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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:	August 2, 2016
Quarterly accounting period:	Second quarter of the 32nd term (from April 1, 2016 to June 30, 2016)
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:	Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
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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 June 30, 2015	Six months ended June 30, 2016	31st term
Accounting period	From January 1, 2015 to June 30, 2015	From January 1, 2016 to June 30, 2016	From January 1, 2015 to December 31, 2015
Revenue [Second quarter] (Millions of yen)	1,095,221 [578,570]	1,076,879 [542,791]	2,252,884
Profit before income taxes (Millions of yen)	300,180	339,364	565,113
Profit for the period (Millions of yen)	213,677	249,280	490,242
Profit attributable to owners of the parent company [Second quarter] (Millions of yen)	211,466 [107,271]	247,094 [101,649]	485,691
Comprehensive income (loss) for the period (Millions of yen)	157,295	(75,567)	207,708
Total equity (Millions of yen)	2,586,911	2,332,078	2,521,524
Total assets (Millions of yen)	4,538,916	4,360,233	4,558,235
Basic earnings per share [Second quarter] (Yen)	117.49 [59.91]	137.98 [56.76]	270.54
Diluted earnings per share (Yen)	117.42	137.90	270.37
Ratio of equity attributable to owners of the parent company to total assets (%)	55.09	51.88	53.78
Net cash flows from operating activities (Millions of yen)	43,145	(106,667)	468,432
Net cash flows from investing activities (Millions of yen)	(66,595)	(579,547)	(63,271)
Net cash flows from financing activities (Millions of yen)	(23,001)	371,375	(254,852)
Cash and cash equivalents at the end of the period (Millions of yen)	343,637	190,982	526,765

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.
5. In its 31st term the Group classified "Beverage Business" as discontinued operations and the figures presented for the six months ended June 30, 2015 have been restated. Consequently, only revenue and profit before income taxes from continuing operations are presented. Furthermore, the figures presented for the six months ended June 30, 2016 are for continuing operations only.

2. Business description

During the six months ended June 30, 2016, there were neither material changes in the business of the Group (the Company, 199 consolidated subsidiaries and 12 companies accounted for by the equity method) mentioned in the previous fiscal year’s Annual Securities Report nor changes in principal subsidiaries and affiliates.

II. Review of operations

1. Business and other risks

During the six months ended June 30, 2016, there were no new businesses or other risks.

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

2. Important operational contracts

No important operational contracts were determined or entered into during the second quarter ended June 30, 2016.

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

Matters concerning the future in this document were determined by the Group as of June 30, 2016.

(Non-GAAP financial measures)

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

Core revenue from tobacco business

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

Adjusted operating profit

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

Furthermore, adjusted operating profit (at constant rates of exchange) growth rate 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.

(1) Operating results

The Group classified "Beverage Business" as discontinued operations in the previous fiscal year. As a result, profit (loss) from discontinued operations for the six months ended June 30, 2015 is presented separately from that from continuing operations as "profit for the period from discontinued operations (attributable to owners of the parent company)."

<Revenue>

Revenue decreased by ¥18.3 billion, or 1.7%, from the same period of the previous year to ¥1,076.9 billion due to unfavorable foreign exchange effects on the International Tobacco Business despite steady growth across all businesses.

(Billions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Revenue	1,095.2	1,076.9	(18.3)	(1.7)%
Domestic Tobacco Business	329.7	335.9	6.3	1.9%
Of which, core revenue	312.2	318.6	6.4	2.1%
International Tobacco Business	642.2	616.0	(26.2)	(4.1)%
Of which, core revenue	609.2	584.1	(25.2)	(4.1)%
Pharmaceutical Business	34.8	40.3	5.5	15.9%
Processed Food Business	79.5	79.9	0.4	0.5%

* Figures exclude intersegment revenue.

* Revenue includes rent received from leased properties in addition to items relating to the segments shown above.

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

Adjusted operating profit decreased by ¥10.5 billion, or 3.2%, from the same period of the previous year to ¥318.3 billion, due to unfavorable foreign exchange effects on the International Tobacco Business. Adjusted operating profit at constant rates of exchange rose by 14.3% from the same period of the previous year.

Operating profit benefited from gain on sales of real estate and the like, rising by ¥46.2 billion, or 15.5%, from the same period of the previous year to ¥345.0 billion. Profit for the period from continuing operations attributable to owners of the parent company increased by ¥35.5 billion, or 16.8%, from the same period of the previous year to ¥247.1 billion.

(Billions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Adjusted operating profit	328.9	318.3	(10.5)	(3.2)%
Domestic Tobacco Business	125.8	129.6	3.8	3.0%
International Tobacco Business	212.9	193.1	(19.8)	(9.3)%
Pharmaceutical Business	(2.1)	2.8	4.9	–
Processed Food Business	1.1	3.1	2.0	184.6%
Operating profit	298.8	345.0	46.2	15.5%
Profit for the period from continuing operations (attributable to owners of the parent company)	211.6	247.1	35.5	16.8%
Profit for the period from discontinued operations (attributable to owners of the parent company)	(0.2)	–	–	–

	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Profit attributable to owners of the parent company	211.5	247.1	35.6	16.8%

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

Operating results by segment are as follows.

Domestic Tobacco Business

Sales volume(Note 1) was affected by the declining total demand due mainly to a downtrend and by retail price amendments of certain products, but this was partially offset by the impact of the acquisition of the Natural American Spirit business outside the U.S. As a result, sales volume fell by 0.7% from the same period of the previous year. Market share, helped by the aforementioned acquisition, was 61.1% (compared with a share of 59.9% for the previous year).

(Billions of cigarettes)

Domestic Tobacco Business	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Sales volume	53.1	52.7	(0.4)	(0.7)%

Core revenue rose by 2.1% from the same period of the previous year, driven by the impacts of the acquisition of the Natural American Spirit business outside the U.S. and the retail price amendments of certain products.

Despite an increase in promotion expenses, adjusted operating profit rose by 3.0% from the same period of the previous year, due mainly to higher core revenue and the effects of measures to strengthen competitiveness.

(Billions of yen)

Domestic Tobacco Business	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Revenue	329.7	335.9	6.3	1.9%
Of which, core revenue	312.2	318.6	6.4	2.1%
Adjusted operating profit	125.8	129.6	3.8	3.0%

Note: 1 In addition to the figure stated above for sales volume, during the six months ended June 30, 2016, 2.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company’s China Division (1.9 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with emerging products.

International Tobacco Business

In the six months ended June 30, 2016, despite factors including the impact of a decline in total demand in Russia, total shipment volume(Note 2) grew by 4.4% from the same period of the previous year, and GFB(Note 3) shipment volume increased by 6.7%. This mainly reflected market share gains in several countries, primarily in European countries, the effects of the acquisition of an operating company in Iran and the Natural American Spirit business outside the U.S., and positive one-off impacts from trade inventory adjustments.

(Billions of cigarettes)

International Tobacco Business	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Total shipment volume	191.2	199.7	8.5	4.4%
Of which, GFBs	131.9	140.7	8.9	6.7%

Despite favorable pricing in addition to the increase in shipment volume, dollar-based core revenue increased by 3.5% from the same period of the previous year, and adjusted operating profit decreased by 2.3%, due mainly to unfavorable foreign exchange effects on some local currencies, particularly the ruble. Adjusted operating profit at constant rates of exchange increased by 17.7%.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Revenue	5,335	5,524	189	3.5%
Of which, core revenue	5,061	5,239	178	3.5%
Adjusted operating profit	1,770	1,729	(41)	(2.3)%

As a result of the effects of a strong yen when making conversions to that currency, yen-based core revenue decreased by 4.1% from the same period of the previous year, and adjusted operating profit decreased by 9.3% from the same period of the previous year.

(Billions of yen)

International Tobacco Business	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Revenue	642.2	616.0	(26.2)	(4.1)%
Of which, core revenue	609.2	584.1	(25.2)	(4.1)%
Adjusted operating profit	212.9	193.1	(19.8)	(9.3)%

Note: 2 Includes fine cut tobacco, cigars, pipe tobacco and snus, except for contract manufacturing products, waterpipe tobacco products and emerging products.

Note: 3 GFBs (Global Flagship Brands) consist of nine brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, Mevius, LD, Benson & Hedges, Glamour, Sobranie, Silk Cut and Natural American Spirit.

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

Foreign exchange rate per U.S. dollar	Six months ended June 30, 2015	Six months ended June 30, 2016
Yen	120.30	111.70
Ruble	57.47	70.29
Pounds sterling	0.66	0.70
Euro	0.90	0.90

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, with two compounds being newly shifted to clinical development, nine compounds are in clinical development. Among items in clinical development, for anti-HIV drug "emtricitabine/tenofovir alafenamide fumarate," the Company plans to submit a New Drug Application in the third quarter ending September 30, 2016, to the Japanese Ministry of Health, Labour and Welfare.

In the second quarter, the Company obtained approval for domestic manufacturing and distribution of anti-HIV drug "Genvoya Combination Tablets" in June 2016 and Group company Torii Pharmaceutical Co., Ltd. launched sales in July.

In the six months ended June 30, 2016, revenue increased ¥5.5 billion, or 15.9%, from the same period of the previous year to ¥40.3 billion, driven by higher royalty revenue and a one off milestone revenue related to R&D progress of an original JT compound that has been out-licensed. Adjusted operating profit rose by ¥4.9 billion as a result of higher revenue to reach ¥2.8 billion (compared to adjusted operating loss of ¥2.1 billion in the same period of the previous year).

Processed Food Business

In the second quarter ended June 30, 2016, the Group continued to actively promote sales mainly in its priority areas of staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread.

In the six months ended June 30, 2016, revenue increased by ¥0.4 billion, or 0.5%, from the same period of the previous year to ¥79.9 billion, due to growth in sales of staple food products and seasonings. Adjusted operating profit increased by ¥2.0 billion, or 184.6%, from the same period of the previous year to ¥3.1 billion, as a result of lower raw material costs due to efforts to reduce costs and the yen appreciation, in addition to the increase in revenue.

(2) Operational and financial issues to be addressed

During the six months ended June 30, 2016, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year’s Annual Securities Report.

(3) Research and development activities

Research and development expenses of the entire Group during the six months ended June 30, 2016, were ¥28.3 billion.

During the six months ended June 30, 2016, 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 six months ended June 30, 2016 decreased by ¥335.8 billion from the end of the previous fiscal year to ¥191.0 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥343.6 billion.

Cash flows from (used in) operating activities

Net cash flows used in operating activities during the six months ended June 30, 2016 were ¥106.7 billion, compared with ¥43.1 billion provided in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes despite the generation of a stable cash inflow from the tobacco business.

The last day of the previous fiscal year was a holiday for financial institutions. As a result, the amount of national tobacco excise tax payable for the six months ended June 30, 2016 is for seven months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the six months ended June 30, 2016 were ¥579.5 billion, compared with ¥66.6 billion used in the same period of the previous year. This was mainly due to the acquisition of the Natural American Spirit business outside the U.S.

Cash flows from (used in) financing activities

Net cash flows from financing activities during the six months ended June 30, 2016 were ¥371.4 billion, compared with ¥23.0 billion used in the same period of the previous year. This was mainly due to short-term borrowings for the acquisition of the Natural American Spirit business outside the U.S. and the issuance of bonds with the aim of refinancing of part of said short-term borrowings, despite the payment of cash dividends.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2015 and as of June 30, 2016 accounted for ¥215.1 billion and ¥334.4 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥1.0 billion and ¥1.6 billion respectively. Long-term lease obligations totaled ¥7.8 billion as of December 31, 2015 and ¥6.9 billion as of June 30, 2016.

Short-term debt

Short-term borrowings from financial institutions totaled ¥30.8 billion as of December 31, 2015 and ¥328.1 billion as of June 30, 2016, respectively. There was no commercial paper outstanding as of December 31, 2015 and June 30, 2016. Short-term lease obligations totaled ¥0.6 billion as of December 31, 2015 and ¥0.4 billion as of June 30, 2016.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of June 30, 2016, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a domestic commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of June 30, 2016)	Number of shares issued (Share; as of the date of filing: August 2, 2016)	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 shareholders meeting).

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

(2) Status of subscription rights to shares

No items to report

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
April 1, 2016 to June 30, 2016	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

(As of June 30, 2016)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,927,200	33.35
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	58,837,500	2.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	55,980,100	2.80
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)	38,755,111	1.94
GIC Private Limited (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	168 Robinson Road #37-01 CAPITAL TOWER SINGAPORE 068912 (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	36,903,830	1.85
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
State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	P.O. Box 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	33,169,534	1.66
JPMorgan Chase Bank 380055 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	270 Park Avenue, New York, NY 10017, United States of America (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	30,004,149	1.50
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	P.O. Box 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	27,716,117	1.39
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan	18,463,399	0.92
Total	–	1,000,556,940	50.03

Note: In addition to the above, the Company held 209,110,517 shares of ordinary shares as treasury shares.

(7) Status of voting rights

a. Shares issued

(As of June 30, 2016)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 209,110,500	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,790,861,400	17,908,614	(Note 2)
Shares less than one unit	Ordinary shares 28,100	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,908,614	–

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 17 shares of treasury shares.

b. Treasury shares

(As of June 30, 2016)

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	209,110,500	–	209,110,500	10.46
Total	–	209,110,500	–	209,110,500	10.46

2. Status of officers

After filing of the previous fiscal year's Annual Securities Report, there were no personnel changes of officers during the six months ended June 30, 2016.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

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

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

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for this second quarter period (from April 1, 2016 to June 30, 2016) and for the six months ended June 30, 2016 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, 2015	As of June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	526,765	190,982
Trade and other receivables	406,387	359,625
Inventories	563,820	511,567
Other financial assets	17,849	10,833
Other current assets	280,493	321,753
Subtotal	1,795,313	1,394,760
Non-current assets held-for-sale	2,904	957
Total current assets	1,798,217	1,395,718
Non-current assets		
Property, plant and equipment (Note 6)	681,865	636,447
Goodwill (Notes 6, 17)	1,429,287	1,510,315
Intangible assets (Note 6)	332,478	429,001
Investment property	23,614	19,193
Retirement benefit assets	38,954	31,750
Investments accounted for using the equity method	59,523	55,294
Other financial assets	101,727	102,045
Deferred tax assets	92,570	180,471
Total non-current assets	2,760,017	2,964,516
Total assets	4,558,235	4,360,233

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	373,032	297,732
Bonds and borrowings	30,980	328,652
Income tax payables	106,391	75,980
Other financial liabilities	6,459	14,322
Provisions	19,297	10,795
Other current liabilities	729,761	461,922
Total current liabilities	1,265,920	1,189,402
Non-current liabilities		
Bonds and borrowings (Note 7)	215,938	335,452
Other financial liabilities	10,143	8,281
Retirement benefit liabilities	333,562	320,748
Provisions	9,210	5,347
Other non-current liabilities	113,958	101,646
Deferred tax liabilities	87,979	67,280
Total non-current liabilities	770,790	838,753
Total liabilities	2,036,710	2,028,155
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(444,333)	(443,962)
Other components of equity	(137,122)	(446,626)
Retained earnings	2,196,651	2,316,116
Equity attributable to owners of the parent company	2,451,596	2,261,927
Non-controlling interests	69,929	70,151
Total equity	2,521,524	2,332,078
Total liabilities and equity	4,558,235	4,360,233

(2) 【Condensed interim consolidated statement of income】

(For the six-month period)

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Continuing operations		
Revenue (Notes 5, 9)	1,095,221	1,076,879
Cost of sales	(439,581)	(433,713)
Gross profit	655,640	643,166
Other operating income (Note 10)	2,436	59,904
Share of profit in investments accounted for using the equity method	2,844	2,649
Selling, general and administrative expenses (Note 11)	(362,127)	(360,700)
Operating profit (Note 5)	298,792	345,020
Financial income (Note 12)	8,894	3,880
Financial costs (Note 12)	(7,506)	(9,536)
Profit before income taxes	300,180	339,364
Income taxes	(86,486)	(90,084)
Profit for the period from continuing operations	213,694	249,280
Discontinued operations		
Profit (loss) for the period from discontinued operations	(17)	—
Profit for the period	213,677	249,280
Attributable to:		
Owners of the parent company	211,466	247,094
Non-controlling interests	2,211	2,186
Profit for the period	213,677	249,280
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 14)	117.59	137.98
Discontinued operations (Note 14)	(0.10)	—
Total basic earnings per share for the interim period (Note 14)	117.49	137.98
Diluted (Yen)		
Continuing operations (Note 14)	117.52	137.90
Discontinued operations (Note 14)	(0.10)	—
Total diluted earnings per share for the interim period (Note 14)	117.42	137.90

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Continuing operations		
Operating profit	298,792	345,020
Amortization cost of acquired intangibles	15,233	24,081
Adjustment items (income)	(393)	(58,160)
Adjustment items (costs)	15,220	7,391
Adjusted operating profit (Note 5)	328,852	318,332

(For the three-month period)

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Continuing operations		
Revenue (Note 5)	578,570	542,791
Cost of sales	(237,519)	(219,042)
Gross profit	341,051	323,750
Other operating income	1,195	2,806
Share of profit in investments accounted for using the equity method	1,939	1,789
Selling, general and administrative expenses	(189,530)	(187,017)
Operating profit (Note 5)	154,656	141,327
Financial income	4,619	1,724
Financial costs	(5,162)	(4,026)
Profit before income taxes	154,113	139,025
Income taxes	(46,167)	(36,148)
Profit for the period from continuing operations	107,946	102,877
Discontinued operations		
Profit (loss) for the period from discontinued operations	694	–
Profit for the period	108,640	102,877
Attributable to:		
Owners of the parent company	107,271	101,649
Non-controlling interests	1,370	1,228
Profit for the period	108,640	102,877
Interim earnings per share		
Basic (Yen)		
Continuing operations (Note 14)	59.50	56.76
Discontinued operations (Note 14)	0.40	–
Total basic earnings per share for the interim period (Note 14)	59.91	56.76
Diluted (Yen)		
Continuing operations (Note 14)	59.47	56.73
Discontinued operations (Note 14)	0.40	–
Total diluted earnings per share for the interim period (Note 14)	59.87	56.73

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

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Continuing operations		
Operating profit	154,656	141,327
Amortization cost of acquired intangibles	7,775	11,869
Adjustment items (income)	(328)	(1,862)
Adjustment items (costs)	7,507	2,612
Adjusted operating profit (Note 5)	169,609	153,947

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

(For the six-month period)

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Profit for the period	213,677	249,280
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	10,433	(2,068)
Remeasurements of defined benefit plans (Note 13)	(14,634)	(13,170)
Total of items that will not be reclassified to profit or loss	(4,201)	(15,238)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(52,616)	(307,511)
Net gain (loss) on derivatives designated as cash flow hedges	435	(2,098)
Total of items that may be reclassified subsequently to profit or loss	(52,181)	(309,609)
Other comprehensive income (loss), net of taxes	(56,382)	(324,847)
Comprehensive income (loss) for the period	157,295	(75,567)
Attributable to:		
Owners of the parent company	155,343	(76,232)
Non-controlling interests	1,952	665
Comprehensive income (loss) for the period	157,295	(75,567)

(For the three-month period)

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit for the period	108,640	102,877
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	3,760	1,061
Remeasurements of defined benefit plans	(93)	—
Total of items that will not be reclassified to profit or loss	3,668	1,061
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	117,804	(212,378)
Net gain (loss) on derivatives designated as cash flow hedges	269	(665)
Total of items that may be reclassified subsequently to profit or loss	118,074	(213,043)
Other comprehensive income (loss), net of taxes	121,742	(211,982)
Comprehensive income (loss) for the period	230,382	(109,105)
Attributable to:		
Owners of the parent company	228,845	(109,368)
Non-controlling interests	1,537	263
Comprehensive income (loss) for the period	230,382	(109,105)

(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, 2015	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(52,153)	435	10,250
Comprehensive income (loss) for the period	—	—	—	—	(52,153)	435	10,250
Acquisition of treasury shares	—	—	(100,000)	—	—	—	—
Disposal of treasury shares	—	5	18	(23)	—	—	—
Share-based payments	—	—	—	29	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
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	—	—	—	—	—	—	(25)
Other increase (decrease)	—	—	—	—	—	(994)	—
Total transactions with the owners	—	5	(99,982)	6	—	(994)	(25)
As of June 30, 2015	100,000	736,405	(444,429)	1,637	64,268	657	33,382
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(306,107)	(2,098)	(1,948)
Comprehensive income (loss) for the period	—	—	—	—	(306,107)	(2,098)	(1,948)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	372	(327)	—	—	—
Share-based payments	—	—	—	44	—	—	—
Dividends (Note 8)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(309)
Other increase (decrease)	—	—	—	—	—	1,242	—
Total transactions with the owners	—	—	371	(284)	—	1,242	(309)
As of June 30, 2016	100,000	736,400	(443,962)	1,658	(478,579)	(731)	31,026

(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, 2015	—	142,425	1,902,460	2,536,838	85,665	2,622,503
Profit for the period	—	—	211,466	211,466	2,211	213,677
Other comprehensive income (loss)	(14,655)	(56,123)	—	(56,123)	(259)	(56,382)
Comprehensive income (loss) for the period	(14,655)	(56,123)	211,466	155,343	1,952	157,295
Acquisition of treasury shares	—	—	—	(100,000)	—	(100,000)
Disposal of treasury shares	—	(23)	—	0	—	0
Share-based payments	—	29	—	29	—	29
Dividends (Note 8)	—	—	(90,878)	(90,878)	(1,166)	(92,044)
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	14,655	14,630	(14,630)	—	—	—
Other increase (decrease)	—	(994)	—	(994)	121	(872)
Total transactions with the owners	14,655	13,642	(105,507)	(191,843)	(1,044)	(192,887)
As of June 30, 2015	—	99,944	2,008,418	2,500,338	86,573	2,586,911
As of January 1, 2016	—	(137,122)	2,196,651	2,451,596	69,929	2,521,524
Profit for the period	—	—	247,094	247,094	2,186	249,280
Other comprehensive income (loss)	(13,172)	(323,326)	—	(323,326)	(1,521)	(324,847)
Comprehensive income (loss) for the period	(13,172)	(323,326)	247,094	(76,232)	665	(75,567)
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(327)	(44)	0	—	0
Share-based payments	—	44	—	44	1	45
Dividends (Note 8)	—	—	(114,606)	(114,606)	(1,377)	(115,983)
Changes in the scope of consolidation	—	—	—	—	933	933
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(117)	(117)	(0)	(117)
Transfer from other components of equity to retained earnings	13,172	12,863	(12,863)	—	—	—
Other increase (decrease)	—	1,242	—	1,242	—	1,242
Total transactions with the owners	13,172	13,822	(127,630)	(113,437)	(443)	(113,879)
As of June 30, 2016	—	(446,626)	2,316,116	2,261,927	70,151	2,332,078

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Cash flows from operating activities		
Profit before income taxes	300,180	339,364
Profit before income taxes from discontinued operations	(8,875)	—
Depreciation and amortization	70,542	71,716
Impairment losses	4,883	908
Interest and dividend income	(8,509)	(3,875)
Interest expense	2,009	4,089
Share of profit in investments accounted for using the equity method	(2,844)	(2,649)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	8,985	(28,678)
(Gains) losses on sale of investments in subsidiaries	—	(26,106)
(Increase) decrease in trade and other receivables	16,581	570
(Increase) decrease in inventories	27,959	6,541
Increase (decrease) in trade and other payables	(68,009)	(45,269)
Increase (decrease) in retirement benefit liabilities	(7,356)	(5,573)
(Increase) decrease in prepaid tobacco excise taxes	898	(72,058)
Increase (decrease) in tobacco excise tax payables	(134,917)	(189,427)
Increase (decrease) in consumption tax payables	(34,050)	(6,370)
Other	(59,331)	(34,626)
Subtotal	108,146	8,558
Interest and dividends received	12,344	7,168
Interest paid	(1,898)	(3,180)
Income taxes paid (Note 18)	(75,447)	(119,212)
Net cash flows from operating activities	43,145	(106,667)
Cash flows from investing activities		
Purchase of securities	(390)	(355)
Proceeds from sale and redemption of securities	1,139	2,109
Purchase of property, plant and equipment	(58,873)	(46,290)
Proceeds from sale of investment property	255	32,944
Purchase of intangible assets	(6,107)	(4,116)
Payments into time deposits	(399)	(199)
Proceeds from withdrawal of time deposits	357	182
Payments for business combinations (Note 17)	—	(587,173)
Proceeds from sale of investments in subsidiaries	—	26,979
Other	(2,578)	(3,629)
Net cash flows from investing activities	(66,595)	(579,547)

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(90,941)	(114,632)
Dividends paid to non-controlling interests	(1,090)	(1,335)
Increase (decrease) in short-term borrowings and commercial paper	201,517	350,690
Proceeds from long-term borrowings	—	841
Repayments of long-term borrowings	(30,072)	(69)
Proceeds from issuance of bonds	—	136,181
Repayments of finance lease obligations	(2,416)	(301)
Acquisition of treasury shares	(100,000)	(0)
Other	0	0
Net cash flows from financing activities	(23,001)	371,375
Net increase (decrease) in cash and cash equivalents	(46,451)	(314,839)
Cash and cash equivalents at the beginning of the period	385,820	526,765
Effect of exchange rate changes on cash and cash equivalents	4,268	(20,944)
Cash and cash equivalents at the end of the period	343,637	190,982

【Notes to condensed interim consolidated financial statements】

1. Reporting entity

The Company is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (https://www.jti.co.jp).

The condensed interim consolidated financial statements for the three-month period ended June 30, 2016 and for the six-month period ended June 30, 2016 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on August 1, 2016 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 December 31, 2015.

(Changes in method of presentation)

For the prior year, continuing operations and discontinued operations have been presented separately. To reflect the changes in method of presentation, the condensed interim consolidated statement of income, the condensed interim consolidated statement of cash flows and relevant notes to the condensed interim consolidated financial statements for the six months ended June 30, 2015 have been accordingly changed.

For discontinued operations, please refer to "18. Discontinued operations."

"Purchase of investments in subsidiaries," which was presented in cash flows from investing activities for the prior year, has been presented as "Payments for business combinations" to appropriately reflect the substance of the transaction for the six months ended June 30, 2016.

3. Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2015 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 March 31, 2016.

IFRS		Description of new standards and amendments
IAS 19	Employee Benefits	Clarifying the method of determining the discount rate for post-employment benefit obligations

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

4. Significant accounting estimates and judgments

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

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

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the fiscal year ended December 31, 2015.

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.

In addition, “Beverage Business” was classified as discontinued operations in the prior year.

For discontinued operations, please refer to “18. Discontinued operations.”

(2) Revenues and performances of reportable segments

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

For the six months ended June 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	329,655	642,162	34,776	79,543	1,086,137	9,084	—	1,095,221
Intersegment revenue	10,620	23,524	—	18	34,161	5,137	(39,298)	—
Total revenue	340,275	665,686	34,776	79,561	1,120,298	14,221	(39,298)	1,095,221
Segment profit (loss)								
Adjusted operating profit (Note 1)	125,807	212,932	(2,124)	1,106	337,721	(8,501)	(368)	328,852

For the six months ended June 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	335,911	615,981	40,295	79,942	1,072,129	4,750	—	1,076,879
Intersegment revenue	11,257	15,881	—	12	27,149	4,828	(31,977)	—
Total revenue	347,168	631,862	40,295	79,953	1,099,279	9,578	(31,977)	1,076,879
Segment profit (loss)								
Adjusted operating profit (Note 1)	129,624	193,114	2,766	3,148	328,651	(10,578)	259	318,332

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

For the six months ended June 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	125,807	212,932	(2,124)	1,106	337,721	(8,501)	(368)	328,852
Amortization cost of acquired intangibles	—	(15,233)	—	—	(15,233)	—	—	(15,233)
Adjustment items (income) (Note 4)	71	—	—	25	96	297	—	393
Adjustment items (costs) (Note 4)	(1,827)	(2,189)	—	(2)	(4,018)	(11,203)	—	(15,220)
Operating profit (loss)	124,052	195,510	(2,124)	1,129	318,567	(19,407)	(368)	298,792
Financial income								8,894
Financial costs								(7,506)
Profit before income taxes								300,180

For the six months ended June 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	129,624	193,114	2,766	3,148	328,651	(10,578)	259	318,332
Amortization cost of acquired intangibles	(8,122)	(15,959)	—	—	(24,081)	—	—	(24,081)
Adjustment items (income) (Note 4)	17	—	—	—	17	58,144	—	58,160
Adjustment items (costs) (Note 4)	138	(2,534)	—	(1)	(2,397)	(4,995)	—	(7,391)
Operating profit (loss)	121,656	174,622	2,766	3,147	302,190	42,571	259	345,020
Financial income								3,880
Financial costs								(9,536)
Profit before income taxes								339,364

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

(Note 2) "Other" includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 3) Core revenue as part of the "Domestic Tobacco Business" and the "International Tobacco Business" is as follows:

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Domestic Tobacco	312,207	318,613
International Tobacco	609,226	584,059

(Note 4) "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." Restructuring costs included in "Cost of sales" were ¥51 million for the six months ended June 30, 2015. Restructuring costs included in "Selling, general and administrative expenses" were ¥15,169 million and ¥7,391 million for the six months ended June 30, 2015 and 2016, respectively. 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 June 30, 2015	Six months ended June 30, 2016
Restructuring costs	15,220	7,391
Adjustment items (costs)	15,220	7,391

Restructuring costs for the six months ended June 30, 2015 and 2016 mainly relate to disposal of real estate.

For the three months ended June 30, 2015

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	171,838	342,294	18,138	40,650	572,920	5,650	—	578,570
Intersegment revenue	4,991	13,323	—	11	18,326	2,544	(20,869)	—
Total revenue	176,829	355,617	18,138	40,661	591,246	8,193	(20,869)	578,570
Segment profit (loss)								
Adjusted operating profit (Note 1)	68,854	107,960	(1,287)	207	175,733	(5,947)	(177)	169,609

For the three months ended June 30, 2016

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	167,541	314,138	18,747	40,526	540,953	1,839	—	542,791
Intersegment revenue	5,558	7,077	—	7	12,642	2,531	(15,173)	—
Total revenue	173,099	321,215	18,747	40,533	553,595	4,370	(15,173)	542,791
Segment profit (loss)								
Adjusted operating profit (Note 1)	63,877	93,606	(419)	1,984	159,048	(5,562)	461	153,947

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

For the three months ended June 30, 2015

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	68,854	107,960	(1,287)	207	175,733	(5,947)	(177)	169,609
Amortization cost of acquired intangibles	—	(7,775)	—	—	(7,775)	—	—	(7,775)
Adjustment items (income) (Note 4)	32	—	—	—	32	297	—	328
Adjustment items (costs) (Note 4)	(587)	(1,704)	—	—	(2,291)	(5,215)	—	(7,507)
Operating profit (loss)	68,298	98,481	(1,287)	207	165,698	(10,866)	(177)	154,656
Financial income								4,619
Financial costs								(5,162)
Profit before income taxes								154,113

For the three months ended June 30, 2016

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	63,877	93,606	(419)	1,984	159,048	(5,562)	461	153,947
Amortization cost of acquired intangibles	(4,061)	(7,807)	—	—	(11,869)	—	—	(11,869)
Adjustment items (income) (Note 4)	15	—	—	—	15	1,847	—	1,862
Adjustment items (costs) (Note 4)	(48)	(1,795)	—	(0)	(1,843)	(769)	—	(2,612)
Operating profit (loss)	59,784	84,003	(419)	1,984	145,351	(4,484)	461	141,327
Financial income								1,724
Financial costs								(4,026)
Profit before income taxes								139,025

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

(Note 2) “Other” includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 3) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Domestic Tobacco	162,628	158,020
International Tobacco	326,960	299,391

(Note 4) “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. Restructuring costs included in “Cost of sales” were ¥4 million for the six months ended June 30, 2015. Restructuring costs included in “Selling, general and administrative expenses” were ¥7,503 million and ¥2,612 million for the six months ended June 30, 2015 and 2016, respectively.

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

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Restructuring costs	7,507	2,612
Adjustment items (costs)	7,507	2,612

Restructuring costs for the three months ended June 30, 2015 mainly relate to disposal of real estate.

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, 2016	681,865	1,429,287	332,478
Individual acquisition	40,070	—	4,135
Acquisition through business combinations	959	289,061	180,304
Transfer to investment property	(3,366)	—	—
Depreciation or amortization	(39,296)	—	(32,072)
Impairment losses	(423)	—	—
Sale or disposal	(1,909)	—	(71)
Exchange differences on translation of foreign operations	(45,755)	(206,699)	(55,938)
Other	4,302	(1,334)	165
As of June 30, 2016	636,447	1,510,315	429,001

7. Bonds

The Company issued straight bonds in USD (outstanding amount: $750 million, carrying amount: ¥76,918 million, interest rate: 2.00%, maturity date: April 13, 2021) and straight bonds in USD (outstanding amount: $500 million, carrying amount: ¥51,172 million, interest rate: 2.80%, maturity date: April 13, 2026) for the six months ended June 30, 2016.

8. Dividends

Dividends paid for each interim period are as follows:

For the six months ended June 30, 2015

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 20, 2015)	Ordinary shares	90,878	50	December 31, 2014	March 23, 2015

For the six months ended June 30, 2016

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

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

For the six months ended June 30, 2015

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (August 3, 2015)	Ordinary shares	96,696	54	June 30, 2015	September 1, 2015

For the six months ended June 30, 2016

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

9. Revenue

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Gross turnover	3,604,436	3,507,430
Tobacco excise taxes and agency transaction amount	(2,509,216)	(2,430,551)
Revenue	1,095,221	1,076,879

10. Other operating income

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	468	32,786
Gain on sale of investments in subsidiaries (Note)	—	26,106
Other (Note)	1,968	1,013
Total	2,436	59,904

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Gain on sale of property, plant and equipment, intangible assets and investment property	191	31,964
Gain on sale of investments in subsidiaries	—	26,106
Other	202	90
Total	393	58,160

11. Selling, general and administrative expenses

The breakdown of "Selling, general and administrative expenses" from continuing operations for each interim period is as follows:

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Advertising expenses	10,025	11,558
Promotion expenses	46,333	51,253
Shipping, warehousing expenses	13,284	13,229
Commission	23,176	22,501
Employee benefit expenses (Note)	128,280	123,557
Research and development expenses	27,628	28,278
Depreciation and amortization	32,151	40,718
Impairment losses on other than financial assets (Note)	1,745	908
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	13,110	6,370
Other (Note)	66,395	62,329
Total	362,127	360,700

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Employee benefit expenses	734	378
Impairment losses on other than financial assets	796	497
Loss on sale and disposal of property, plant and equipment, intangible assets and investment property	10,590	4,085
Other	3,049	2,432
Total	15,169	7,391

12. Financial income and financial costs

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

(Millions of yen)

Financial income	Six months ended June 30, 2015	Six months ended June 30, 2016
Dividend income	1,438	1,363
Interest income	7,047	2,512
Other	408	5
Total	8,894	3,880

(Millions of yen)

Financial costs	Six months ended June 30, 2015	Six months ended June 30, 2016
Interest expenses (Note 2)	1,915	4,089
Foreign exchange losses (Note 1)	2,803	2,934
Employee benefit expenses (Note 3)	1,927	1,758
Other	862	755
Total	7,506	9,536

(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) 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 June 30, 2016 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 June 30, 2015	Six months ended June 30, 2016
Profit for the period attributable to owners of the parent company	211,466	247,094
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	211,466	247,094
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(177)	–
Profit for the period from continuing operations used for calculation of basic interim earnings per share	211,643	247,094

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

(Thousands of shares)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Weighted-average number of shares during the period	1,799,879	1,790,843

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Profit for the period used for calculation of basic interim earnings per share	211,466	247,094
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	211,466	247,094
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	(177)	–
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	211,643	247,094

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

(Thousands of shares)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Weighted-average number of ordinary shares during the period	1,799,879	1,790,843
Increased number of ordinary shares under subscription rights to shares	1,065	1,004
Weighted-average number of diluted ordinary shares during the period	1,800,943	1,791,846

(For the three-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit for the period attributable to owners of the parent company	107,271	101,649
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	107,271	101,649
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	717	–
Profit for the period from continuing operations used for calculation of basic interim earnings per share	106,553	101,649

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

(Thousands of shares)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Weighted-average number of shares during the period	1,790,669	1,790,885

(2) Basis of calculating diluted interim earnings per share

a. Profit attributable to owners of diluted ordinary shareholders

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit for the period used for calculation of basic interim earnings per share	107,271	101,649
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	107,271	101,649
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	717	–
Profit for the period from continuing operations used for calculation of diluted interim earnings per share	106,553	101,649

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

(Thousands of shares)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Weighted-average number of ordinary shares during the period	1,790,669	1,790,885
Increased number of ordinary shares under subscription rights to shares	1,062	961
Weighted-average number of diluted ordinary shares during the period	1,791,731	1,791,846

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 December 31, 2015		As of June 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	1,014	1,014	1,593	1,593
Bonds	215,072	217,215	334,384	342,051

(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 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, 2015

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	–	7,106	–	7,106
Equity securities	67,557	–	5,239	72,795
Other	319	–	1,727	2,046
Total	67,876	7,106	6,966	81,948
Derivative liabilities	–	5,595	–	5,595
Total	–	5,595	–	5,595

As of June 30, 2016

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	–	5,682	–	5,682
Equity securities	62,501	–	5,067	67,568
Other	309	–	1,543	1,851
Total	62,810	5,682	6,610	75,101
Derivative liabilities	–	13,753	–	13,753
Total	–	13,753	–	13,753

16. Commitments

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

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
Acquisition of property, plant and equipment	41,879	65,697

17. Business combinations

Acquisition of the Natural American Spirit Business outside the United States

(1) Summary of business combinations

On January 13, 2016, the Group acquired from the Reynolds American Inc. group ("RAI") the Natural American Spirit business outside the United States which included the non-U.S. trademarks and all outstanding shares of RAI's subsidiaries outside the U.S. which sold the brand, Santa Fe Natural Tobacco Company Japan K.K. (Note) and eight other subsidiaries.

Natural American Spirit, the tobacco brand that Santa Fe Natural Tobacco Company, Inc. launched in the U.S. in 1982, has established a unique brand positioning due to its additive-free tobacco products that abundantly use high quality leaf tobacco. The brand has steadily increased the sales volume in the U.S., Japan, Germany, Switzerland, Italy, Spain, the U.K. and others.

The purpose of this acquisition is that Natural American Spirit, which has a strong presence in a premium priced category, allows the Group to further extend its brand portfolio and strengthen the business foundation.

Notably in Japan, which accounts for the majority of the sales volume worldwide excluding the U.S., the brand has enjoyed broad support of consumers and experienced significant growth in sales volume. This acquisition is positioned as part of business investments to underpin the Group's sustainable long-term profit growth in Japan, which is one of the Group's most significant markets.

(Note) Santa Fe Natural Tobacco Company Japan K.K. changed its name to TRUE SPIRIT TOBACCO COMPANY on May 1, 2016.

(2) Financial impact on the Group

Since the acquisition date, the acquired business has contributed to total revenue and operating loss of ¥13,380 million and ¥6,289 million, respectively.

The amortization of trademarks acquired from the business combinations included in the above operating loss is ¥8,986 million.

(3) Consideration and details (Total of the acquisition)

The consideration is ¥583,199 million and all is paid in cash.

(4) Cash out for the business combinations (Total of the acquisition)

(Millions of yen)

	Net cash outflow for the business combinations
Cash consideration	583,199
Cash and cash equivalents in subsidiaries acquired	(4,112)
Net cash outflow for the business combinations	579,087

(5) Fair values of the assets acquired and liabilities assumed

(Millions of yen)

	Fair value
Current assets	19,605
Trademarks	178,370
Deferred tax assets	112,719
Other non-current assets	10,124
Total assets	320,818
Current liabilities	10,811
Non-current liabilities	10,498
Total liabilities	21,310
Goodwill	283,690

Goodwill represents future economic benefits for integration synergies including enhanced business scale in each market, and it is expected that most of the trademarks and goodwill are deductible for tax purposes.

Fair values of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and may change during the measurement period (one year from the acquisition date).

Transaction costs of ¥291 million are expensed as incurred and recognized in “Selling, general and administrative expense.”

Other acquisition

In addition to the above, the Group acquired other entities through business combinations for the six months ended June 30, 2016, which are omitted as they are immaterial both individually and in aggregate.

18. Discontinued operations

The Group classifies continuing operations and discontinued operations based on operating segments. As a result, for a business not managed as an independent operating segment, it will not be classified as discontinued operations when sold or discontinued and its operating income (loss) and cash flows will be included in the operating income (loss) and cash flows of continuing operations.

Shares of Japan Beverage Holdings Inc., JT A-star Co., Ltd. and other subsidiaries conducting vending machine operation business were transferred to Suntory Beverage & Food Limited on July 31, 2015 and the manufacture and sale of JT beverage products were discontinued at the end of September, 2015. Accordingly, in the prior year, “Beverage Business” was classified as discontinued operations and presented separately from continuing operations. Income taxes paid of ¥36,494 million related to the transfer of subsidiaries for the prior year are included in the condensed interim consolidated statement of cash flows for the six months ended June 30, 2016.

19. Contingencies

As of June 30 2016, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2015.

20. Subsequent events

The Group signed a share purchase agreement of $510 million (approximately ¥53.9 billion) (Note) with the Ethiopian Government for 40% shares of National Tobacco Enterprise Ethiopia S.C (“NTE”) which operates tobacco business in Ethiopia on July 15, 2016. The acquisition of NTE offers an attractive opportunity to enhance our presence through geographical expansion for our future growth in emerging markets.

Financial impacts on the Group’s consolidated performance for the fiscal year 2016 are immaterial.

2. Other

(Dividends)

The Board of Directors, at a meeting held on August 1, 2016, declared the following interim dividends for the current fiscal year.

(a) Total amount of interim dividends	¥114,617 million
(b) Amount per share	¥64.00
(c) Effective date of requests for payment, and commencement date of payments	September 1, 2016

Note: Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2016.

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

No items to report

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

August 1, 2016

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: 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 June 30, 2016, and the related condensed interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the six-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan.

A review consists primarily of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical procedures and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that we have obtained the evidence to provide a basis for our conclusion.

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of June 30, 2016, 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.