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

August 1, 2016

Consolidated Financial Results for the Six Months Ended June 30, 2016 <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/
Representative: Mitsuomi Koizumi, President, Chief Executive Officer and Representative Director
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Scheduled date to file Quarterly Securities Report: August 2, 2016
Scheduled starting date of the dividend payments: September 1, 2016
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, 2016 (from January 1, 2016 to June 30, 2016)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the period	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2016	1,076,879	(1.7)	345,020	15.5	339,364	13.1	249,280	16.7
June 30, 2015	1,095,221	-	298,792	-	300,180	-	213,677	-

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
Six months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
June 30, 2016	247,094	16.8	(75,567)	-	137.98	137.90
June 30, 2015	211,466	-	157,295	-	117.49	117.42

The Company has changed its fiscal year end from March 31 to December 31 in the fiscal year 2014. The same change has been made to consolidated subsidiaries with fiscal year ends other than December 31. Consequently, year-on-year changes for six months ended June 30, 2015 are not presented.

The Group has classified "Beverage Business" as discontinued operations from the previous fiscal year. As a result, profit (loss) from discontinued operations is presented separately from those from continuing operations on the condensed interim consolidated financial statements for six months ended June 30, 2015. Consequently, only the continuing operations are indicated in the revenue, operating profit and profit before income taxes stated in the above table for six months ended June 30, 2015.

(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, 2016	4,360,233	2,332,078	2,261,927	51.9	1,263.02
December 31, 2015	4,558,235	2,521,524	2,451,596	53.8	1,369.06

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, 2015	-	54.00	-	64.00	118.00
Year ending December 31, 2016	-	64.00			
Year ending December 31, 2016 (Forecast)			-	64.00	128.00

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

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2016 (January 1, 2016 to December 31, 2016)

(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, 2016	2,120,000	(5.9)	572,000	1.2	409,000	(15.8)	228.38

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

The Group has classified “Beverage Business” as discontinued operations from the previous fiscal year. As a result, the consolidated earnings forecasts for the fiscal year ending December 31, 2016, are earnings forecasts for continuing operations only.
The year-on-year change stated in the above table for profit attributable to owners of the parent company is based on a comparison of profit attributable to owners of the parent company in the fiscal year 2015 (¥485,691 million), which includes discontinued operations. The aforementioned profit does, however, include gains from the transfer of shares of subsidiaries conducting the vending machine operation business.
Profit attributable to owners of the parent company from continuing operations in the fiscal year 2015 is ¥398,454 million. When performing a comparison based on this amount, the year-on-year change for profit attributable to owners of the parent company for the fiscal year ending December 31, 2016 is 2.6%.

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 “2. Matters regarding summary information (Notes), (2) Changes in accounting policies and changes in accounting estimates” on page 10 of attached materials.

(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, 2016	2,000,000,000 shares
As of December 31, 2015	2,000,000,000 shares

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

As of June 30, 2016	209,110,517 shares
As of December 31, 2015	209,285,431 shares

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

Six months ended June 30, 2016	1,790,842,738 shares
Six months ended June 30, 2015	1,799,878,919 shares

* Indication regarding execution of quarterly review procedures

At the time of disclosure of this quarterly financial results report, the review procedures for quarterly financial statements in accordance with the Financial Instruments and Exchange Act have been completed.

* Proper use of earnings forecasts, and other special matters

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.

Please refer to the Company’s website (https://www.jti.co.jp/) for materials for investors’ meeting.

Attached Materials

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1. Qualitative information regarding consolidated results for the six months ended June 30, 2016

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

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

Adjusted operating profit
Adjusted operating profit presented is operating profit less amortization cost of acquired intangibles and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, and restructuring income and costs, and other items.
Furthermore, adjusted operating profit (at constant rates of exchange) growth rate is also presented as additional information. This is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous year.

(1) Qualitative information regarding consolidated operating results

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

a. General summary

Revenue

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

(Billions of yen)

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

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

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

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

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

(Billions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016	Change	
Adjusted operating profit	328.9	318.3	(10.5)	(3.2)%
Domestic Tobacco Business	125.8	129.6	3.8	3.0%
International Tobacco Business	212.9	193.1	(19.8)	(9.3)%
Pharmaceutical Business	(2.1)	2.8	4.9	–
Processed Food Business	1.1	3.1	2.0	184.6%
Operating profit	298.8	345.0	46.2	15.5%
Profit for the period from continuing operations (attributable to owners of the parent company)	211.6	247.1	35.5	16.8%
Profit for the period from discontinued operations (attributable to owners of the parent company)	(0.2)	–	–	–
Profit attributable to owners of the parent company	211.5	247.1	35.6	16.8%

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

b. Review of operations by business segment

Domestic Tobacco Business

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

(Billions of cigarettes)

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

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

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

(Billions of yen)

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

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

International Tobacco Business

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

(Billions of cigarettes)

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

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

(Millions of U.S. dollar)

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

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

(Billions of yen)

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

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

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

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

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

Pharmaceutical Business

The Company has been striving to make a stable contribution to the Group's profits by promoting R&D on next-generation strategic products and by maximizing the value of each product. In the area of product development, with two compounds being newly shifted to clinical development, nine compounds are in clinical development. Among items in clinical development, for anti-HIV drug "emtricitabine/tenofovir alafenamide fumarate," the Company plans to submit a New Drug Application in the third quarter ending September 30, 2016, to the Japanese Ministry of Health, Labour and Welfare.

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

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

* Regarding items in clinical development, please refer to "Clinical Development (as of August 1, 2016)" released today on the Company's website (https://www.jti.co.jp/).

Processed Food Business

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

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

(2) Qualitative information regarding consolidated financial position

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

Cash flows from (used in) operating activities

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

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

Cash flows from (used in) investing activities

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

Cash flows from (used in) financing activities

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

(3) Qualitative information regarding consolidated earnings forecasts

The consolidated earnings forecasts for the fiscal year ending December 31, 2016 have been revised as follows.

(Billions of yen)

	Fiscal year ending December 31, 2016 Previous forecast (Announced on February 4)	Fiscal year ending December 31, 2016 Current forecast	Change
Revenue	2,200.0	2,120.0	(80.0)
Domestic Tobacco Business	692.0	690.0	(2.0)
Of which, core revenue	659.0	655.0	(4.0)
International Tobacco Business	1,247.0	1,173.0	(74.0)
Of which, core revenue	1,180.0	1,118.0	(62.0)
Pharmaceutical Business	85.0	82.0	(3.0)
Processed Food Business	172.0	169.0	(3.0)
Adjusted operating profit	562.0	569.0	7.0
Domestic Tobacco Business	261.0	261.0	–
International Tobacco Business	319.0	328.0	9.0
Pharmaceutical Business	7.0	4.0	(3.0)
Processed Food Business	3.0	4.5	1.5
Operating profit	566.0	572.0	6.0
Profit attributable to owners of the parent company	399.0	409.0	10.0

* Principal assumption of sales volume/shipment volume and foreign exchange rate forming the basis of the forecasts

(Billions of cigarettes)

Domestic Tobacco Business	Previous forecast	Current forecast
Sales volume	108.0	107.0

(Billions of cigarettes)

International Tobacco Business	Previous forecast	Current forecast
Total shipment volume	394.0	402.0
Of which, GFBs	279.0	285.0

Foreign exchange rate per U.S. dollar	Previous forecast	Current forecast
Yen	118.00	105.80
Ruble	80.00	67.50
Pounds sterling	0.68	0.72
Euro	0.93	0.90

The revenue forecast has been downwardly revised by ¥80.0 billion, mainly due to revisions to assumed exchange rates.

Reflecting the recent strong performance of the International Tobacco Business, adjusted operating profit and operating profit have been upwardly revised by ¥7.0 billion and ¥6.0 billion respectively.

Due to both this and to an anticipated reduction in income taxes compared with the previous forecast, profit attributable to owners of the parent company has been upwardly revised by ¥10.0 billion.

Forecasts for each segment are as follows.

Domestic Tobacco Business

The forecast for sales volume has been downwardly revised by 1.0 billion cigarettes in consideration of the recent total demand trend, among other factors.

The core revenue forecast has also been downwardly revised by ¥4.0 billion, due to the impact of revision of sales volume. The forecast for adjusted operating profit, however, remains unchanged reflecting lower raw material costs caused by the revisions to assumed exchange rates.

International Tobacco Business

The forecasts for total and GFB shipment volumes have been upwardly revised by 8.0 billion and 6.0 billion cigarettes respectively, reflecting the strong performance of GFBs and others in several countries, primarily in European countries.

Despite the effects of favorable pricing and higher shipment volume than in the previously announced forecast, the impact of revisions to the assumed exchange rates have caused a downward revision of ¥62.0 billion to core revenue and an upward revision of ¥9.0 billion to adjusted operating profit. Adjusted operating profit at constant rates of exchange (dollar-based) is forecast to rise by 11.4% year on year.

Pharmaceutical Business

The forecasts for revenue and adjusted operating profit have been downwardly revised by ¥3.0 billion respectively, due to the revisions to assumed exchange rates having an adverse effect on royalty revenue, despite the steady performance of royalty revenue.

Processed Food Business

The revenue forecast has been downwardly revised by ¥3.0 billion due to the readjustment of the sales plan reflecting the recent sales performance. On the other hand, the forecast for adjusted operating profit has been upwardly revised by ¥1.5 billion primarily supported by the revisions to assumed exchange rates leading to lower raw material costs.

2. Matters regarding summary information (Notes)

(1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation)

No items to report.

(2) 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, 2015, with the exception of the items described below.

The Group calculated income taxes for the six months ended June 30, 2016, based on the estimated average annual effective tax rate.

(Changes in accounting policies)

The accounting standards and interpretations applied by the Group effective from the first quarter ended March 31, 2016, are as follows.

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

The application of the above standards and interpretations does not have a material impact on the condensed interim consolidated financial statements.

* In addition to the information provided above, reference information regarding settlement of accounts and earnings forecasts are separately provided in the supplementary document “Consolidated financial results for FY2016 Second Quarter.”

FORWARD-LOOKING STATEMENTS

This material contains forward-looking statements. These statements appear in a number of places in this presentation 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) decrease in demand for tobacco products in key markets;

(2) restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;

(3) increases in excise, consumption or other taxes on tobacco products in markets in which we operate;

(4) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;

(5) our ability to realize anticipated results of our acquisition or other similar investments;

(6) competition in markets in which we operate or into which we seek to expand;

(7) deterioration in economic conditions in areas that matter to us;

(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.

3. Condensed interim consolidated financial statements

(1) Condensed interim consolidated statement of financial position

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
Assets		
Current assets		
Cash and cash equivalents	526,765	190,982
Trade and other receivables	406,387	359,625
Inventories	563,820	511,567
Other financial assets	17,849	10,833
Other current assets	280,493	321,753
Subtotal	1,795,313	1,394,760
Non-current assets held-for-sale	2,904	957
Total current assets	1,798,217	1,395,718
Non-current assets		
Property, plant and equipment	681,865	636,447
Goodwill	1,429,287	1,510,315
Intangible assets	332,478	429,001
Investment property	23,614	19,193
Retirement benefit assets	38,954	31,750
Investments accounted for using the equity method	59,523	55,294
Other financial assets	101,727	102,045
Deferred tax assets	92,570	180,471
Total non-current assets	2,760,017	2,964,516
Total assets	4,558,235	4,360,233

(Millions of yen)

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

(2) Condensed interim consolidated statement of income and consolidated statement of comprehensive income

Condensed interim consolidated statement of income

(Millions of yen)

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

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

(Millions of yen)

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

Condensed interim consolidated statement of comprehensive income

(Millions of yen)

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

(3) Condensed interim consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2015	100,000	736,400	(344,447)	1,631	116,421	1,215	23,156
Profit for the period	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	(52,153)	435	10,250
Comprehensive income (loss) for the period	–	–	–	–	(52,153)	435	10,250
Acquisition of treasury shares	–	–	(100,000)	–	–	–	–
Disposal of treasury shares	–	5	18	(23)	–	–	–
Share-based payments	–	–	–	29	–	–	–
Dividends	–	–	–	–	–	–	–
Changes in the scope of consolidation	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(25)
Other increase (decrease)	–	–	–	–	–	(994)	–
Total transactions with the owners	–	5	(99,982)	6	–	(994)	(25)
As of June 30, 2015	100,000	736,405	(444,429)	1,637	64,268	657	33,382
As of January 1, 2016	100,000	736,400	(444,333)	1,941	(172,473)	125	33,284
Profit for the period	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	(306,107)	(2,098)	(1,948)
Comprehensive income (loss) for the period	–	–	–	–	(306,107)	(2,098)	(1,948)
Acquisition of treasury shares	–	–	(0)	–	–	–	–
Disposal of treasury shares	–	–	372	(327)	–	–	–
Share-based payments	–	–	–	44	–	–	–
Dividends	–	–	–	–	–	–	–
Changes in the scope of consolidation	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(309)
Other increase (decrease)	–	–	–	–	–	1,242	–
Total transactions with the owners	–	–	371	(284)	–	1,242	(309)
As of June 30, 2016	100,000	736,400	(443,962)	1,658	(478,579)	(731)	31,026

(Millions of yen)

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

(4) Condensed interim consolidated statement of cash flows

(Millions of yen)

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

(Millions of yen)

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

(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.

In addition, “Beverage Business” has been classified as discontinued operations and excluded from reportable segments for the prior year.

b. Revenues and performances of reportable segments

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

For the six months ended June 30, 2015

(Millions of yen)

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

For the six months ended June 30, 2016

(Millions of yen)

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

Reconciliation from "Adjusted operating profit" to "Profit before income taxes"

For the six months ended June 30, 2015

(Millions of yen)

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

For the six months ended June 30, 2016

(Millions of yen)

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

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

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

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

(Millions of yen)

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

(Note 4) "Adjustment items (income)" include restructuring income of gain on sale of real estate. "Adjustment items (costs)" include restructuring costs of the closing down of a factory.

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

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Restructuring costs	15,220	7,391
Adjustment items (costs)	15,220	7,391

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

(6) Notes on premise of going concern

No items to report

(7) Subsequent events

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

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

(Note) Translated at the rate of ¥105.64 per USD.