596	96,232
Deferred tax assets	100,880	97,821
Total non-current assets	3,127,053	2,971,243
Total assets	4,616,766	4,367,184

(Millions of yen)

	As of March 31, 2014 Restated*	As of September 30, 2014
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	360,025	312,887
Bonds and borrowings	195,562	129,696
Income tax payables	77,158	58,802
Other financial liabilities	9,491	8,322
Provisions	7,362	8,297
Other current liabilities	606,161	560,016
Subtotal	1,255,759	1,078,020
Liabilities directly associated with non-current assets held-for-sale	75	3,412
Total current liabilities	1,255,834	1,081,432
Non-current liabilities		
Bonds and borrowings	166,165	135,360
Other financial liabilities	17,731	20,130
Retirement benefit liabilities	340,462	347,157
Provisions	5,241	5,047
Other non-current liabilities	126,539	105,883
Deferred tax liabilities	108,703	102,957
Total non-current liabilities	764,842	716,533
Total liabilities	2,020,675	1,797,965
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(344,463)	(344,449)
Other components of equity	251,107	142,173
Retained earnings	1,762,566	1,848,225
Equity attributable to owners of the parent company	2,505,610	2,482,349
Non-controlling interests	90,481	86,870
Total equity	2,596,091	2,569,219
Total liabilities and equity	4,616,766	4,367,184

* Please refer to Note “3. Significant accounting policies.”

(2) 【Condensed interim consolidated statement of income】

(For the six-month period)

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Revenue (Notes 5, 9)	1,159,116	1,174,450
Cost of sales	(470,797)	(473,936)
Gross profit	688,319	700,514
Other operating income (Note 10)	47,244	10,387
Share of profit in investments accounted for using the equity method	455	3,518
Selling, general and administrative expenses (Note 11)	(388,656)	(407,353)
Operating profit (Note 5)	347,363	307,065
Financial income (Note 12)	2,703	5,956
Financial costs (Note 12)	(10,991)	(10,069)
Profit before income taxes	339,075	302,952
Income taxes	(98,018)	(79,803)
Profit for the period	241,057	223,149
Attributable to:		
Owners of the parent company	237,147	219,340
Non-controlling interests	3,910	3,809
Profit for the period	241,057	223,149
Interim earnings per share		
Basic (Yen) (Note 14)	130.48	120.68
Diluted (Yen) (Note 14)	130.41	120.61

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Operating profit	347,363	307,065
Amortization cost of acquired intangibles	12,926	14,704
Adjustment items (income)	(42,557)	(8,723)
Adjustment items (costs)	1,142	15,261
Adjusted operating profit (Note 5)	318,874	328,306

(For the three-month period)

(Millions of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Revenue (Note 5)	611,179	618,002
Cost of sales	(250,275)	(247,544)
Gross profit	360,903	370,458
Other operating income	42,497	2,749
Share of profit in investments accounted for using the equity method	181	2,239
Selling, general and administrative expenses	(202,702)	(216,608)
Operating profit (Note 5)	200,879	158,839
Financial income	1,493	2,911
Financial costs	(4,888)	(6,312)
Profit before income taxes	197,484	155,437
Income taxes	(56,334)	(40,083)
Profit for the period	141,150	115,353
Attributable to:		
Owners of the parent company	139,043	113,160
Non-controlling interests	2,107	2,194
Profit for the period	141,150	115,353
Interim earnings per share		
Basic (Yen) (Note 14)	76.50	62.26
Diluted (Yen) (Note 14)	76.46	62.22

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

(Millions of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Operating profit	200,879	158,839
Amortization cost of acquired intangibles	6,543	7,368
Adjustment items (income)	(40,933)	(1,767)
Adjustment items (costs)	1,014	14,994
Adjusted operating profit (Note 5)	167,503	179,434

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

(For the six-month period)

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Profit for the period	241,057	223,149
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	2,935	5,462
Remeasurements of defined benefit plans (Note 13)	(26)	(22,074)
Total of items that will not be reclassified to profit or loss	2,909	(16,612)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	167,215	(114,815)
Net gain (loss) on derivatives designated as cash flow hedges	111	163
Total of items that may be reclassified subsequently to profit or loss	167,326	(114,652)
Other comprehensive income (loss), net of taxes	170,235	(131,265)
Comprehensive income (loss) for the period	411,292	91,884
Attributable to:		
Owners of the parent company	407,634	87,992
Non-controlling interests	3,659	3,893
Comprehensive income (loss) for the period	411,292	91,884

(For the three-month period)

	Three months ended September 30, 2013	Three months ended September 30, 2014
		(Millions of yen)
Profit for the period	141,150	115,353
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	2,036	2,113
Remeasurements of defined benefit plans (Note 13)	-	(22,074)
Total of items that will not be reclassified to profit or loss	2,036	(19,961)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	83,360	(7,391)
Net gain (loss) on derivatives designated as cash flow hedges	92	417
Total of items that may be reclassified subsequently to profit or loss	83,452	(6,974)
Other comprehensive income (loss), net of taxes	85,487	(26,934)
Comprehensive income (loss) for the period	226,637	88,419
Attributable to:		
Owners of the parent company	224,692	86,134
Non-controlling interests	1,945	2,285
Comprehensive income (loss) for the period	226,637	88,419

(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 April 1, 2013	100,000	736,411	(344,573)	1,274	(171,341)	(187)	14,835
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	167,488	111	2,949
Comprehensive income (loss) for the period	—	—	—	—	167,488	111	2,949
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	1	4	(4)	—	—	—
Share-based payments	—	—	—	58	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(61)
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	1	3	54	—	—	(61)
As of September 30, 2013	100,000	736,411	(344,569)	1,328	(3,853)	(77)	17,723
As of April 1, 2014	100,000	736,400	(344,463)	1,443	229,990	293	19,380
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(114,911)	163	5,474
Comprehensive income (loss) for the period	—	—	—	—	(114,911)	163	5,474
Acquisition of treasury shares	—	—	—	—	—	—	—
Disposal of treasury shares	—	—	14	(11)	—	—	—
Share-based payments	—	—	—	64	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	263	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	23
Other increase (decrease)	—	—	—	—	—	—	—
Total transactions with the owners	—	—	14	54	263	—	23
As of September 30, 2014	100,000	736,400	(344,449)	1,497	115,342	456	24,878

(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 April 1, 2013	―	(155,420)	1,470,125	1,806,543	85,887	1,892,431
Profit for the period	―	―	237,147	237,147	3,910	241,057
Other comprehensive income (loss)	(60)	170,487	―	170,487	(252)	170,235
Comprehensive income (loss) for the period	(60)	170,487	237,147	407,634	3,659	411,292
Acquisition of treasury shares	―	―	―	(0)	―	(0)
Disposal of treasury shares	―	(4)	―	0	―	0
Share-based payments	―	58	―	58	―	58
Dividends (Note 8)	―	―	(69,065)	(69,065)	(1,755)	(70,819)
Changes in the ownership interest in a subsidiary without a loss of control	―	―	19	19	(1,628)	(1,610)
Transfer from other components of equity to retained earnings	60	(1)	1	―	―	―
Other increase (decrease)	―	―	―	―	1,903	1,903
Total transactions with the owners	60	53	(69,045)	(68,988)	(1,480)	(70,468)
As of September 30, 2013	―	15,120	1,638,227	2,145,189	88,066	2,233,255
As of April 1, 2014	―	251,107	1,762,566	2,505,610	90,481	2,596,091
Profit for the period	―	―	219,340	219,340	3,809	223,149
Other comprehensive income (loss)	(22,074)	(131,349)	―	(131,349)	84	(131,265)
Comprehensive income (loss) for the period	(22,074)	(131,349)	219,340	87,992	3,893	91,884
Acquisition of treasury shares	―	―	―	―	―	―
Disposal of treasury shares	―	(11)	(4)	0	―	0
Share-based payments	―	64	―	64	―	64
Dividends (Note 8)	―	―	(90,877)	(90,877)	(1,211)	(92,089)
Changes in the ownership interest in a subsidiary without a loss of control	―	263	(20,703)	(20,440)	(5,733)	(26,173)
Transfer from other components of equity to retained earnings	22,074	22,097	(22,097)	―	―	―
Other increase (decrease)	―	―	―	―	(559)	(559)
Total transactions with the owners	22,074	22,414	(133,682)	(111,253)	(7,503)	(118, 756)
As of September 30, 2014	―	142,173	1,848,225	2,482,349	86,870	2,569,219

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

(Millions of yen)

	Six months ended September 30, 2013 Restated*	Six months ended September 30, 2014
Cash flows from operating activities		
Profit before income taxes	339,075	302,952
Depreciation and amortization	65,186	68,541
Impairment losses	331	325
Interest and dividend income	(2,500)	(5,823)
Interest expense	4,398	3,324
Share of profit in investments accounted for using the equity method	(455)	(3,518)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(39,791)	(6,702)
(Increase) decrease in trade and other receivables	(4,932)	29,610
(Increase) decrease in inventories	3,550	9,112
Increase (decrease) in trade and other payables	(29,220)	(24,997)
Increase (decrease) in retirement benefit liabilities	(859)	(9,855)
(Increase) decrease in prepaid tobacco excise taxes	6,159	(11,389)
Increase (decrease) in tobacco excise tax payables	(150,344)	(50,925)
Increase (decrease) in consumption tax payables	(7,071)	31,653
Other	(55,135)	(35,053)
Subtotal	128,392	297,256
Interest and dividends received	4,401	9,496
Interest paid	(5,744)	(5,952)
Income taxes paid	(103,838)	(96,425)
Net cash flows from operating activities	23,211	204,376
Cash flows from investing activities		
Purchase of securities	(4,458)	(2,714)
Proceeds from sale and redemption of securities	19,911	1,226
Purchase of property, plant and equipment	(50,859)	(56,163)
Proceeds from sale of investment property	51,359	9,929
Purchase of intangible assets	(11,750)	(5,376)
Payments into time deposits	(339)	(321)
Proceeds from withdrawal of time deposits	4,372	323
Other	(398)	(2,101)
Net cash flows from investing activities	7,839	(55,198)

(Millions of yen)

	Six months ended September 30, 2013 Restated*	Six months ended September 30, 2014
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(68,983)	(90,863)
Dividends paid to non-controlling interests	(1,777)	(1,136)
Capital contribution from non-controlling interests	59	—
Increase (decrease) in short-term borrowings and commercial paper	5,365	73,203
Proceeds from long-term borrowings	70	—
Repayments of long-term borrowings	(20,320)	(1,157)
Proceeds from issuance of bonds	49,395	—
Redemption of bonds	—	(170,670)
Repayments of finance lease obligations	(2,528)	(2,576)
Acquisition of treasury shares	(0)	—
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1,610)	(25,876)
Other	0	0
Net cash flows from financing activities	(40,330)	(219,075)
Net increase (decrease) in cash and cash equivalents	(9,280)	(69,897)
Cash and cash equivalents at the beginning of the period	142,713	253,219
Effect of exchange rate changes on cash and cash equivalents	6,855	(11,378)
Cash and cash equivalents at the end of the period (Note 6)	140,288	171,943

* Please refer to Note “3. Significant accounting policies.”

【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 (http://www.jti.co.jp).

The condensed interim consolidated financial statements for the three-month period ended September 30, 2014 and for the six-month period ended September 30, 2014 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on October 30, 2014 by Mitsuomi Koizumi, President and Chief Executive Officer.

2. Basis of preparation

The Group's condensed interim consolidated financial statements, which satisfy all the requirements concerning the "Specified Company" 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 March 31, 2014.

The fiscal year end date of JT International Holding B.V. and its subsidiaries (hereinafter collectively referred to as the "JTIH Group"), which operate the Group's international tobacco business, is December 31, hence the Group consolidates financial results of the JTIH Group for the six-month period from January 1, 2014 to June 30, 2014 into the Group's consolidated financial results for the six-month period ended September 30, 2014.

Although there is a three month difference between the fiscal year end of the JTIH Group and that of the Company, with respect to significant transactions or events occurring during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial positions and results of operations of the Group.

In addition, the Company and its subsidiaries with fiscal year ends other than December 31 will change and unify fiscal year ends to December 31 starting from the year of 2014. As a consequence, this accounting period difference will no longer exist.

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 March 31, 2014 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 interpretations from the quarter ended June 30, 2014.

IFRS		Description of new standards and amendments
IAS 39	Financial Instruments: Recognition and Measurement	Requirements for continuation of hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument
IFRIC 21	Levies	Clarifying the accounting for levies

The effect of the above standards and interpretations on the condensed interim consolidated financial statements is immaterial.
Regarding IFRIC 21 mentioned above, the comparative information was retrospectively adjusted in accordance with the transitional provisions.

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 as of the 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 or 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 March 31, 2014.

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 about 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, beverages 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 five segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” “Beverage 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 “Beverage Business” consists of the manufacture and sale of beverages. The “Processed Food Business” consists of the manufacture and sale of frozen and room-temperature processed foods, bakery products and seasonings.

(2) Revenues and performances for reportable segments

Revenues and performances for 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 the segment performance. Transactions within the segments are based on mainly the prevailing market price.

For the six months ended September 30, 2013

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Revenue									
External revenue (Note 4)	352,334	596,225	30,413	97,187	75,841	1,152,000	7,117	—	1,159,116
Intersegment revenue	12,051	18,204	—	60	443	30,758	4,943	(35,701)	—
Total revenue	364,384	614,429	30,413	97,247	76,284	1,182,757	12,060	(35,701)	1,159,116
Segment profit (loss)									
Adjusted operating profit (Note 1)	131,193	199,177	(5,413)	(730)	(414)	323,813	(4,783)	(156)	318,874

For the six months ended September 30, 2014

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Revenue									
External revenue (Note 4)	329,730	639,252	28,415	93,652	77,017	1,168,068	6,382	—	1,174,450
Intersegment revenue	8,674	18,545	—	46	295	27,560	5,185	(32,745)	—
Total revenue	338,405	657,797	28,415	93,699	77,312	1,195,628	11,567	(32,745)	1,174,450
Segment profit (loss)									
Adjusted operating profit (Note 1)	121,454	219,922	(6,424)	(81)	(270)	334,601	(6,312)	17	328,306

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

For the six months ended September 30, 2013

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Adjusted operating profit (Note 1)	131,193	199,177	(5,413)	(730)	(414)	323,813	(4,783)	(156)	318,874
Amortization cost of acquired intangibles	—	(12,926)	—	—	—	(12,926)	—	—	(12,926)
Adjustment items (income) (Note 5)	1,044	584	—	—	244	1,872	40,685	—	42,557
Adjustment items (costs) (Note 5)	—	(91)	—	—	(115)	(205)	(937)	—	(1,142)
Operating profit (loss)	132,237	186,744	(5,413)	(730)	(285)	312,554	34,965	(156)	347,363
Financial income									2,703
Financial costs									(10,991)
Profit before income taxes									339,075

For the six months ended September 30, 2014

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Adjusted operating profit (Note 1)	121,454	219,922	(6,424)	(81)	(270)	334,601	(6,312)	17	328,306
Amortization cost of acquired intangibles	—	(14,704)	—	—	—	(14,704)	—	—	(14,704)
Adjustment items (income) (Note 5)	45	290	—	—	413	747	7,976	—	8,723
Adjustment items (costs) (Note 5)	(11,110)	(3,776)	—	—	(13)	(14,899)	(362)	—	(15,261)
Operating profit (loss)	110,389	201,732	(6,424)	(81)	130	305,746	1,302	17	307,065
Financial income									5,956
Financial costs									(10,069)
Profit before income taxes									302,952

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles, and adjustment items (income and costs) are excluded from operating profit (loss).

In addition, the key performance indicator of the Group has changed from “Adjusted EBITDA” to “Adjusted operating profit” since the quarter ended June 30, 2014. Accordingly, the segment information of the comparable period was retrospectively adjusted.

(Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the “International Tobacco Business” segment, has December 31 as its fiscal year end date and the profit or loss for the period from January 1 to June 30 is included in the six months ended September 30, 2013 and 2014, respectively.

(Note 3) “Other” includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Domestic Tobacco	335,756	312,418
International Tobacco	559,657	602,032

(Note 5) “Adjustment items (income)” include restructuring income of gain on sale of real estate. “Adjustment items (costs)” include restructuring costs of the closing down of a factory. The breakdown of restructuring income is described in “10. Other operating income.” The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Restructuring costs	1,142	15,261
Adjustment items (costs)	1,142	15,261

Restructuring costs for the six months ended September 30, 2014 mainly relate to costs of measures to strengthen the competitiveness of “Domestic Tobacco Business.”

For the three months ended September 30, 2013

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Revenue									
External revenue (Note 4)	179,349	325,133	13,568	51,257	38,415	607,724	3,455	—	611,179
Intersegment revenue	6,589	9,472	—	27	239	16,327	2,425	(18,752)	—
Total revenue	185,938	334,606	13,568	51,284	38,655	624,051	5,880	(18,752)	611,179
Segment profit (loss)									
Adjusted operating profit (Note 1)	66,549	108,927	(4,463)	859	(511)	171,361	(3,778)	(80)	167,503

For the three months ended September 30, 2014

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Revenue									
External revenue (Note 4)	177,245	334,103	15,302	48,743	39,668	615,061	2,941	—	618,002
Intersegment revenue	5,119	10,194	—	25	160	15,498	2,543	(18,041)	—
Total revenue	182,363	344,297	15,302	48,769	39,828	630,559	5,484	(18,041)	618,002
Segment profit (loss)									
Adjusted operating profit (Note 1)	70,201	114,854	(2,670)	1,288	(302)	183,371	(3,910)	(26)	179,434

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

For the three months ended September 30, 2013

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Adjusted operating profit (Note 1)	66,549	108,927	(4,463)	859	(511)	171,361	(3,778)	(80)	167,503
Amortization cost of acquired intangibles	—	(6,543)	—	—	—	(6,543)	—	—	(6,543)
Adjustment items (income) (Note 5)	—	584	—	—	117	701	40,232	—	40,933
Adjustment items (costs) (Note 5)	—	(108)	—	—	(44)	(152)	(862)	—	(1,014)
Operating profit (loss)	66,549	102,861	(4,463)	859	(438)	165,368	35,591	(80)	200,879
Financial income									1,493
Financial costs									(4,888)
Profit before income taxes									197,484

For the three months ended September 30, 2014

(Millions of yen)

	Reportable Segments						Other (Note 3)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco (Note 2)	Pharma-ceuticals	Beverage	Processed Food	Total			
Adjusted operating profit (Note 1)	70,201	114,854	(2,670)	1,288	(302)	183,371	(3,910)	(26)	179,434
Amortization cost of acquired intangibles	—	(7,368)	—	—	—	(7,368)	—	—	(7,368)
Adjustment items (income) (Note 5)	45	4	—	—	—	48	1,718	—	1,767
Adjustment items (costs) (Note 5)	(11,066)	(3,594)	—	—	(11)	(14,671)	(322)	—	(14,994)
Operating profit (loss)	59,179	103,895	(2,670)	1,288	(313)	161,379	(2,515)	(26)	158,839
Financial income									2,911
Financial costs									(6,312)
Profit before income taxes									155,437

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles, and adjustment items (income and costs) are excluded from operating profit (loss).

In addition, the key performance indicator of the Group has changed from “Adjusted EBITDA” to “Adjusted operating profit” since the quarter ended June 30, 2014. Accordingly, the segment information of the comparable period was retrospectively adjusted.

(Note 2) The foreign subsidiaries group, which includes a core company of JT International S.A., that is part of the “International Tobacco Business” segment, has December 31 as its fiscal year end date and the profit or loss for the period from April 1 to June 30 is included in the three months ended September 30, 2013 and 2014, respectively.

(Note 3) “Other” includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 4) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

(Millions of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Domestic Tobacco	170,592	168,179
International Tobacco	307,367	318,301

(Note 5) “Adjustment items (income)” include restructuring income of gain on sale of real estate. “Adjustment items (costs)” include restructuring costs of the closing down of a factory. The breakdown of restructuring income is described in “10. Other operating income.” The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

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

(Millions of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Restructuring costs	1,014	14,994
Adjustment items (costs)	1,014	14,994

Restructuring costs for the three months ended September 30, 2014 mainly relate to costs of measures to strengthen the competitiveness of “Domestic Tobacco Business.”

6. Cash and cash equivalents

Included in “Cash and cash equivalents” as of September 30, 2014 is ¥47,392 million (IRR 14,494.3 billion) held by the Group’s Iranian subsidiary, JTI Pars PJS Co. Due to international sanctions and other factors imposed on Iran, the subsidiary’s ability to remit funds outside of Iran is restricted.

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

The schedules of the carrying amount of “Property, plant and equipment,” “Goodwill” and “Intangible assets” are as follows:

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of April 1, 2014	779,987	1,584,432	385,101
Individual acquisition	57,712	—	6,466
Capitalization of borrowing costs	141	—	—
Transfer to investment property	(2,389)	—	—
Depreciation or amortization	(45,708)	—	(21,987)
Impairment losses	(279)	—	—
Reversal of impairment loss	12	—	—
Sale or disposal	(2,572)	—	(89)
Exchange differences on translation of foreign operations	(22,442)	(64,367)	(6,891)
Other	115	—	116
As of September 30, 2014	764,575	1,520,064	362,716

8. Dividends

Dividends paid for each interim period are as follows:

For the six months ended September 30, 2013

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (June 21, 2013)	Ordinary shares	69,065	38	March 31, 2013	June 24, 2013

For the six months ended September 30, 2014

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (June 24, 2014)	Ordinary shares	90,877	50	March 31, 2014	June 25, 2014

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

For the six months ended September 30, 2013

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (October 31, 2013)	Ordinary shares	83,605	46	September 30, 2013	November 29, 2013

For the six months ended September 30, 2014

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (October 30, 2014)	Ordinary shares	90,878	50	September 30, 2014	December 1, 2014

9. Revenue

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Gross turnover	3,604,184	3,597,433
Tobacco excise taxes and agency transaction amount	(2,445,068)	(2,422,983)
Revenue	1,159,116	1,174,450

10. Other operating income

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	42,292	8,753
Other (Note)	4,952	1,634
Total	47,244	10,387

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Gain on sale of property, plant and equipment, intangible assets and investment property	41,835	8,389
Other	138	45
Total	41,973	8,433

11. 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 September 30, 2013	Six months ended September 30, 2014
Advertising expenses	10,166	9,974
Promotion expenses	67,931	65,913
Shipping, warehousing expenses	13,568	13,749
Commission	21,709	24,115
Employee benefit expenses (Note)	135,328	152,946
Research and development expenses	28,380	27,289
Depreciation and amortization	34,265	35,203
Impairment losses on other than financial assets (Note)	331	325
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	4,021	2,811
Other (Note)	72,957	75,029
Total	388,656	407,353

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Employee benefit expenses	―	11,942
Impairment losses on other than financial assets	107	―
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property	847	333
Other	189	2,985
Total	1,142	15,261

12. Financial income and financial costs

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

(Millions of yen)

Financial Income	Six months ended September 30, 2013	Six months ended September 30, 2014
Dividend income	355	393
Interest income	2,145	5,431
Other	203	133
Total	2,703	5,956

(Millions of yen)

Financial Costs	Six months ended September 30, 2013	Six months ended September 30, 2014
Interest expenses (Note 2)	4,398	3,324
Foreign exchange losses (Note 1)	2,969	3,390
Employee benefit expenses (Note 3)	2,849	2,858
Other	775	497
Total	10,991	10,069

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

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

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

13. Other comprehensive income

“Remeasurements of defined benefit plans” for the six months ended September 30, 2014 include remeasurements arising from the effects of significant market fluctuations in relation to retirement benefit assets or liabilities.

14. 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 September 30, 2013	Six months ended September 30, 2014
Profit for the period attributable to owners of the parent company	237,147	219,340
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	237,147	219,340

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

(Thousands of shares)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Weighted-average number of shares during the period	1,817,491	1,817,551

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Profit for the period used for calculation of basic interim earnings per share	237,147	219,340
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	237,147	219,340

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

(Thousands of shares)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Weighted-average number of ordinary shares during the period	1,817,491	1,817,551
Increased number of ordinary shares under subscription rights to share	968	1,008
Weighted-average number of diluted ordinary shares during the period	1,818,459	1,818,559

(For the three-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Profit for the period attributable to owners of the parent company	139,043	113,160
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	139,043	113,160

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

(Thousands of shares)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Weighted-average number of shares during the period	1,817,491	1,817,553

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Profit for the period used for calculation of basic interim earnings per share	139,043	113,160
Adjustment	—	—
Profit for the period used for calculation of diluted interim earnings per share	139,043	113,160

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

(Thousands of shares)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Weighted-average number of ordinary shares during the period	1,817,491	1,817,553
Increased number of ordinary shares under subscription rights to share	967	1,005
Weighted-average number of diluted ordinary shares during the period	1,818,459	1,818,559

15. 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 March 31, 2014		As of September 30, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	36,259	36,259	37,191	37,191
Bonds (Note)	303,532	309,025	134,414	136,927

(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 the 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 input that is not based on observable market data

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

As of March 31, 2014

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	−	8,600	−	8,600
Equity securities	49,809	−	3,896	53,705
Other	201	−	1,333	1,534
Total	50,011	8,600	5,229	63,840
Derivative liabilities	−	4,856	−	4,856
Total	−	4,856	−	4,856

As of September 30, 2014

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	−	10,847	−	10,847
Equity securities	57,970	−	3,966	61,936
Other	225	−	1,324	1,549
Total	58,195	10,847	5,290	74,332
Derivative liabilities	−	3,793	−	3,793
Total	−	3,793	−	3,793

16. Commitments

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

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Acquisition of property, plant and equipment	62,670	55,442

17. Contingencies

As of September 30, 2014, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended March 31, 2014.

18. Subsequent events

The Company decided by resolution at a meeting of the Board of Directors held on October 6, 2014, to undertake appropriate consultations with the European Works Council and employees' representatives on the proposal to restructure manufacturing facilities in the European Union ("EU").

According to the proposal, the facilities in Lisnafillan (Northern Ireland) and Wervik (Belgium) would cease to operate, with production moving to other facilities, potentially in Poland and Romania. Make Your Own tobacco products manufacturing in Trier (Germany) would also be relocated. This proposal would affect approximately 1,100 full-time jobs across the EU.

The impact of the proposal on the consolidated financial statements has not been confirmed at present.

2. Other

(Dividends)

The Board of Directors, at a meeting held on October 30, 2014, declared the following interim dividends for the current fiscal year.

(a) Total amount of interim dividends ¥90,878 million

(b) Amount per share ¥50.00

(c) Effective date of requests for payment, and commencement date of payments December 1, 2014

Note: Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of September 30, 2014.

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

October 30, 2014

To the Board of Directors of
Japan Tobacco Inc.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yasuyuki Miyasaka (Seal)

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

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

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of September 30, 2014, 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" under the provision 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 the Company and its consolidated subsidiaries as of September 30, 2014, 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.