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May 1, 2018

Consolidated Financial Results for the Three Months Ended March 31, 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/>
Representative: Masamichi Terabatake, Representative Director and President,
Chief Executive Officer
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Scheduled date to file Quarterly Securities Report: May 2, 2018
Scheduled starting date of the dividend payments: –
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 three months of the fiscal year ending December 31, 2018 (from January 1, 2018 to March 31, 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	%
Three months ended								
March 31, 2018	515,050	1.8	146,775	(1.5)	139,891	(1.8)	104,494	(1.4)
March 31, 2017	506,138	(5.2)	148,957	(26.9)	142,493	(28.9)	106,021	(27.6)

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
Three months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
March 31, 2018	104,011	(1.4)	(11,779)	-	58.07	58.04
March 31, 2017	105,491	(27.5)	95,717	185.4	58.90	58.87

(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
March 31, 2018	494,056	270,064	2,624,974	53.1	1,465.57
December 31, 2017	522,484	284,027	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	-				
Year ending December 31, 2018 (Forecast)		75.00	-	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	2,220,000	3.8	561,000	(0.0)	394,000	0.4	219.98

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

[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	%
Three months ended March 31, 2018 (Cumulative)	151,015	0.5
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 May 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 March 31, 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 March 31, 2018	208,911,389 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)

Three months ended March 31, 2018	1,791,073,451 shares
Three months ended March 31, 2017	1,790,978,706 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.

Attached Materials

Index

1. Matters regarding summary information	2
(1) Changes in accounting policies and changes in accounting estimates.....	2
(2) Revisions to the consolidated earnings forecasts most recently announced.....	2
2. Condensed interim consolidated financial statements	4
(1) Condensed interim consolidated statement of financial position.....	4
(2) Condensed interim consolidated statement of income and consolidated statement of comprehensive income	6
(3) Condensed interim consolidated statement of changes in equity	8
(4) Condensed interim consolidated statement of cash flows	10
(5) Segment information	12
(6) Notes on premise of going concern	15

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 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 ¥1,973 million and ¥17,042 million respectively, and “Cost of sales” increased by ¥15,069 million on the condensed interim consolidated statement of income for the three months ended March 31, 2018. The above effects include promotion expenses (¥1,751 million) accounted for as reductions of revenue, as well as shipping and warehousing expenses (¥7,040 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

No items to report.

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)

	<u>As of December 31, 2017</u>	<u>As of March 31, 2018</u>
Assets		
Current assets		
Cash and cash equivalents	285,486	182,632
Trade and other receivables	431,199	410,613
Inventories	612,954	598,729
Other financial assets	14,016	17,287
Other current assets	361,715	351,393
Subtotal	<u>1,705,370</u>	<u>1,560,654</u>
Non-current assets held-for-sale	2,396	1,424
Total current assets	<u>1,707,767</u>	<u>1,562,078</u>
Non-current assets		
Property, plant and equipment	745,607	729,558
Goodwill	1,891,210	1,816,878
Intangible assets	479,175	448,710
Investment property	16,700	15,918
Retirement benefit assets	51,377	56,326
Investments accounted for using the equity method	81,253	76,196
Other financial assets	114,970	105,645
Deferred tax assets	133,425	128,747
Total non-current assets	<u>3,513,717</u>	<u>3,377,978</u>
Total assets	<u><u>5,221,484</u></u>	<u><u>4,940,056</u></u>

	As of December 31, 2017	(Millions of yen) As of March 31, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	395,733	354,266
Bonds and borrowings	398,182	345,035
Income tax payables	46,452	40,641
Other financial liabilities	6,906	5,917
Provisions	13,028	11,203
Other current liabilities	618,322	617,287
Total current liabilities	<u>1,478,623</u>	<u>1,374,350</u>
Non-current liabilities		
Bonds and borrowings	346,955	338,730
Other financial liabilities	11,013	10,568
Retirement benefit liabilities	330,762	315,880
Provisions	4,005	4,050
Other non-current liabilities	120,779	109,173
Deferred tax liabilities	87,319	83,241
Total non-current liabilities	<u>900,833</u>	<u>861,642</u>
Total liabilities	<u>2,379,456</u>	<u>2,235,992</u>
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(443,636)	(443,540)
Other components of equity	(167,338)	(283,182)
Retained earnings	2,536,262	2,515,296
Equity attributable to owners of the parent company	<u>2,761,687</u>	<u>2,624,974</u>
Non-controlling interests	80,340	79,090
Total equity	<u>2,842,027</u>	<u>2,704,064</u>
Total liabilities and equity	<u><u>5,221,484</u></u>	<u><u>4,940,056</u></u>

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

Condensed interim consolidated statement of income

	(Millions of yen)	
	Three months ended March 31, 2017	Three months ended March 31, 2018
Revenue	506,138	515,050
Cost of sales	(199,460)	(216,783)
Gross profit	306,678	298,267
Other operating income	11,770	17,645
Share of profit in investments accounted for using the equity method	1,631	506
Selling, general and administrative expenses	(171,122)	(169,643)
Operating profit	148,957	146,775
Financial income	1,826	1,764
Financial costs	(8,290)	(8,648)
Profit before income taxes	142,493	139,891
Income taxes	(36,472)	(35,397)
Profit for the period	106,021	104,494
Attributable to:		
Owners of the parent company	105,491	104,011
Non-controlling interests	531	482
Profit for the period	106,021	104,494
Interim earnings per share		
Basic (Yen)	58.90	58.07
Diluted (Yen)	58.87	58.04

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

	(Millions of yen)	
	Three months ended March 31, 2017	Three months ended March 31, 2018
Operating profit	148,957	146,775
Amortization cost of acquired intangibles arising from business acquisitions	11,832	14,534
Adjustment items (income)	(11,197)	(16,505)
Adjustment items (costs)	734	3,253
Adjusted operating profit	150,326	148,057

Condensed interim consolidated statement of comprehensive income

	(Millions of yen)	
	Three months ended March 31, 2017	Three months ended March 31, 2018
Profit for the period	106,021	104,494
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	(262)	(6,478)
Remeasurements of defined benefit plans	(922)	(23)
Total of items that will not be reclassified to profit or loss	(1,184)	(6,501)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(9,297)	(109,870)
Net gain (loss) on derivatives designated as cash flow hedges	177	98
Total of items that may be reclassified subsequently to profit or loss	(9,120)	(109,772)
Other comprehensive income (loss), net of taxes	(10,305)	(116,273)
Comprehensive income (loss) for the period	95,717	(11,779)
Attributable to:		
Owners of the parent company	95,447	(11,470)
Non-controlling interests	270	(310)
Comprehensive income (loss) for the period	95,717	(11,779)

(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)	—	—	—	—	(9,047)	177	(252)
Comprehensive income (loss) for the period	—	—	—	—	(9,047)	177	(252)
Disposal of treasury shares	—	13	57	(70)	—	—	—
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	—	—	—	—	—	—	(134)
Other increase (decrease)	—	—	—	—	—	(115)	—
Total transactions with the owners	—	13	57	(45)	—	(115)	(134)
As of March 31, 2017	<u>100,000</u>	<u>736,413</u>	<u>(443,765)</u>	<u>1,749</u>	<u>(344,688)</u>	<u>502</u>	<u>29,469</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)	—	—	—	—	(109,112)	98	(6,444)
Comprehensive income (loss) for the period	—	—	—	—	(109,112)	98	(6,444)
Disposal of treasury shares	—	—	96	(66)	—	—	—
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	—	—	—	—	—	—	(428)
Other increase (decrease)	—	—	—	—	—	77	—
Total transactions with the owners	—	—	96	(34)	—	77	(428)
As of March 31, 2018	<u>100,000</u>	<u>736,400</u>	<u>(443,540)</u>	<u>1,930</u>	<u>(316,996)</u>	<u>87</u>	<u>31,797</u>

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non- controlling interests	Total equity
As of January 1, 2017	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	105,491	105,491	531	106,021
Other comprehensive income (loss)	(922)	(10,043)	—	(10,043)	(261)	(10,305)
Comprehensive income (loss) for the period	(922)	(10,043)	105,491	95,447	270	95,717
Disposal of treasury shares	—	(70)	—	0	—	0
Share-based payments	—	24	—	24	1	26
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	922	788	(788)	—	—	—
Other increase (decrease)	—	(115)	—	(115)	—	(115)
Total transactions with the owners	922	628	(118,991)	(118,294)	(994)	(119,288)
As of March 31, 2017	—	(312,969)	2,353,566	2,433,245	71,225	2,504,470
As of January 1, 2018	—	(167,338)	2,536,262	2,761,687	80,340	2,842,027
Profit for the period	—	—	104,011	104,011	482	104,494
Other comprehensive income (loss)	(23)	(115,481)	—	(115,481)	(792)	(116,273)
Comprehensive income (loss) for the period	(23)	(115,481)	104,011	(11,470)	(310)	(11,779)
Disposal of treasury shares	—	(66)	(30)	0	—	0
Share-based payments	—	32	—	32	1	33
Dividends	—	—	(125,373)	(125,373)	(910)	(126,283)
Changes in the scope of consolidation	—	—	—	—	59	59
Changes in the ownership interest in a subsidiary without a loss of control	—	—	20	20	(91)	(71)
Transfer from other components of equity to retained earnings	23	(406)	406	—	—	—
Other increase (decrease)	—	77	—	77	—	77
Total transactions with the owners	23	(363)	(124,977)	(125,244)	(940)	(126,184)
As of March 31, 2018	—	(283,182)	2,515,296	2,624,974	79,090	2,704,064

(4) Condensed interim consolidated statement of cash flows

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	142,493	139,891
Depreciation and amortization	35,207	38,451
Impairment losses	292	476
Interest and dividend income	(1,784)	(1,760)
Interest expense	2,859	3,352
Share of profit in investments accounted for using the equity method	(1,631)	(506)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(10,512)	(14,423)
(Increase) decrease in trade and other receivables	14,965	5,381
(Increase) decrease in inventories	1,531	(11,454)
Increase (decrease) in trade and other payables	(33,042)	(29,920)
Increase (decrease) in retirement benefit liabilities	(8,055)	(14,132)
(Increase) decrease in prepaid tobacco excise taxes	6,466	2,472
Increase (decrease) in tobacco excise tax payables	(140,469)	28,640
Increase (decrease) in consumption tax payables	(10,231)	(5,698)
Other	(27,468)	(23,182)
Subtotal	(29,381)	117,588
Interest and dividends received	971	1,907
Interest paid	(1,554)	(2,464)
Income taxes paid	(40,556)	(36,830)
Net cash flows from operating activities	(70,520)	80,201
Cash flows from investing activities		
Purchase of securities	(1,693)	(6,382)
Proceeds from sale and redemption of securities	1,347	906
Purchase of property, plant and equipment	(26,740)	(27,319)
Proceeds from sale of investment property	11,386	16,687
Purchase of intangible assets	(3,101)	(4,630)
Payments into time deposits	(201)	(31)
Proceeds from withdrawal of time deposits	190	37
Other	(3,563)	(522)
Net cash flows from investing activities	(22,375)	(21,256)

	Three months ended March 31, 2017	(Millions of yen) Three months ended March 31, 2018
Cash flows from financing activities		
Dividends paid to owners of the parent company	(117,000)	(123,484)
Dividends paid to non-controlling interests	(617)	(672)
Increase (decrease) in short-term borrowings and commercial paper	64,085	(27,862)
Proceeds from long-term borrowings	—	343
Repayments of long-term borrowings	(62)	(121)
Repayments of finance lease obligations	(147)	(447)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(70)
Other	0	0
Net cash flows from financing activities	(53,742)	(152,313)
Net increase (decrease) in cash and cash equivalents	(146,636)	(93,368)
Cash and cash equivalents at the beginning of the period	294,157	285,486
Effect of exchange rate changes on cash and cash equivalents	352	(9,486)
Cash and cash equivalents at the end of the period	147,873	182,632

(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 three months ended March 31, 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)	151,783	290,784	23,217	38,271	504,055	2,083	—	506,138
Intersegment revenue	2,512	7,240	—	6	9,757	2,318	(12,075)	—
Total revenue	<u>154,294</u>	<u>298,024</u>	<u>23,217</u>	<u>38,276</u>	<u>513,812</u>	<u>4,401</u>	<u>(12,075)</u>	<u>506,138</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>57,204</u>	<u>91,975</u>	<u>5,061</u>	<u>1,172</u>	<u>155,412</u>	<u>(5,075)</u>	<u>(11)</u>	<u>150,326</u>

For the three months ended March 31, 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)	138,800	310,111	26,686	37,693	513,289	1,760	—	515,050
Intersegment revenue	1,811	6,206	—	0	8,016	1,461	(9,477)	—
Total revenue	<u>140,611</u>	<u>316,316</u>	<u>26,686</u>	<u>37,693</u>	<u>521,306</u>	<u>3,221</u>	<u>(9,477)</u>	<u>515,050</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>48,942</u>	<u>96,286</u>	<u>7,697</u>	<u>705</u>	<u>153,630</u>	<u>(6,020)</u>	<u>447</u>	<u>148,057</u>

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

For the three months ended March 31, 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)	57,204	91,975	5,061	1,172	155,412	(5,075)	(11)	150,326
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(7,770)	—	—	(11,832)	—	—	(11,832)
Adjustment items (income) (Note 4)	—	13	—	—	13	11,184	—	11,197
Adjustment items (costs) (Note 5)	(10)	(119)	—	—	(130)	(604)	—	(734)
Operating profit (loss)	53,132	84,099	5,061	1,172	143,464	5,504	(11)	148,957
Financial income								1,826
Financial costs								(8,290)
Profit before income taxes								142,493

For the three months ended March 31, 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)	48,942	96,286	7,697	705	153,630	(6,020)	447	148,057
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(10,473)	—	—	(14,534)	—	—	(14,534)
Adjustment items (income) (Note 4)	1	1,183	—	19	1,202	15,303	—	16,505
Adjustment items (costs) (Note 5)	(278)	19	—	—	(259)	(2,994)	—	(3,253)
Operating profit (loss)	44,604	87,014	7,697	724	140,038	6,290	447	146,775
Financial income								1,764
Financial costs								(8,648)
Profit before income taxes								139,891

- (Note 1) For adjusted operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs) are excluded from operating profit (loss).
- (Note 2) “Other” includes business activities relating to rent of real estate and corporate expenses relating to corporate communication and operation of the head office.
- (Note 3) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

	(Millions of yen)	
	Three months ended March 31, 2017	Three months ended March 31, 2018
Domestic Tobacco	143,900	129,327
International Tobacco	275,974	294,798

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

	(Millions of yen)	
	Three months ended March 31, 2017	Three months ended March 31, 2018
Restructuring incomes	11,184	15,515
Others	13	990
Adjustment items (income)	11,197	16,505

Restructuring incomes for the three months ended March 31, 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)	
	Three months ended March 31, 2017	Three months ended March 31, 2018
Restructuring costs	734	3,253
Adjustment items (costs)	734	3,253

(6) Notes on premise of going concern

No items to report