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August 1, 2018

Consolidated Financial Results for the Six Months Ended June 30, 2018 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)
Listed Stock Exchange: Tokyo Stock Exchange
URL: <https://www.jti.co.jp/>
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Chief Executive Officer
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Scheduled date to file Quarterly Securities Report: August 2, 2018
Scheduled starting date of the dividend payments: September 3, 2018
Drawing up supplementary documents on quarterly financial results: Yes
Holding quarterly investors' meeting: Yes (for analysts and institutional investors)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

1. Consolidated financial results for the six months of the fiscal year ending December 31, 2018 (from January 1, 2018 to June 30, 2018)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
June 30, 2018	1,075,271	2.9	302,330	(3.5)	290,367	(4.1)	217,560	(4.3)
June 30, 2017	1,045,330	(2.9)	313,285	(9.2)	302,913	(10.7)	227,322	(8.8)

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Six months ended						
June 30, 2018	216,093	(4.2)	44,911	(83.3)	120.64	120.58
June 30, 2017	225,635	(8.7)	268,734	-	125.98	125.92

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity attributable to owners of the parent company per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
June 30, 2018	4,996,058	2,751,442	2,680,900	53.7	1,496.59
December 31, 2017	5,221,484	2,842,027	2,761,687	52.9	1,541.94

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2017	-	70.00	-	70.00	140.00
Year ending December 31, 2018	-	75.00			
Year ending December 31, 2018 (Forecast)			-	75.00	150.00

Note: Revisions to the cash dividends forecasts most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company	Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	Yen
Year ending December 31, 2018	2,240,000	4.7	541,000	(3.6)	377,000	(3.9)
						210.46

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

[Additional Information] Growth rate in adjusted operating profit at constant rates of exchange:

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.

(Percentages indicate year-on-year changes.)

	Adjusted operating profit at constant rates of exchange	
	Millions of yen	%
Six months ended June 30, 2018 (Cumulative)	324,323	3.1
Year ending December 31, 2018 (Forecast)	607,000	3.7

Note: Revisions to the consolidated earnings forecasts most recently announced: None

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. For details of these financial measures, please refer to "Proper use of earnings forecasts, and other special matters, (2)."

For detailed information on the consolidated financial results, please visit the Company's website

(<https://www.jti.co.jp/investors/index.html>), where materials for investors' meeting have been released today, and refer to the quarterly securities report scheduled to be submitted on August 2, 2018.

Notes

(1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

For details, please refer to “1. Matters regarding summary information, (1) Changes in accounting policies and changes in accounting estimates.”

(3) Number of shares issued (ordinary shares)

a. Total number of shares issued at the end of the period (including treasury shares)

As of June 30, 2018 2,000,000,000 shares

As of December 31, 2017 2,000,000,000 shares

b. Number of treasury shares at the end of the period

As of June 30, 2018 208,655,402 shares

As of December 31, 2017 208,956,589 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended June 30, 2018 1,791,202,858 shares

Six months ended June 30, 2017 1,790,981,910 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(1) The forward-looking statements, including forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions and suppositions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future. Please refer to “FORWARD-LOOKING STATEMENTS” for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

(2) 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, and restructuring income and costs, and other items. Furthermore, 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.

(3) 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.

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1. Matters regarding summary information

(1) Changes in accounting policies and changes in accounting estimates

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.

(2) Revisions to the consolidated earnings forecasts most recently announced

For revenue, despite the impact of a revision of exchange rate assumptions in the International Tobacco Business, partially due to the revision of the assumptions regarding total demand for conventional cigarettes in the Domestic Tobacco Business, and the upward revision that resulted from factoring in the effect of acquisitions in the International Tobacco Business, the forecast for revenue was upwardly revised by ¥20.0 billion to ¥2,240.0 billion, a rise of ¥100.3 billion or 4.7% year on year.

For adjusted operating profit inclusive of exchange rate effect, due to the impact associated with a revision of exchange rate assumptions in the International Tobacco Business, the forecast for adjusted operating profit inclusive of exchange rate effect was downwardly revised by ¥14.0 billion to ¥586.0 billion, a rise of ¥0.7 billion or 0.1% year on year.

For operating profit, partially due to the downward revision of the forecast for adjusted operating profit inclusive of exchange rate effect and additional recording of amortization cost of acquired intangibles arising from business acquisitions in the International Tobacco Business, the forecast for operating profit was downwardly revised by ¥20.0 billion to ¥541.0 billion, a fall of ¥20.1 billion or 3.6% year on year.

For profit attributable to owners of the parent company, partially due to the downward revision of the forecast for operating profit, the forecast for profit attributable to owners of the parent company was downwardly revised by ¥17.0 billion to ¥377.0 billion, a fall of ¥15.4 billion or 3.9% year on year.

The forecast for adjusted operating profit at constant rates of exchange was left unchanged from the most recently announced forecast at ¥607.0 billion, a rise of ¥21.7 billion or 3.7% year on year.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) increase in awareness of health concerns related to smoking;
- (2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
- (3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (4) our ability to further diversify our business beyond the traditional tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition and changing consumer preferences;
- (7) our ability to manage impacts derived from business diversification or business expansion;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

2. 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	745,607	728,439
Goodwill	1,891,210	1,786,747
Intangible assets	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 and consolidated statement of comprehensive income

Condensed interim consolidated statement of income

	(Millions of yen)	
	Six months ended June 30, 2017	Six months ended June 30, 2018
Revenue	1,045,330	1,075,271
Cost of sales	(410,511)	(443,511)
Gross profit	634,819	631,760
Other operating income	32,268	18,775
Share of profit in investments accounted for using the equity method	3,484	2,947
Selling, general and administrative expenses	(357,286)	(351,152)
Operating profit	313,285	302,330
Financial income	2,921	2,976
Financial costs	(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)	125.98	120.64
Diluted (Yen)	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	314,659	317,812

Condensed interim consolidated statement of comprehensive income

	(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

(3) Condensed interim consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					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	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(301)
Other increase (decrease)	—	—	—	—	—	(329)	—
Total transactions with the owners	—	10	68	(53)	—	(329)	(301)
As of June 30, 2017	<u>100,000</u>	<u>736,410</u>	<u>(443,754)</u>	<u>1,741</u>	<u>(298,266)</u>	<u>300</u>	<u>34,180</u>
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	—	—	—	—	—	—	—
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	<u>100,000</u>	<u>736,400</u>	<u>(442,996)</u>	<u>1,421</u>	<u>(372,694)</u>	<u>(160)</u>	<u>33,819</u>

(Millions of yen)

	Equity attributable to owners of the parent company		Other components of equity		Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total	Retained earnings	Total		
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	—	—	(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	—	—	(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

(4) Condensed interim consolidated statement of cash flows

	Six months ended June 30, 2017	(Millions of yen) 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	(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

(5) Segment information

a. 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.

b. 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	<u>315,010</u>	<u>622,213</u>	<u>47,193</u>	<u>77,468</u>	<u>1,061,884</u>	<u>8,140</u>	<u>(24,694)</u>	<u>1,045,330</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>119,996</u>	<u>195,140</u>	<u>8,975</u>	<u>2,176</u>	<u>326,287</u>	<u>(11,567)</u>	<u>(62)</u>	<u>314,659</u>

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	<u>294,724</u>	<u>663,985</u>	<u>53,203</u>	<u>77,030</u>	<u>1,088,942</u>	<u>6,388</u>	<u>(20,059)</u>	<u>1,075,271</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>103,525</u>	<u>214,305</u>	<u>11,373</u>	<u>1,435</u>	<u>330,638</u>	<u>(13,049)</u>	<u>223</u>	<u>317,812</u>

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.

- (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

(6) Notes on premise of going concern

No items to report

(7) 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.