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Quarterly accounting period:	Second quarter of the 34th term (from April 1, 2018 to June 30, 2018)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, President, Chief Executive Officer and Representative Director
Location of head office:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Kei Nakano, Senior Vice President, Communications
Place of contact:	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Kei Nakano, Senior Vice President, Communications
Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Six months ended June 30, 2017	Six months ended June 30, 2018	33rd term
Accounting period	From January 1, 2017 to June 30, 2017	From January 1, 2018 to June 30, 2018	From January 1, 2017 to December 31, 2017
Revenue [Second quarter] (Millions of yen)	1,045,330 [539,192]	1,075,271 [560,221]	2,139,653
Profit before income taxes (Millions of yen)	302,913	290,367	538,532
Profit for the period (Millions of yen)	227,322	217,560	396,749
Profit attributable to owners of the parent company [Second quarter] (Millions of yen)	225,635 [120,144]	216,093 [112,081]	392,409
Comprehensive income (loss) for the period (Millions of yen)	268,734	44,911	554,198
Total equity (Millions of yen)	2,677,274	2,751,442	2,842,027
Total assets (Millions of yen)	4,618,364	4,996,058	5,221,484
Basic earnings per share [Second quarter] (Yen)	125.98 [67.08]	120.64 [62.57]	219.10
Diluted earnings per share (Yen)	125.92	120.58	218.97
Ratio of equity attributable to owners of the parent company to total assets (%)	56.40	53.66	52.89
Net cash flows from operating activities (Millions of yen)	40,485	229,158	419,212
Net cash flows from investing activities (Millions of yen)	(52,555)	(60,815)	(352,632)
Net cash flows from financing activities (Millions of yen)	(123,643)	(208,915)	(77,032)
Cash and cash equivalents at the end of the period (Millions of yen)	160,481	237,353	285,486

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

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

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

4. Revenue does not include consumption taxes.

2. Business description

During the six months ended June 30, 2018, there were neither material changes in the business of the Group (the Company, 212 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, 2018, there were no new businesses or other risks.

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

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 7 of March 31, 2018) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 3 of March 31, 2018) were established as part of the 2018 Tax Reform. However, in regard to the details of a review of the tobacco excise tax, there were no changes to the "II. Review of operations, 4. Business and other risks, (1) Items relating to the business, profit structure and management policy of the Group, d. Outline of the Tax Reform Proposals" mentioned in the previous fiscal year's Annual Securities Report.

Furthermore, the Act for Partial Amendment of the Health Promotion Act (Act No. 78 of July 25, 2018), which was described in the "II. Review of operations, 4. Business and other risks, (2) Risks relating to the Group's tobacco business, d. Regulations on tobacco products" of the previous fiscal year's Annual Securities Report, was enacted in July 2018.

2. Important operational contracts

No important operational contracts were determined or entered into during the second quarter ended June 30, 2018.

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

Matters concerning the future in this document were determined by the Group as of June 30, 2018.

(IFRS 15)

From the first quarter ended March 31, 2018, the Group has adopted IFRS 15 "Revenue from Contracts with Customers." As a result, compared to the application of the former accounting standard, "Revenue" and "Selling, general and administrative expenses" decreased by ¥4,192 million and ¥34,105 million respectively (including promotion expenses of ¥3,486 million accounted for as reductions of revenue, as well as shipping and warehousing expenses of ¥14,066 million accounted for as cost of sales), and "Cost of sales" increased by ¥29,913 million on the condensed interim consolidated statement of income for the six months ended June 30, 2018. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 3. Significant accounting policies."

(Non-GAAP financial measures)

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

Adjusted operating profit

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

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

(Core revenue from tobacco business)

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

(RRP)

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

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

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

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

(1) Operating results

<Revenue>

Revenue increased by ¥29.9 billion, or 2.9%, from the same period of the previous year to ¥1,075.3 billion due to increases in revenue in the International Tobacco Business and the Pharmaceutical Business despite decrease in revenue in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business.

(Billions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
Revenue	1,045.3	1,075.3	29.9	2.9%
Domestic Tobacco Business	310.4	290.7	(19.6)	(6.3)%
Of which, core revenue	294.4	272.2	(22.2)	(7.5)%
International Tobacco Business	606.7	650.9	44.2	7.3%
Of which, core revenue	577.2	620.0	42.8	7.4%
Pharmaceutical Business	47.2	53.2	6.0	12.7%
Processed Food Business	77.5	77.0	(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.

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

Adjusted operating profit including foreign exchange effects increased by ¥3.2 billion, or 1.0%, from the same period of the previous year to ¥317.8 billion, due mainly to increases in profit in the International Tobacco Business and the Pharmaceutical Business despite decrease in profit in the Domestic Tobacco Business and unfavorable foreign exchange effects on the International Tobacco Business. Adjusted operating profit at constant rates of exchange increased by 3.1% from the same period of the previous year.

Operating profit decreased by ¥11.0 billion, or 3.5%, from the same period of the previous year to ¥302.3 billion, despite the increase in adjusted operating profit including foreign exchange effects. This mainly reflected the relative negative effect arising from the posting in the same period of the previous year of a gain on reversal of impairment losses on investments in associates, and separate to this, the increase in amortization cost of acquired intangibles arising from business acquisitions.

Profit attributable to owners of the parent company decreased by ¥9.5 billion, or 4.2%, from the same period of the previous year to ¥216.1 billion due mainly to decrease in operating profit.

(Billions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
Adjusted operating profit	314.7	317.8	3.2	1.0%
Domestic Tobacco Business	120.0	103.5	(16.5)	(13.7)%
International Tobacco Business	195.1	214.3	19.2	9.8%
Pharmaceutical Business	9.0	11.4	2.4	26.7%
Processed Food Business	2.2	1.4	(0.7)	(34.1)%
Operating profit	313.3	302.3	(11.0)	(3.5)%
Profit attributable to owners of the parent company	225.6	216.1	(9.5)	(4.2)%

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

Operating results by segment are as follows.

Domestic Tobacco Business

JT cigarette sales volume(Note 1) in the six months ended June 30, 2018 was affected by a decline in cigarette industry volume(Note 2) caused by the expansion of RRP market and the downtrend in total demand. As a result, JT cigarette sales volume fell by 13.8% from the same period of the previous year. Market share was 61.5% (compared with a share of 61.3% for the previous fiscal year).

(Billions of cigarettes)

Domestic Tobacco Business	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
JT cigarette sales volume	46.8	40.4	(6.4)	(13.8)%

Core revenue fell by 7.5% from the same period of the previous year, with the impact of lower JT cigarette sales volume being partially offset by the increase in revenue related to RRP.

Adjusted operating profit decreased by 13.7% from the same period of the previous year due to lower core revenue.

(Billions of yen)

Domestic Tobacco Business	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
Revenue	310.4	290.7	(19.6)	(6.3)%
Of which, core revenue	294.4	272.2	(22.2)	(7.5)%
Adjusted operating profit	120.0	103.5	(16.5)	(13.7)%

Note: 1 In addition to the figure stated above for sales volume, during the six months ended June 30, 2018, 2.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (2.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with RRP and the like.

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

International Tobacco Business

In the six months ended June 30, 2018, despite factors including the impact of a decline in total demand in Russia, etc., total shipment volume(Note 3) grew by 6.4% from the same period of the previous year. This mainly reflected the effects of acquisitions in the Philippines, Indonesia and Ethiopia. GFB(Note 4) shipment volume rose by 1.8% from the same period of the previous year, as a result of having gained market share.

(Billions of cigarettes)

International Tobacco Business	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
Total shipment volume	193.2	205.6	12.4	6.4%
Of which, GFBs	128.3	130.6	2.4	1.8%

Dollar-based core revenue including foreign exchange effects increased by 11.0% from the same period of the previous year, due to the favorable pricing effects, the effect of the increase in total shipment volume and favorable foreign exchange effects related to local currencies including the euro.

Dollar-based adjusted operating profit including foreign exchange effects rose by 13.4% from the same period of the previous year, due mainly to higher core revenue despite the increase in investments to strengthen the business foundation in the markets where the Company made acquisitions. Adjusted operating profit at constant rates of exchange (dollar-based) increased by 13.2% from the same period of the previous year.

(Millions of U.S. dollar)

International Tobacco Business (U.S. dollar-based)	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
Revenue	5,403	5,989	586	10.8%
Of which, core revenue	5,141	5,705	564	11.0%
Adjusted operating profit	1,738	1,971	233	13.4%

Yen-based core revenue and adjusted operating profit rose by 7.4% and 9.8% from the same period of the previous year respectively, as a result of the effects of the stronger yen when making conversions to that currency.

(Billions of yen)

International Tobacco Business	Six months ended June 30, 2017	Six months ended June 30, 2018	Change	
Revenue	606.7	650.9	44.2	7.3%
Of which, core revenue	577.2	620.0	42.8	7.4%
Adjusted operating profit	195.1	214.3	19.2	9.8%

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

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

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

Foreign exchange rate per U.S. dollar	Six months ended June 30, 2017	Six months ended June 30, 2018
Yen	112.34	108.67
Ruble	57.98	59.34
Pounds sterling	0.79	0.73
EUR	0.92	0.83

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, six compounds are in clinical development.

Revenue in the six months ended June 30, 2018 increased by ¥6.0 billion, or 12.7%, from the same period of the previous year to ¥53.2 billion, driven by higher royalty revenue of an original JT compound that has been out-licensed and strong sales for the Group company Torii Pharmaceutical Co., Ltd. despite the impact of the drug price revision. Adjusted operating profit increased by ¥2.4 billion, or 26.7%, from the same period of the previous year to ¥11.4 billion, due to the increase in revenue despite the increase in research and development expenses.

Processed Food Business

In the second quarter ended June 30, 2018, the Group continued to concentrate on frozen and ambient processed foods, primarily staple food products such as frozen noodles, frozen rice, packed rice and baked frozen bread, as well as bakery and seasonings, while at the same time making efforts to strengthen cost competitiveness and working on initiatives to improve profitability.

In the six months ended June 30, 2018, increases in sales of staple food products and seasonings were offset by the decrease in sales of other products, leading to revenue of a similar level to that of the same period of the previous year, at ¥77.0 billion, a decrease of 0.5% from the same period of the previous year. Adjusted operating profit decreased by ¥0.7 billion, or 34.1%, from the same period of the previous year to ¥1.4 billion, due mainly to higher raw material costs.

(2) Management policy, management strategy, etc.

During the six months ended June 30, 2018, there were no material changes in management policy, management strategy, etc. stipulated by the Group mentioned in the previous fiscal year's Annual Securities Report.

(3) Operational and financial issues to be addressed

During the six months ended June 30, 2018, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(4) Research and development activities

Research and development expenses of the entire Group during the six months ended June 30, 2018, were ¥31.6 billion.

During the six months ended June 30, 2018 there were no material changes in the status of the Group's research and development activities mentioned in the previous fiscal year's Annual Securities Report.

(5) Analysis of capital resources and liquidity of funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

Cash and cash equivalents at the end of the six months ended June 30, 2018 decreased by ¥48.1 billion from the end of the previous fiscal year to ¥237.4 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥160.5 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the six months ended June 30, 2018 were ¥229.2 billion, compared with ¥40.5 billion provided in the same period of the previous year. This was mainly due to the generation of a stable cash inflow from the tobacco business, and payments of national and international tobacco excise taxes and income taxes.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the six months ended June 30, 2018 were 60.8 billion, compared with ¥52.6 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the six months ended June 30, 2018 were ¥208.9 billion, compared with ¥123.6 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends and the repayment of loans.

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2017 and as of June 30, 2018 accounted for ¥332.2 billion and ¥328.0 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥71.9 billion and ¥72.8 billion respectively. Long-term lease obligations totaled ¥9.3 billion as of December 31, 2017 and ¥9.0 billion as of June 30, 2018.

Short-term debt

Short-term borrowings from financial institutions totaled ¥274.2 billion as of December 31, 2017 and ¥214.6 billion as of June 30, 2018. Commercial paper outstanding totaled ¥66.8 billion as of December 31, 2017 and ¥33.1 billion as of June 30, 2018. Short-term lease obligations totaled ¥1.3 billion as of December 31, 2017 and ¥1.2 billion as of June 30, 2018.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of June 30, 2018, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of June 30, 2018)	Number of shares issued (Share; as of the date of filing: August 2, 2018)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

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

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

(2) Status of subscription rights to shares

No items to report

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

No items to report

(4) Details of rights plan

No items to report

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

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
April 1, 2018 to June 30, 2018	–	2,000,000	–	100,000	–	736,400

(6) Status of major shareholders

(As of June 30, 2018)

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	666,926,200	33.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	81,529,500	4.08
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	68,973,800	3.45
GIC PRIVATE LIMITED - C (Standing proxy: MUFG Bank, Ltd.)	168 Robinson Road #37-01 CAPITAL TOWER SINGAPORE 068912 (Transaction Services Division, 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan)	34,108,500	1.71
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	23,904,000	1.20
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	23,660,000	1.18
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)	22,851,895	1.14
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)	19,608,363	0.98
State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	19,572,435	0.98
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	18,660,500	0.93
Total	–	979,795,193	48.99

Note: In addition to the above, the Company held 208,655,402 shares of ordinary shares as treasury shares.

(7) Status of voting rights

a. Shares issued

(As of June 30, 2018)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 208,655,400	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,791,270,700	17,912,707	(Note 2)
Shares less than one unit	Ordinary shares 73,900	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,912,707	–

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 2 shares of treasury shares.

b. Treasury shares

(As of June 30, 2018)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	208,655,400	–	208,655,400	10.43
Total	–	208,655,400	–	208,655,400	10.43

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, 2018.

IV. Accounting

1. Preparation policy for the condensed interim consolidated financial statements

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

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

2. Audit certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for this second quarter period (from April 1, 2018 to June 30, 2018) and for the six months ended June 30, 2018 were reviewed by Deloitte Touche Tohmatsu LLC.

1. 【Condensed interim consolidated financial statements】

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

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and cash equivalents	285,486	237,353
Trade and other receivables	431,199	422,945
Inventories	612,954	612,346
Other financial assets	14,016	30,280
Other current assets	361,715	359,911
Subtotal	1,705,370	1,662,835
Non-current assets held-for-sale	2,396	1,182
Total current assets	1,707,767	1,664,018
Non-current assets		
Property, plant and equipment (Note 6)	745,607	728,439
Goodwill (Note 6)	1,891,210	1,786,747
Intangible assets (Note 6)	479,175	433,917
Investment property	16,700	15,911
Retirement benefit assets	51,377	54,916
Investments accounted for using the equity method	81,253	72,199
Other financial assets	114,970	113,290
Deferred tax assets	133,425	126,621
Total non-current assets	3,513,717	3,332,040
Total assets	5,221,484	4,996,058

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	395,733	334,834
Bonds and borrowings	398,182	303,974
Income tax payables	46,452	50,503
Other financial liabilities	6,906	11,941
Provisions	13,028	8,939
Other current liabilities	618,322	663,713
Total current liabilities	1,478,623	1,373,904
Non-current liabilities		
Bonds and borrowings	346,955	344,560
Other financial liabilities	11,013	10,674
Retirement benefit liabilities	330,762	315,673
Provisions	4,005	3,807
Other non-current liabilities	120,779	113,655
Deferred tax liabilities	87,319	82,342
Total non-current liabilities	900,833	870,711
Total liabilities	2,379,456	2,244,615
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(443,636)	(442,996)
Other components of equity	(167,338)	(337,614)
Retained earnings	2,536,262	2,625,111
Equity attributable to owners of the parent company	2,761,687	2,680,900
Non-controlling interests	80,340	70,542
Total equity	2,842,027	2,751,442
Total liabilities and equity	5,221,484	4,996,058

(2) 【Condensed interim consolidated statement of income】

(For the six-month period)

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Revenue (Notes 5, 8)	1,045,330	1,075,271
Cost of sales	(410,511)	(443,511)
Gross profit	634,819	631,760
Other operating income (Note 9)	32,268	18,775
Share of profit in investments accounted for using the equity method	3,484	2,947
Selling, general and administrative expenses (Note 10)	(357,286)	(351,152)
Operating profit (Note 5)	313,285	302,330
Financial income (Note 11)	2,921	2,976
Financial costs (Note 11)	(13,294)	(14,939)
Profit before income taxes	302,913	290,367
Income taxes	(75,591)	(72,807)
Profit for the period	227,322	217,560
Attributable to:		
Owners of the parent company	225,635	216,093
Non-controlling interests	1,687	1,468
Profit for the period	227,322	217,560
Interim earnings per share		
Basic (Yen) (Note 12)	125.98	120.64
Diluted (Yen) (Note 12)	125.92	120.58

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Operating profit	313,285	302,330
Amortization cost of acquired intangibles arising from business acquisitions	23,624	28,973
Adjustment items (income)	(25,887)	(16,890)
Adjustment items (costs)	3,636	3,398
Adjusted operating profit (Note 5)	314,659	317,812

(For the three-month period)

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Revenue (Note 5)	539,192	560,221
Cost of sales	(211,051)	(226,728)
Gross profit	328,141	333,493
Other operating income	20,498	1,129
Share of profit in investments accounted for using the equity method	1,853	2,442
Selling, general and administrative expenses	(186,163)	(181,508)
Operating profit (Note 5)	164,328	155,555
Financial income	1,279	1,215
Financial costs	(5,187)	(6,295)
Profit before income taxes	160,420	150,476
Income taxes	(39,119)	(37,409)
Profit for the period	121,300	113,067
Attributable to:		
Owners of the parent company	120,144	112,081
Non-controlling interests	1,156	985
Profit for the period	121,300	113,067
Interim earnings per share		
Basic (Yen) (Note 12)	67.08	62.57
Diluted (Yen) (Note 12)	67.05	62.54

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

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Operating profit	164,328	155,555
Amortization cost of acquired intangibles arising from business acquisitions	11,792	14,438
Adjustment items (income)	(14,690)	(384)
Adjustment items (costs)	2,902	145
Adjusted operating profit (Note 5)	164,332	169,755

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

(For the six-month period)

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Profit for the period	227,322	217,560
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	4,667	(4,293)
Remeasurements of defined benefit plans	(800)	(2,790)
Total of items that will not be reclassified to profit or loss	3,867	(7,083)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	37,356	(165,363)
Net gain (loss) on derivatives designated as cash flow hedges	189	(203)
Total of items that may be reclassified subsequently to profit or loss	37,545	(165,566)
Other comprehensive income (loss), net of taxes	41,412	(172,649)
Comprehensive income (loss) for the period	268,734	44,911
Attributable to:		
Owners of the parent company	267,027	44,005
Non-controlling interests	1,707	907
Comprehensive income (loss) for the period	268,734	44,911

(For the three-month period)

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit for the period	121,300	113,067
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	4,929	2,185
Remeasurements of defined benefit plans	122	(2,767)
Total of items that will not be reclassified to profit or loss	5,051	(582)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	46,654	(55,493)
Net gain (loss) on derivatives designated as cash flow hedges	12	(301)
Total of items that may be reclassified subsequently to profit or loss	46,666	(55,794)
Other comprehensive income (loss), net of taxes	51,717	(56,376)
Comprehensive income (loss) for the period	173,017	56,691
Attributable to:		
Owners of the parent company	171,580	55,474
Non-controlling interests	1,438	1,216
Comprehensive income (loss) for the period	173,017	56,691

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

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2017	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	37,376	189	4,627
Comprehensive income (loss) for the period	—	—	—	—	37,376	189	4,627
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	10	68	(77)	—	—	—
Share-based payments	—	—	—	24	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(301)
Other increase (decrease)	—	—	—	—	—	(329)	—
Total transactions with the owners	—	10	68	(53)	—	(329)	(301)
As of June 30, 2017	100,000	736,410	(443,754)	1,741	(298,266)	300	34,180
As of January 1, 2018	100,000	736,400	(443,636)	1,964	(207,884)	(88)	38,670
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(164,810)	(203)	(4,286)
Comprehensive income (loss) for the period	—	—	—	—	(164,810)	(203)	(4,286)
Acquisition of treasury shares	—	—	(0)	—	—	—	—
Disposal of treasury shares	—	—	639	(575)	—	—	—
Share-based payments	—	—	—	32	—	—	—
Dividends (Note 7)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(566)
Other increase (decrease)	—	—	—	—	—	132	—
Total transactions with the owners	—	—	639	(543)	—	132	(566)
As of June 30, 2018	100,000	736,400	(442,996)	1,421	(372,694)	(160)	33,819

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2017	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	225,635	225,635	1,687	227,322
Other comprehensive income (loss)	(800)	41,392	—	41,392	20	41,412
Comprehensive income (loss) for the period	(800)	41,392	225,635	267,027	1,707	268,734
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(77)	—	0	—	0
Share-based payments	—	24	—	24	3	27
Dividends (Note 7)	—	—	(118,203)	(118,203)	(995)	(119,198)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	(0)	(0)
Transfer from other components of equity to retained earnings	800	499	(499)	—	—	—
Other increase (decrease)	—	(329)	—	(329)	—	(329)
Total transactions with the owners	800	116	(118,702)	(118,508)	(993)	(119,501)
As of June 30, 2017	—	(262,045)	2,473,999	2,604,611	72,664	2,677,274
As of January 1, 2018	—	(167,338)	2,536,262	2,761,687	80,340	2,842,027
Profit for the period	—	—	216,093	216,093	1,468	217,560
Other comprehensive income (loss)	(2,790)	(172,088)	—	(172,088)	(561)	(172,649)
Comprehensive income (loss) for the period	(2,790)	(172,088)	216,093	44,005	907	44,911
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(575)	(64)	0	—	0
Share-based payments	—	32	2	34	36	69
Dividends (Note 7)	—	—	(125,373)	(125,373)	(1,245)	(126,618)
Changes in the scope of consolidation	—	—	—	—	61	61
Changes in the ownership interest in a subsidiary without a loss of control	—	—	416	416	(9,556)	(9,140)
Transfer from other components of equity to retained earnings	2,790	2,224	(2,224)	—	—	—
Other increase (decrease)	—	132	—	132	—	132
Total transactions with the owners	2,790	1,812	(127,243)	(124,792)	(10,704)	(135,496)
As of June 30, 2018	—	(337,614)	2,625,111	2,680,900	70,542	2,751,442

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Cash flows from operating activities		
Profit before income taxes	302,913	290,367
Depreciation and amortization	70,246	76,396
Impairment losses	1,049	737
Reversal of impairment losses on investments in associates	(8,848)	–
Interest and dividend income	(2,902)	(2,976)
Interest expense	5,488	6,958
Share of profit in investments accounted for using the equity method	(3,484)	(2,947)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(15,092)	(14,068)
(Increase) decrease in trade and other receivables	3,383	(18,181)
(Increase) decrease in inventories	12,784	(20,421)
Increase (decrease) in trade and other payables	(63,255)	(39,025)
Increase (decrease) in retirement benefit liabilities	(5,952)	(12,554)
(Increase) decrease in prepaid tobacco excise taxes	(25,060)	(11,128)
Increase (decrease) in tobacco excise tax payables	(144,231)	57,237
Increase (decrease) in consumption tax payables	(6,050)	6,672
Other	(20,951)	(29,408)
Subtotal	100,036	287,659
Interest and dividends received	6,917	7,104
Interest paid	(5,608)	(7,274)
Income taxes paid	(60,860)	(58,332)
Net cash flows from operating activities	40,485	229,158
Cash flows from investing activities		
Purchase of securities	(3,160)	(15,841)
Proceeds from sale and redemption of securities	2,930	2,516
Purchase of property, plant and equipment	(52,285)	(59,708)
Proceeds from sale of investment property	15,747	22,692
Purchase of intangible assets	(6,559)	(9,744)
Payments into time deposits	(208)	(57)
Proceeds from withdrawal of time deposits	188	37
Other	(9,208)	(709)
Net cash flows from investing activities	(52,555)	(60,815)

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 7)	(118,188)	(125,354)
Dividends paid to non-controlling interests	(962)	(954)
Capital contribution from non-controlling interests	—	5
Increase (decrease) in short-term borrowings and commercial paper	(7,344)	(73,564)
Proceeds from long-term borrowings	842	1,634
Repayments of long-term borrowings	(284)	(578)
Proceeds from sale and leaseback transactions	2,819	—
Repayments of finance lease obligations	(526)	(849)
Acquisition of treasury shares	(0)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(9,255)
Other	0	0
Net cash flows from financing activities	(123,643)	(208,915)
Net increase (decrease) in cash and cash equivalents	(135,714)	(40,573)
Cash and cash equivalents at the beginning of the period	294,157	285,486
Effect of exchange rate changes on cash and cash equivalents	2,038	(7,561)
Cash and cash equivalents at the end of the period	160,481	237,353

【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, 2018 and for the six-month period ended June 30, 2018 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on August 1, 2018 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of preparation

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

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

3. Significant accounting policies

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

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

(Changes in accounting policies)

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

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

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

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

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

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

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

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

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

As a result, compared to the application of the former accounting standard, “Revenue” and “Selling, general and administrative expenses” decreased by ¥4,192 million and ¥34,105 million respectively, and “Cost of sales” increased by ¥29,913 million on the condensed interim consolidated statement of income for the six months ended June 30, 2018. The above effects include promotion expenses (¥3,486 million) accounted for as reductions of revenue, as well as shipping and warehousing expenses (¥14,066 million) accounted for as cost of sales.

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

4. Significant accounting estimates and judgments

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

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

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

5. Operating segments

(1) Outline of reportable segments

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

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

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

(2) Revenues and performances of reportable segments

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

For the six months ended June 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	310,352	606,692	47,193	77,455	1,041,692	3,638	—	1,045,330
Intersegment revenue	4,658	15,521	—	13	20,192	4,502	(24,694)	—
Total revenue	315,010	622,213	47,193	77,468	1,061,884	8,140	(24,694)	1,045,330
Segment profit (loss)								
Adjusted operating profit (Note 1)	119,996	195,140	8,975	2,176	326,287	(11,567)	(62)	314,659

For the six months ended June 30, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	290,704	650,899	53,203	77,030	1,071,836	3,434	—	1,075,271
Intersegment revenue	4,019	13,086	—	0	17,105	2,954	(20,059)	—
Total revenue	294,724	663,985	53,203	77,030	1,088,942	6,388	(20,059)	1,075,271
Segment profit (loss)								
Adjusted operating profit (Note 1)	103,525	214,305	11,373	1,435	330,638	(13,049)	223	317,812

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

For the six months ended June 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	119,996	195,140	8,975	2,176	326,287	(11,567)	(62)	314,659
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(15,501)	—	—	(23,624)	—	—	(23,624)
Adjustment items (income) (Note 4)	6	10,784	—	—	10,789	15,097	—	25,887
Adjustment items (costs) (Note 5)	(10)	(2,422)	—	—	(2,432)	(1,204)	—	(3,636)
Operating profit (loss)	111,868	188,000	8,975	2,176	311,020	2,327	(62)	313,285
Financial income								2,921
Financial costs								(13,294)
Profit before income taxes								302,913

For the six months ended June 30, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	103,525	214,305	11,373	1,435	330,638	(13,049)	223	317,812
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(20,850)	—	—	(28,973)	—	—	(28,973)
Adjustment items (income) (Note 4)	1	1,565	—	19	1,584	15,305	—	16,890
Adjustment items (costs) (Note 5)	(286)	398	—	(5)	107	(3,505)	—	(3,398)
Operating profit (loss)	95,117	195,417	11,373	1,449	303,356	(1,249)	223	302,330
Financial income								2,976
Financial costs								(14,939)
Profit before income taxes								290,367

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

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

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Domestic Tobacco	294,423	272,215
International Tobacco	577,228	620,023

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Restructuring incomes	15,130	15,838
Reversal of impairment losses on investments in associates	8,848	–
Others	1,909	1,052
Adjustment items (income)	25,887	16,890

Restructuring incomes for the six months ended June 30, 2017 and 2018 mainly relate to gains on sale of real estate. The breakdown of restructuring income is described in "9. Other operating income."

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Restructuring costs	3,636	3,398
Adjustment items (costs)	3,636	3,398

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

For the three months ended June 30, 2017

(Millions of yen)

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

For the three months ended June 30, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue (Note 3)	151,904	340,789	26,517	39,337	558,547	1,674	—	560,221
Intersegment revenue	2,209	6,880	—	0	9,089	1,493	(10,582)	—
Total revenue	154,113	347,669	26,517	39,337	567,636	3,167	(10,582)	560,221
Segment profit (loss)								
Adjusted operating profit (Note 1)	54,583	118,019	3,676	729	177,008	(7,030)	(224)	169,755

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

For the three months ended June 30, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	62,792	103,165	3,914	1,004	170,874	(6,492)	(51)	164,332
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,731)	—	—	(11,792)	—	—	(11,792)
Adjustment items (income) (Note 4)	6	10,771	—	—	10,776	3,914	—	14,690
Adjustment items (costs) (Note 5)	—	(2,303)	—	—	(2,303)	(599)	—	(2,902)
Operating profit (loss)	58,736	103,901	3,914	1,004	167,556	(3,177)	(51)	164,328
Financial income								1,279
Financial costs								(5,187)
Profit before income taxes								160,420

For the three months ended June 30, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	54,583	118,019	3,676	729	177,008	(7,030)	(224)	169,755
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(10,377)	—	—	(14,438)	—	—	(14,438)
Adjustment items (income) (Note 4)	—	382	—	—	382	2	—	384
Adjustment items (costs) (Note 5)	(8)	379	—	(5)	366	(511)	—	(145)
Operating profit (loss)	50,514	108,403	3,676	725	163,318	(7,539)	(224)	155,555
Financial income								1,215
Financial costs								(6,295)
Profit before income taxes								150,476

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

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

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

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Domestic Tobacco	150,523	142,888
International Tobacco	301,255	325,225

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

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Restructuring incomes	3,946	323
Reversal of impairment losses on investments in associates	8,848	－
Others	1,896	62
Adjustment items (income)	14,690	384

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

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Restructuring costs	2,902	145
Adjustment items (costs)	2,902	145

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

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

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2018	745,607	1,891,210	479,175
Individual acquisition	52,961	—	8,578
Acquisition through business combinations	7	41	163
Transfer to investment property	(522)	—	—
Transfer to non-current assets held-for-sale	(1,908)	—	—
Depreciation or amortization	(40,549)	—	(35,560)
Impairment losses	(295)	—	—
Reversal of impairment losses	643	—	0
Sale or disposal	(2,181)	—	(1,511)
Exchange differences on translation of foreign operations	(27,537)	(104,385)	(17,180)
Other	2,211	(119)	252
As of June 30, 2018	728,439	1,786,747	433,917

7. Dividends

Dividends paid for each interim period are as follows:

For the six months ended June 30, 2017

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 24, 2017)	Ordinary shares	118,203	66	December 31, 2016	March 27, 2017

For the six months ended June 30, 2018

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

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

For the six months ended June 30, 2017

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

For the six months ended June 30, 2018

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (August 1, 2018)	Ordinary shares	134,351	75	June 30, 2018	September 3, 2018

8. Revenue

(1) Disaggregation of revenue

The disaggregation of "Revenue" for the six months ended June 30, 2018 is as follows. The amounts are presented after eliminations of intercompany transactions.

For the six months ended June 30, 2018

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business	272,215	620,023	–	–	–	892,239
Other	18,489	30,876	53,203	77,030	3,434	183,032
	290,704	650,899	53,203	77,030	3,434	1,075,271

(2) Gross turnover

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Gross turnover	3,490,710	3,667,813
Tobacco excise taxes and agency transaction amount	(2,445,379)	(2,592,543)
Revenue	1,045,330	1,075,271

9. Other operating income

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Reversal of impairment losses on investments in associates	8,848	–
Gains on sale of property, plant and equipment, intangible assets and investment property (Note)	16,698	15,852
Other (Note)	6,721	2,923
Total	32,268	18,775

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Gains on sale of property, plant and equipment, intangible assets and investment property	15,123	15,324
Other	7	514
Total	15,130	15,838

10. Selling, general and administrative expenses

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Advertising expenses	10,115	11,202
Promotion expenses	47,586	42,027
Commission	23,231	23,730
Employee benefit expenses (Note)	129,220	130,250
Research and development expenses	28,521	31,599
Depreciation and amortization	39,184	41,775
Impairment losses on other than financial assets (Note)	1,049	737
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	2,225	4,407
Other (Note)	76,156	65,424
Total	357,286	351,152

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

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Employee benefit expenses	1,456	54
Impairment losses on other than financial assets	604	524
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	660	2,273
Other	916	547
Total	3,636	3,398

11. Financial income and financial costs

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

(Millions of yen)

Financial income	Six months ended June 30, 2017	Six months ended June 30, 2018
Dividend income	1,450	1,615
Interest income	1,452	1,360
Other	19	0
Total	2,921	2,976

(Millions of yen)

Financial costs	Six months ended June 30, 2017	Six months ended June 30, 2018
Interest expenses (Note 2)	5,488	6,958
Foreign exchange losses (Note 1)	5,744	4,895
Employee benefit expenses (Note 3)	1,750	1,447
Other	312	1,640
Total	13,294	14,939

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

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

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

12. Interim earnings per share

(For the six-month period)

(1) Basis of calculating basic interim earnings per share

a. Profit attributable to ordinary shareholders of the parent company

(Millions of yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Profit for the period attributable to owners of the parent company	225,635	216,093
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	225,635	216,093

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

(Thousands of shares)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Weighted-average number of shares during the period	1,790,982	1,791,203

(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, 2017	Six months ended June 30, 2018
Profit for the period used for calculation of basic interim earnings per share	225,635	216,093
Adjustment	–	(0)
Profit for the period used for calculation of diluted interim earnings per share	225,635	216,093

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

(Thousands of shares)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Weighted-average number of ordinary shares during the period	1,790,982	1,791,203
Increased number of ordinary shares under subscription rights to shares	950	871
Weighted-average number of diluted ordinary shares during the period	1,791,932	1,792,074

(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, 2017	Three months ended June 30, 2018
Profit for the period attributable to owners of the parent company	120,144	112,081
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	120,144	112,081

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

(Thousands of shares)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Weighted-average number of shares during the period	1,790,985	1,791,331

(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, 2017	Three months ended June 30, 2018
Profit for the period used for calculation of basic interim earnings per share	120,144	112,081
Adjustment	—	(0)
Profit for the period used for calculation of diluted interim earnings per share	120,144	112,081

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

(Thousands of shares)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Weighted-average number of ordinary shares during the period	1,790,985	1,791,331
Increased number of ordinary shares under subscription rights to shares	947	744
Weighted-average number of diluted ordinary shares during the period	1,791,932	1,792,074

13. Financial instruments

(Fair value of financial instruments)

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

(Millions of yen)

	As of December 31, 2017		As of June 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	71,854	71,829	72,770	72,772
Bonds (Note)	332,242	331,998	328,032	324,655

(Note) Current portion is included.

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

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

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

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

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

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

As of December 31, 2017 (Millions of yen)

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

As of June 30, 2018 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	11,129	—	11,129
Equity securities	65,107	—	5,272	70,379
Other	426	3,000	4,421	7,847
Total	65,533	14,129	9,694	89,356
Derivative liabilities	—	10,565	—	10,565
Total	—	10,565	—	10,565

14. Commitments

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

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
Acquisition of property, plant and equipment	74,732	85,065

15. Contingencies

As of June 30 2018, there are no significant changes to the matters described in the consolidated financial statements for the fiscal year ended December 31, 2017.

16. Subsequent events

The Group has signed an agreement to purchase 100% of the outstanding shares of JSC Donskoy Tabak (DT), a company operating Tobacco business in Russia, on March 16, 2018 (Note 1). The purpose of this acquisition is to expand brand portfolio in the value segment and strengthen distribution and sales network in the Russian Tobacco market, a cornerstone of the Group's earnings growth.

Following this agreement, the Group has completed DT share purchase on July 31, 2018. The acquisition cost (Note 2) is approximately RUB 92.2 billion (approximately ¥ 165.0 billion).

The Group has raised EUR 500 million (approximately ¥ 64.8 billion) of the necessary funds for the acquisition from an external financial institution.

(Note 1) To purchase 100% of the outstanding shares of JSC Pereslavl-Tabak and 94.97% of the outstanding shares of Syneteristiki Kapnoviomihania Ellados Sekap S.A. are included.

(Note 2) After deduction of net debt.

2. 【Other】

(Dividends)

The Board of Directors, at a meeting held on August 1, 2018, declared the following interim dividends for the current fiscal year.

(a) Total amount of interim dividends ¥134,351 million

(b) Amount per share ¥75.00

(c) Effective date of requests for payment, and commencement date of payments September 3, 2018

Note: Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2018.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

August 1, 2018

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

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

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of June 30, 2018, 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, 2018, 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.