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August 2, 2017

Consolidated Financial Results for the Six Months Ended June 30, 2017 <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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Scheduled date to file Quarterly Securities Report: August 3, 2017
Scheduled starting date of the dividend payments: September 1, 2017
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, 2017 (from January 1, 2017 to June 30, 2017)

(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, 2017	1,045,330	(2.9)	313,285	(9.2)	302,913	(10.7)	227,322	(8.8)
June 30, 2016	1,076,879	(1.7)	345,020	15.5	339,364	13.1	249,280	16.7

	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, 2017	225,635	(8.7)	268,734	-	125.98	125.92
June 30, 2016	247,094	16.8	(75,567)	-	137.98	137.90

(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, 2017	4,618,364	2,677,274	2,604,611	56.4	1,454.29
December 31, 2016	4,744,374	2,528,041	2,456,091	51.8	1,371.39

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, 2016	-	64.00	-	66.00	130.00
Year ending December 31, 2017	-	70.00			
Year ending December 31, 2017 (Forecast)			-	70.00	140.00

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

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2017 (January 1, 2017 to December 31, 2017)

(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, 2017	2,125,000	(0.9)	565,000	(4.8)	402,000	(4.7)	224.46

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, 2017 (Cumulative)	329,698	3.6
Year ending December 31, 2017 (Forecast)	597,000	1.7

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

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/>), where materials for investors' meeting have been released today, and refer to the quarterly securities report scheduled to be submitted on August 3, 2017.

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: NoneFor 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, 2017	2,000,000,000 shares
As of December 31, 2016	2,000,000,000 shares
 - b. Number of treasury shares at the end of the period

As of June 30, 2017	209,012,470 shares
As of December 31, 2016	209,044,267 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended June 30, 2017	1,790,981,910 shares
Six months ended June 30, 2016	1,790,842,738 shares

* Quarterly financial results reports are not required to be subjected to quarterly reviews.

* 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.

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 (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.

Attached Materials

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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, 2016, with the exception of the items described below.

The Group calculated income taxes for the six months ended June 30, 2017, 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, 2017.

	IFRS	Description of new standards and amendments
IAS 7	Statement of Cash Flows	Additional disclosures about changes in liabilities arising from financing activities

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

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

For revenue, despite a downward revision in the Domestic Tobacco Business, there was a revision of exchange rate assumptions in the International Tobacco Business and an upward revision in the Pharmaceutical Business, upwardly revising the forecast for revenue by ¥15.0 billion to ¥2,125.0 billion, down ¥18.3 billion or 0.9% year on year.

For adjusted operating profit inclusive of exchange rate effect, despite a downward revision in the Domestic Tobacco Business, there was a revision of exchange rate assumptions in the International Tobacco Business and an upward revision in the Pharmaceutical Business, upwardly revising the forecast for adjusted operating profit inclusive of exchange rate effect by ¥2.0 billion to ¥589.0 billion, a rise of ¥2.2 billion or 0.4% year on year.

For operating profit, in line with the upward revision of the forecast for adjusted operating profit inclusive of exchange rate effect, the forecast for operating profit was upwardly revised by ¥5.0 billion to ¥565.0 billion, a fall of ¥28.3 billion or 4.8% year on year.

For profit attributable to owners of the parent company, due to the upward revision of operating profit, etc. being offset by a deterioration of financial gain (loss), the forecast for profit attributable to owners of the parent company was left unchanged from the most recently announced forecast at ¥402.0 billion, a fall of ¥19.7 billion or 4.7% year on year.

The forecast for adjusted operating profit at constant rates of exchange was downwardly revised by ¥10.0 billion to ¥597.0 billion, a rise of ¥10.2 billion or 1.7% year on year.

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.

2. Condensed interim consolidated financial statements

(1) Condensed interim consolidated statement of financial position

	(Millions of yen)	
	As of December 31, 2016	As of June 30, 2017
Assets		
Current assets		
Cash and cash equivalents	294,157	160,481
Trade and other receivables	396,934	387,058
Inventories	558,846	535,920
Other financial assets	14,921	11,624
Other current assets	340,312	354,610
Subtotal	1,605,169	1,449,692
Non-current assets held-for-sale	821	1,775
Total current assets	1,605,990	1,451,468
Non-current assets		
Property, plant and equipment	680,835	686,138
Goodwill	1,601,987	1,629,796
Intangible assets	423,970	403,187
Investment property	18,184	18,633
Retirement benefit assets	23,680	24,230
Investments accounted for using the equity method	123,753	127,624
Other financial assets	99,358	115,432
Deferred tax assets	166,617	161,857
Total non-current assets	3,138,384	3,166,897
Total assets	4,744,374	4,618,364

	As of December 31, 2016	(Millions of yen) As of June 30, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	377,933	301,659
Bonds and borrowings	208,521	200,933
Income tax payables	54,940	58,222
Other financial liabilities	13,023	7,157
Provisions	12,529	10,044
Other current liabilities	689,629	501,830
Total current liabilities	1,356,574	1,079,846
Non-current liabilities		
Bonds and borrowings	339,036	331,764
Other financial liabilities	9,009	11,025
Retirement benefit liabilities	333,410	332,430
Provisions	4,423	4,237
Other non-current liabilities	102,221	106,118
Deferred tax liabilities	71,660	75,671
Total non-current liabilities	859,759	861,244
Total liabilities	2,216,333	1,941,090
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,410
Treasury shares	(443,822)	(443,754)
Other components of equity	(303,554)	(262,045)
Retained earnings	2,367,067	2,473,999
Equity attributable to owners of the parent company	2,456,091	2,604,611
Non-controlling interests	71,950	72,664
Total equity	2,528,041	2,677,274
Total liabilities and equity	4,744,374	4,618,364

(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, 2016	Six months ended June 30, 2017
Revenue	1,076,879	1,045,330
Cost of sales	(433,713)	(410,511)
Gross profit	643,166	634,819
Other operating income	59,904	32,268
Share of profit in investments accounted for using the equity method	2,649	3,484
Selling, general and administrative expenses	(360,700)	(357,286)
Operating profit	345,020	313,285
Financial income	3,880	2,921
Financial costs	(9,536)	(13,294)
Profit before income taxes	339,364	302,913
Income taxes	(90,084)	(75,591)
Profit for the period	249,280	227,322
Attributable to:		
Owners of the parent company	247,094	225,635
Non-controlling interests	2,186	1,687
Profit for the period	249,280	227,322
Interim earnings per share		
Basic (Yen)	137.98	125.98
Diluted (Yen)	137.90	125.92

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

(Millions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017
Operating profit	345,020	313,285
Amortization cost of acquired intangibles arising from business acquisitions	24,081	23,624
Adjustment items (income)	(58,160)	(25,887)
Adjustment items (costs)	7,391	3,636
Adjusted operating profit	318,332	314,659

Condensed interim consolidated statement of comprehensive income

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Profit for the period	249,280	227,322
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2,068)	4,667
Remeasurements of defined benefit plans	(13,170)	(800)
Total of items that will not be reclassified to profit or loss	(15,238)	3,867
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(307,511)	37,356
Net gain (loss) on derivatives designated as cash flow hedges	(2,098)	189
Total of items that may be reclassified subsequently to profit or loss	(309,609)	37,545
Other comprehensive income (loss), net of taxes	(324,847)	41,412
Comprehensive income (loss) for the period	(75,567)	268,734
Attributable to:		
Owners of the parent company	(76,232)	267,027
Non-controlling interests	665	1,707
Comprehensive income (loss) for the period	(75,567)	268,734

(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, 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	<u>100,000</u>	<u>736,400</u>	<u>(443,962)</u>	<u>1,658</u>	<u>(478,579)</u>	<u>(731)</u>	<u>31,026</u>
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>

(Millions of yen)

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

	(Millions of yen)	
	Six months ended June 30, 2016	Six months ended June 30, 2017
Cash flows from financing activities		
Dividends paid to owners of the parent company	(114,632)	(118,188)
Dividends paid to non-controlling interests	(1,335)	(962)
Increase (decrease) in short-term borrowings and commercial paper	350,690	(7,344)
Proceeds from long-term borrowings	841	842
Repayments of long-term borrowings	(69)	(284)
Proceeds from issuance of bonds	136,181	—
Proceeds from sale and leaseback transactions	—	2,819
Repayments of finance lease obligations	(301)	(526)
Acquisition of treasury shares	(0)	(0)
Other	0	0
Net cash flows from financing activities	371,375	(123,643)
Net increase (decrease) in cash and cash equivalents	(314,839)	(135,714)
Cash and cash equivalents at the beginning of the period	526,765	294,157
Effect of exchange rate changes on cash and cash equivalents	(20,944)	2,038
Cash and cash equivalents at the end of the period	190,982	160,481

(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, 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	<u>347,168</u>	<u>631,862</u>	<u>40,295</u>	<u>79,953</u>	<u>1,099,279</u>	<u>9,578</u>	<u>(31,977)</u>	<u>1,076,879</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>129,624</u>	<u>193,114</u>	<u>2,766</u>	<u>3,148</u>	<u>328,651</u>	<u>(10,578)</u>	<u>259</u>	<u>318,332</u>

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>

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

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 arising from business acquisitions	(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

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 4)	(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

- (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, 2016	Six months ended June 30, 2017
Domestic Tobacco	318,613	294,423
International Tobacco	584,059	577,228

- (Note 4) “Adjustment items (income)” include restructuring income of gain on sale of real estate and reversal of impairment losses on investments in associates. “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, 2016	Six months ended June 30, 2017
Restructuring costs	7,391	3,636
Adjustment items (costs)	7,391	3,636

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

(6) Notes on premise of going concern

No items to report