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Date of filing:	April 26, 2019
Quarterly accounting period:	First quarter of the 35th term (from January 1, 2019 to March 31, 2019)
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Company name (English):	JAPAN TOBACCO INC.
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Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in principal management benchmarks

Term	Three months ended March 31, 2018	Three months ended March 31, 2019	34th term
Accounting period	From January 1, 2018 to March 31, 2018	From January 1, 2019 to March 31, 2019	From January 1, 2018 to December 31, 2018
Revenue (Millions of yen)	515,050	505,422	2,215,962
Profit before income taxes (Millions of yen)	139,891	172,727	531,486
Profit for the period (Millions of yen)	104,494	133,685	387,431
Profit attributable to owners of the parent company (Millions of yen)	104,011	120,840	385,677
Comprehensive income (loss) for the period (Millions of yen)	(11,779)	157,079	129,302
Total equity (Millions of yen)	2,704,064	2,672,565	2,700,445
Total assets (Millions of yen)	4,940,056	5,465,896	5,461,400
Basic earnings per share (Yen)	58.07	67.66	215.31
Diluted earnings per share (Yen)	58.04	67.63	215.20
Ratio of equity attributable to owners of the parent company to total assets (%)	53.14	47.39	48.17
Net cash flows from operating activities (Millions of yen)	80,201	121,168	461,389
Net cash flows from investing activities (Millions of yen)	(21,256)	(39,427)	(383,307)
Net cash flows from financing activities (Millions of yen)	(152,313)	(101,415)	(62,360)
Cash and cash equivalents at the end of the period (Millions of yen)	182,632	261,463	282,063

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

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

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

4. Revenue does not include consumption taxes.

2. Business description

During the three months ended March 31, 2019, there were neither material changes in the business of the Group (the Company, 224 consolidated subsidiaries and 11 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report.

Changes in principal subsidiaries and affiliates are as follows.

(Processed Food Business)

From the first quarter ended March 31, 2019, TableMark Holdings Co., Ltd., which was a consolidated subsidiary in the previous fiscal year, was excluded from the scope of consolidation, in accordance with the reorganization of the processed food business resolved at a meeting of the Company's Board of Directors held on October 31, 2018.

II. Review of operations

1. Business and other risks

During the three months ended March 31, 2019, there were no new businesses or other risks.
There were no material changes to the items regarding business and other risks mentioned in the previous fiscal year's Annual Securities Report.

2. Management analysis of financial position, operating results and cash flows

Major notes concerning the operating results from the viewpoint of the management are as follows.

(Analyses and examinations concerning the operating results from the viewpoint of the management begins on the next page.)

Matters concerning the future in this document were determined as of March 31, 2019.

(IFRS 16)

From January 1, 2019, the Group has adopted IFRS 16 "Leases." As a result of adoption of IFRS 16, "Assets" and "Liabilities" increased by ¥39,033 million at the date of initial application. For details, please refer to "IV. Accounting, 1. Condensed interim consolidated financial statements, Notes to condensed interim consolidated financial statements, 3. Significant accounting policies."

(Non-GAAP financial measures)

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

Adjusted operating profit

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

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

(Core revenue from tobacco business)

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

(RRP)

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

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

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

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

Analyses and examinations concerning the operating results from the viewpoint of the management are as follows.

(1) Business results

a. Consolidated results

(Billions of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
Revenue	515.0	505.4	(1.9)%
Adjusted operating profit	148.1	138.8	(6.3)%
Operating profit	146.8	182.6	24.4%
Profit attributable to owners of the parent company	104.0	120.8	16.2%

<Revenue>

Revenue decreased by 1.9% from the same period of the previous year to ¥505.4 billion due to unfavorable foreign exchange effects of local currencies against the U.S. dollar in the International Tobacco Business, a decrease in revenue in the Processed Food Business and a decrease in revenue in the Pharmaceutical Business stemming from the termination of the exclusive license agreements for six anti-HIV drugs in Japan, despite an increase in revenue resulting from the effects of favorable cigarette pricing and rising RRP-related revenue in the Domestic Tobacco Business as well as the effects of favorable pricing and the volume effects as a result of business acquisitions in the International Tobacco Business.

<Adjusted operating profit>

Adjusted operating profit at constant rates of exchange grew by 7.2% from the same period of the previous year, with declines in the Pharmaceutical Business and the Processed Food Business being offset by increases in the Domestic Tobacco Business and International Tobacco Business. Adjusted operating profit including foreign exchange effects decreased by 6.3% from the same period of the previous year to ¥138.8 billion, due to unfavorable foreign exchange effects of local currencies against the U.S. dollar.

<Operating profit>

Operating profit increased by 24.4% from the same period of the previous year to ¥182.6 billion, driven by revenue relating to the termination of exclusive license agreements for six anti-HIV drugs in Japan in the Pharmaceutical Business, despite countering factors including the decrease in adjusted operating profit, a smaller gain on sales of real estate and the increase in amortization cost of acquired intangibles arising from business acquisitions.

<Profit attributable to owners of the parent company>

Despite an increase in financial costs, profit attributable to owners of the parent company increased by 16.2% from the same period of the previous year to ¥120.8 billion due to an increase in operating profit.

b. Operating segments

Domestic Tobacco Business

(Billions of cigarettes, Billions of yen)

Domestic Tobacco Business	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
Cigarette industry volume (Note 1)	31.8	29.1	(8.5)%
Sales volume (Note 2)	19.5	17.9	(8.3)%
Core revenue	129.3	133.5	3.2%
Adjusted operating profit	48.9	51.0	4.2%

<JT cigarette sales volume>

Cigarette industry volume fell 8.5% from the same period of the previous year as a result of impact of the fixed price revision, expansion of the RRP market and the downtrend in total demand. Hit by the effects of the decline in cigarette industry volume, JT cigarette sales volume also fell by 8.3% from the same period of the previous year. Cigarette market share maintained solid, and increased 0.1ppt from the same period of the previous year to 61.6%.

<RRP sales results>

The share of RRP in the domestic tobacco market is estimated to have been about 23% for the January - March 2019 period (shipment base). The Company’s RRP sales volume reached 0.6 billion cigarette equivalent units, and in the RRP category for the January - March 2019 period, the market share of the Company based on consumer off-take is estimated to have been about 8%.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business grew by 3.2% from the same period of the previous year due to the effects of favorable cigarette pricing and an increase in RRP-related revenue despite the impact of lower cigarette sales volume.

Adjusted operating profit increased by 4.2% from the same period of the previous year, due mainly to the effects of favorable cigarette pricing despite the impact of lower cigarette sales volume.

(Note 1) Cigarette industry volume includes sales volume for the whole Japanese cigarette market. Note also that this does not include the sales volume associated with RRP and the like.

(Note 2) In addition to the figure stated above for sales volume, during the three months ended March 31, 2019, 0.9 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 (1.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above for sales volume does not include the sales volume associated with RRP and the like.

International Tobacco Business

(Billions of cigarettes, Billions of yen)

International Tobacco Business	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
Total shipment volume (Note 3)	98.4	104.7	6.5%
GFB shipment volume (Note 4)	62.0	64.4	3.8%
Core revenue	294.8	286.8	(2.7)%
Adjusted operating profit	96.3	89.2	(7.4)%

(Millions of U.S. dollar)

International Tobacco Business [U.S. dollar-based]	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
Core revenue	2,724	2,602	(4.5)% [7.9%]
Adjusted operating profit	890	809	(9.1)% [13.3%]

* The figures in brackets show change from the same period of the previous year at constant rates of exchange (dollar-based)

<Total shipment volume and market share>

Total shipment volume increased by 6.5% from the same period of the previous year, due to the positive effects of acquisitions in Greece, Bangladesh and Russia. Excluding the effects of acquisitions, total shipment volume declined by 0.1%, remaining a similar level to that of the same period of the previous year, since continued growth in market shares in regions mainly such as Italy, Iran, U.K., Spain, Taiwan, Germany, France and Romania was not enough to compensate for the effects of declines in total demand in areas such as Ukraine, Jordan and Russia.

GFB shipment volume rose by 3.8% from the same period of the previous year, as a result of firm growth of all GFBs such as Winston (+1.7%), Camel (+6.0%), MEVIUS (+6.6%) and LD (+7.3%).

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit decreased by 2.7% and 7.4%, respectively, from the same period of the previous year as a result of unfavorable foreign exchange effects, despite the effects of favorable pricing and the volume effects including the effects of acquisitions. The unfavorable foreign exchange effects were related to those of local currencies against the U.S. dollar and partially offset by positive movement of the U.S. dollar against the yen.

Dollar-based core revenue from the tobacco business including foreign exchange effects decreased by 4.5% from the same period of the previous year due to unfavorable foreign exchange effects, despite the effects of favorable pricing and the volume effects including the effects of acquisitions in regions such as Iran, U.K., Canada, Sudan, the Philippines and Romania. At constant rates of exchange, it increased by 7.9% from the same period of the previous year.

Dollar-based adjusted operating profit including foreign exchange effects fell by 9.1% from the same period of the previous year due to unfavorable foreign exchange effects stemming from a decline of IRR, RUB and other currencies, despite the effects of favorable pricing and other factors. At constant rates of exchange, it increased by 13.3% from the same period of the previous year.

The Regional Breakdown of International Tobacco Business (Note 5)

Results of International Tobacco Business in each region are as follows.

(Billions of cigarettes, Billions of yen, Millions of U.S. dollar)

	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
South and West Europe			
Total shipment volume (Note 3)	16.0	16.6	3.8%
GFB shipment volume (Note 4)	12.9	13.6	5.3%
Core revenue	56.2	56.4	0.3%
Core revenue [U.S. dollar-based]	519	512	(1.5)% [6.0%]
North and Central Europe			
Total shipment volume (Note 3)	12.3	12.9	5.1%
GFB shipment volume (Note 4)	5.2	6.3	20.2%
Core revenue	53.1	53.1	0.0%
Core revenue [U.S. dollar-based]	490	482	(1.8)% [6.2%]
CIS+			
Total shipment volume (Note 3)	28.0	27.5	(1.9)%
GFB shipment volume (Note 4)	21.1	19.7	(6.6)%
Core revenue	68.3	60.4	(11.5)%
Core revenue [U.S. dollar-based]	631	548	(13.1)% [(1.9)%]
Rest-of-the-World			
Total shipment volume (Note 3)	42.1	47.8	13.5%
GFB shipment volume (Note 4)	22.8	24.8	9.0%
Core revenue	117.3	116.8	(0.4)%
Core revenue [U.S. dollar-based]	1,084	1,060	(2.2)% [15.3%]

* The figures in brackets show change from the same period of the previous year at constant rates of exchange (dollar-based)

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

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

(Note 5) To make the Group's International Tobacco Business more deeply understood, this segment has been divided into four regions (South and West Europe, North and Central Europe, CIS+ and Rest-of-the-World). South and West Europe includes France, Italy and Spain; North and Central Europe includes Germany and the U.K.; CIS+ includes Romania and Russia; and Rest-of-the-World includes Iran, Taiwan and Turkey.

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

Foreign exchange rate per U.S. dollar	Three months ended March 31, 2018	Three months ended March 31, 2019	Change	
USD/¥	108.22	110.22	2.00	1.8% depreciation
USD/RUB	56.88	66.12	9.24	14.0% depreciation
USD/GBP	0.72	0.77	0.05	6.4% depreciation
USD/EUR	0.81	0.88	0.07	7.5% depreciation
USD/CHF	0.95	1.00	0.05	4.8% depreciation
USD/TWD	29.30	30.82	1.52	4.9% depreciation
USD/TRY	3.81	5.36	1.55	28.9% depreciation
USD/IRR	46,583	88,454	41,871	47.3% depreciation

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
Revenue	26.7	22.8	(14.6)%
Adjusted operating profit	7.7	4.5	(41.9)%

<Revenue and adjusted operating profit>

Revenue decreased by 14.6% from the same period of the previous year due mainly to the termination of the exclusive license agreements with licensing partners for six anti-HIV drugs in Japan.

Adjusted operating profit decreased by 41.9% from the same period of the previous year due mainly to a decrease in revenue and an increase in research and development expenses.

Processed Food Business

(Billions of yen)

Processed Food Business	Three months ended March 31, 2018	Three months ended March 31, 2019	Change
Revenue	37.7	36.0	(4.5)%
Adjusted operating profit	0.7	0.3	(59.6)%

<Revenue and adjusted operating profit>

Revenue decreased by 4.5% from the same period of the previous year due to a decline in sales of other products, despite growth in sales of staple food products.

Adjusted operating profit decreased by 59.6% from the same period of the previous year, due mainly to a decrease in revenue, higher raw material costs and an increase in logistics costs.

(2) Financial position and cash flow position

a. Financial position

Assets

Total assets at the end of the three months ended March 31, 2019 increased by ¥4.5 billion from the end of the previous fiscal year to ¥5,465.9 billion. This was mainly due to an increase in right-of-use assets resulting from the application of IFRS 16 despite a decrease in trade and other receivables.

Liabilities

Total liabilities at the end of the three months ended March 31, 2019 increased by ¥32.4 billion from the end of the previous fiscal year to ¥2,793.3 billion. This was mainly due to an increase in lease liabilities resulting from the application of IFRS 16 and short-term borrowings obtained in association with acquisition of treasury shares.

Equity

Total equity at the end of the three months ended March 31, 2019 decreased by ¥27.9 billion from the end of the previous fiscal year to ¥2,672.6 billion. This was mainly due to acquisition of treasury shares.

b. Cash flow position

Cash and cash equivalents at the end of the three months ended March 31, 2019 decreased by ¥20.6 billion from the end of the previous fiscal year to ¥261.5 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥182.6 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the three months ended March 31, 2019 were ¥121.2 billion, compared with ¥80.2 billion provided in the same period of the previous year. This was mainly due to the generation of a stable cash inflow from the tobacco business, with payments of national and international tobacco excise taxes and income taxes, etc.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended March 31, 2019 were ¥39.4 billion, compared with ¥21.3 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the three months ended March 31, 2019 were ¥101.4 billion, compared with ¥152.3 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends and the acquisition of treasury shares, despite the proceeds from short-term borrowings.

(3) Management policy, management strategy, etc.

During the three months ended March 31, 2019, there were no material changes in management policy, management strategy, etc. stipulated by the Group mentioned in the previous fiscal year's Annual Securities Report.

(4) Operational and financial issues to be addressed

During the three months ended March 31, 2019, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(5) Research and development activities

Research and development expenses of the entire Group during the three months ended March 31, 2019, were ¥16.3 billion.

During the three months ended March 31, 2019, there were no material changes in the status of the Group's research and development activities mentioned in the previous fiscal year's Annual Securities Report.

(6) Results of production, orders received and sales

The volume manufactured overseas including outsourced manufacturing during the three months ended March 31, 2019 increased by 16.4 billion cigarettes, or 16.5%, from the same period of the previous year to 116.0 billion cigarettes due mainly to the increase in total shipment volume.

(7) Analysis of capital resources and liquidity of funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

Please refer to "(2) Financial position and cash flow position, b. Cash flow position."

<Interest-bearing debt> (Note)

Long-term debt

Bonds issued as of December 31, 2018 and as of March 31, 2019 accounted for ¥610.4 billion and ¥610.6 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥129.3 billion and ¥128.0 billion respectively.

Short-term debt

Short-term borrowings from financial institutions totaled ¥166.0 billion as of December 31, 2018 and ¥252.3 billion as of March 31, 2019. Commercial paper outstanding totaled ¥72.0 billion as of December 31, 2018 and ¥73.0 billion as of March 31, 2019.

Note: From the first quarter ended March 31, 2019, lease obligations are excluded.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of March 31, 2019, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

3. Important operational contracts

No important operational contracts were determined or entered into during the first quarter ended March 31, 2019.

III. Filing company

1. Information on the Company's shares

(1) Total number of shares authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2019)	Number of shares issued (Share; as of the date of filing: April 26, 2019)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

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

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

(2) Status of subscription rights to shares

a. Stock options

No items to report.

b. Other status of subscription rights to shares

No items to report.

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

No items to report.

(4) Trends in total number of shares issued and share capital

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
January 1, 2019 to March 31, 2019	–	2,000,000	–	100,000	–	736,400

(5) Status of major shareholders

As the current quarterly accounting period is the first quarter, there are no items to report.

(6) Status of voting rights

a. Shares issued

(as of March 31, 2019)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 226,269,000	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,636,600	17,736,366	(Note 2)
Shares less than one unit	Ordinary shares 94,400	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,736,366	–

Notes: 1. The number of "Shares with full voting rights (Other)" includes 33,600 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 336 units of voting rights related to shares with full voting rights in its name.
2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.
3. Includes 51 shares of treasury shares.

b. Treasury shares

(as of March 31, 2019)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	2-1, Toranomon 2-chome, Minato-ku, Tokyo, Japan	226,269,000	–	226,269,000	11.31
Total	–	226,269,000	–	226,269,000	11.31

2. Status of officers

After filing the previous fiscal year's Annual Securities Report, there were no personnel changes of officers during the three months ended March 31, 2019.

IV. Accounting

1. Preparation Policy for the Condensed Interim Consolidated Financial Statements

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

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

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for the three months ended March 31, 2019 were reviewed by Deloitte Touche Tohmatsu LLC.

1. Condensed Interim Consolidated Financial Statements

(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2018	**As of March 31, 2019**
Assets		
Current assets		
Cash and cash equivalents (Note 6)	282,063	261,463
Trade and other receivables	456,591	430,556
Inventories	649,238	655,575
Other financial assets	35,633	29,337
Other current assets	385,872	394,670
Subtotal	1,809,396	1,771,601
Non-current assets held-for-sale	10	25
Total current assets	1,809,406	1,771,626
Non-current assets		
Property, plant and equipment (Note 7)	758,841	801,296
Goodwill (Note 7)	2,008,416	2,010,999
Intangible assets (Note 7)	503,076	491,639
Investment property	17,558	17,095
Retirement benefit assets	57,140	59,220
Investments accounted for using the equity method	66,807	67,034
Other financial assets	115,046	123,634
Deferred tax assets	125,109	123,353
Total non-current assets	3,651,993	3,694,270
Total assets	5,461,400	5,465,896

(Millions of yen)

	As of December 31, 2018	**As of March 31, 2019**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	380,516	371,583
Bonds and borrowings	250,466	337,423
Income tax payables	72,449	55,024
Other financial liabilities	4,486	22,205
Provisions	6,078	5,085
Other current liabilities	716,190	676,664
Total current liabilities	1,430,185	1,467,985
Non-current liabilities		
Bonds and borrowings	727,314	726,444
Other financial liabilities	10,067	39,042
Retirement benefit liabilities	321,838	309,374
Provisions	3,780	3,789
Other non-current liabilities	179,274	162,268
Deferred tax liabilities	88,497	84,429
Total non-current liabilities	1,330,770	1,325,346
Total liabilities	2,760,955	2,793,331
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(442,829)	(492,627)
Other components of equity	(423,357)	(400,271)
Retained earnings	2,660,381	2,646,862
Equity attributable to owners of the parent company	2,630,594	2,590,364
Non-controlling interests	69,851	82,201
Total equity	2,700,445	2,672,565
Total liabilities and equity	5,461,400	5,465,896

(2) Condensed Interim Consolidated Statement of Income

Three months ended March 31, 2018 and 2019

(Millions of yen)

	2018	**2019**
Revenue (Notes 5, 9)	515,050	505,422
Cost of sales	(216,783)	(212,555)
Gross profit	298,267	292,867
Other operating income (Note 10)	17,645	63,206
Share of profit in investments accounted for using the equity method	506	744
Selling, general and administrative expenses (Note 11)	(169,643)	(174,224)
Operating profit (Note 5)	146,775	182,593
Financial income (Note 12)	1,764	2,283
Financial costs (Note 12)	(8,648)	(12,148)
Profit before income taxes	139,891	172,727
Income taxes	(35,397)	(39,043)
Profit for the period	104,494	133,685
Attributable to		
Owners of the parent company	104,011	120,840
Non-controlling interests	482	12,845
Profit for the period	104,494	133,685
Interim earnings per share		
Basic (Yen) (Note 13)	58.07	67.66
Diluted (Yen) (Note 13)	58.04	67.63

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

(Millions of yen)

	2018	**2019**
Operating profit	146,775	182,593
Amortization cost of acquired intangibles arising from business acquisitions	14,534	17,788
Adjustment items (income)	(16,505)	(61,809)
Adjustment items (costs)	3,253	202
Adjusted operating profit (Note 5)	148,057	138,774

(3) Condensed Interim Consolidated Statement of Comprehensive Income

Three months ended March 31, 2018 and 2019

(Millions of yen)

	2018	**2019**
Profit for the period	104,494	133,685
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	(6,478)	987
Remeasurements of defined benefit plans	(23)	—
Total of items that will not be reclassified to profit or loss	(6,501)	987
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(109,870)	22,736
Net gain (loss) on derivatives designated as cash flow hedges	98	(328)
Total of items that may be reclassified subsequently to profit or loss	(109,772)	22,408
Other comprehensive income (loss), net of taxes	(116,273)	23,394
Comprehensive income (loss) for the period	(11,779)	157,079
Attributable to		
Owners of the parent company	(11,470)	144,226
Non-controlling interests	(310)	12,853
Comprehensive income (loss) for the period	(11,779)	157,079

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 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)
Acquisition of treasury shares	–	–	–	–	–	–	–
Disposal of treasury shares	–	–	96	(66)	–	–	–
Share-based payments	–	–	–	32	–	–	–
Dividends (Note 8)	–	–	–	–	–	–	–
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	100,000	736,400	(443,540)	1,930	(316,996)	87	31,797
As of January 1, 2019	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	22,846	(328)	868
Comprehensive income (loss) for the period	–	–	–	–	22,846	(328)	868
Acquisition of treasury shares	–	–	(50,000)	–	–	–	–
Disposal of treasury shares	–	–	202	(176)	–	–	–
Share-based payments	–	–	–	26	–	–	–
Dividends (Note 8)	–	–	–	–	–	–	–
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	–	–	–	–	–	–	(24)
Other increase (decrease)	–	–	–	–	–	(124)	–
Total transactions with the owners	–	–	(49,798)	(151)	–	(124)	(24)
As of March 31, 2019	100,000	736,400	(492,627)	1,396	(432,072)	(9)	30,414

(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, 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)
Acquisition of treasury shares	―	―	―	―	―	―
Disposal of treasury shares	―	(66)	(30)	0	―	0
Share-based payments	―	32	―	32	1	33
Dividends (Note 8)	―	―	(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
As of January 1, 2019	―	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	―	―	120,840	120,840	12,845	133,685
Other comprehensive income (loss)	―	23,386	―	23,386	9	23,394
Comprehensive income (loss) for the period	―	23,386	120,840	144,226	12,853	157,079
Acquisition of treasury shares	―	―	―	(50,000)	―	(50,000)
Disposal of treasury shares	―	(176)	(26)	0	―	0
Share-based payments	―	26	―	26	―	26
Dividends (Note 8)	―	―	(134,357)	(134,357)	(618)	(134,975)
Changes in the scope of consolidation	―	―	―	―	―	―
Changes in the ownership interest in a subsidiary without a loss of control	―	―	(0)	(0)	115	115
Transfer from other components of equity to retained earnings	―	(24)	24	―	―	―
Other increase (decrease)	―	(124)	―	(124)	―	(124)
Total transactions with the owners	―	(299)	(134,359)	(184,456)	(503)	(184,959)
As of March 31, 2019	―	(400,271)	2,646,862	2,590,364	82,201	2,672,565

(5) Condensed Interim Consolidated Statement of Cash Flows

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Cash flows from operating activities		
Profit before income taxes	139,891	172,727
Depreciation and amortization	38,451	45,824
Impairment losses	476	200
Interest and dividend income	(1,760)	(2,209)
Interest expense	3,352	6,650
Share of profit in investments accounted for using the equity method	(506)	(744)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(14,423)	34
(Increase) decrease in trade and other receivables	5,381	25,271
(Increase) decrease in inventories	(11,454)	(7,183)
Increase (decrease) in trade and other payables	(29,920)	(8,019)
Increase (decrease) in retirement benefit liabilities	(14,132)	(9,383)
(Increase) decrease in prepaid tobacco excise taxes	2,472	(11,870)
Increase (decrease) in tobacco excise tax payables	28,640	(2,729)
Increase (decrease) in consumption tax payables	(5,698)	140
Other	(23,182)	(25,793)
Subtotal	117,588	182,916
Interest and dividends received	1,907	4,065
Interest paid	(2,464)	(5,368)
Income taxes paid	(36,830)	(60,444)
Net cash flows from operating activities	80,201	121,168
Cash flows from investing activities		
Purchase of securities	(6,382)	(16,253)
Proceeds from sale and redemption of securities	906	13,246
Purchase of property, plant and equipment	(27,319)	(27,208)
Proceeds from sale of investment property	16,687	2,014
Purchase of intangible assets	(4,630)	(4,352)
Payments into time deposits	(31)	(196)
Proceeds from withdrawal of time deposits	37	187
Other	(522)	(6,865)
Net cash flows from investing activities	(21,256)	(39,427)

(Millions of yen)

	2018	**2019**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(123,484)	(132,416)
Dividends paid to non-controlling interests	(672)	(721)
Capital contribution from non-controlling interests	―	82
Increase (decrease) in short-term borrowings and commercial paper	(27,862)	85,620
Proceeds from long-term borrowings	343	―
Repayments of long-term borrowings	(121)	(280)
Repayments of lease liabilities	(447)	(3,700)
Acquisition of treasury shares	―	(50,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(70)	(0)
Other	0	0
Net cash flows from financing activities	(152,313)	(101,415)
Net increase (decrease) in cash and cash equivalents	(93,368)	(19,674)
Cash and cash equivalents at the beginning of the period	285,486	282,063
Effect of exchange rate changes on cash and cash equivalents	(9,486)	(925)
Cash and cash equivalents at the end of the period (Note 6)	182,632	261,463

Notes to Condensed Interim Consolidated Financial Statements
Three months ended March 31, 2018 and 2019

1. Reporting Entity

The Company is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (https://www.jt.com/).

The condensed interim consolidated financial statements for the three-month period ended March 31, 2019 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on April 26, 2019 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

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

The condensed interim consolidated financial statements are prepared in accordance with IAS 34 and do not include all information required for the consolidated financial statements for the year. They should be read along with the consolidated financial statements for the year ended December 31, 2018.

3. Significant Accounting Policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the year ended December 31, 2018 except the following item.

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 beginning of the first quarter ended March 31, 2019.

IFRS		Description of new standards and amendments
IFRS 16	Leases	Amendments to accounting treatment for lease arrangements

At inception of a contract, the Group assesses whether the contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group elects not to recognize right-of-use assets and lease liabilities for short-term leases within 12 months and leases of low-value assets.

If a contract is, or contains, a lease, except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets and lease liabilities on the condensed interim consolidated statement of financial position at the commencement date. The Group recognizes the lease payments associated with short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term.

Right-of-use asset is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

An acquisition cost of a right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, and any initial direct costs. The right-of-use asset is depreciated using the straight-line method over its estimated useful life or lease term, whichever is shorter. The lease liability is initially measured at the present value of the lease payment that is not paid at the commencement date. The lease payments are apportioned between the financial cost and the reduction in the lease liability based on the effective interest method. The financial costs are recognized in the condensed interim consolidated statement of income.

In adopting IFRS 16, the Group used a transition method by which the cumulative effect of initially adopting this standard was recognized at the date of initial application.

The lessee’s weighted average incremental borrowing rate which applied to lease liabilities on the condensed interim consolidated statement of financial position at the date of initial application is 4.1%.

The difference between the total amount of future minimum lease payments under non-cancellable operating leases (discounted by the lessee’s incremental borrowing rate above) which were disclosed upon adopting IAS 17, “Leases” (hereinafter referred to as “IAS 17”), at the end of the consolidated fiscal year immediately before the initial application and the lease liabilities on the condensed interim consolidated statement of financial position at the date of initial application is mainly due to the estimation difference of the lease term of lands and buildings for the period which exceeds the non-cancellable period.

The Group has adopted this standard for contracts that were previously identified as leases adopting IAS 17 and IFRIC 4, “Determining whether an Arrangement Contains a Lease” (hereinafter referred to as “IFRIC 4”), without reassessing whether a contract is, or contains, a lease at the date of initial application. The Group has not adopted this standard for contracts that were not previously identified as containing a lease adopting IAS 17 and IFRIC 4.

For leases previously classified as operating leases adopting IAS 17, the following practical expedients permitted as transition methods are adopted:

- A single discount rate is applied to a portfolio of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

As a result of the adoption of IFRS 16, “Assets” and “Liabilities” increased by ¥39,033 million at the date of initial application. There is an immaterial impact on operating profit and profit for the period.

In order to reflect the change in accounting method in accordance with the adoption of IFRS 16, “Repayments of finance lease obligations,” which was presented in “Cash flows from financing activities” on the consolidated statement of cash flows for the year ended December 31, 2018, has been presented as “Repayments of lease liabilities” from the first quarter ended March 31, 2019.

4. Significant Accounting Estimates and Judgements

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

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

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the year ended December 31, 2018.

5. Operating Segments

(1) Outline of Reportable Segments

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

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

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

(2) Revenues and Performances of Reportable Segments

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

Three months ended March 31, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	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	140,611	316,316	26,686	37,693	521,306	3,221	(9,477)	515,050
Segment profit (loss)								
Adjusted operating profit (Note 1)	48,942	96,286	7,697	705	153,630	(6,020)	447	148,057

Three months ended March 31, 2019

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	144,666	300,364	22,787	35,980	503,797	1,625	—	505,422
Intersegment revenue	1,872	8,094	—	0	9,966	1,504	(11,470)	—
Total revenue	146,538	308,458	22,787	35,980	513,763	3,129	(11,470)	505,422
Segment profit (loss)								
Adjusted operating profit (Note 1)	51,016	89,186	4,471	285	144,958	(5,627)	(557)	138,774

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

Three months ended March 31, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
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 3)	1	1,183	—	19	1,202	15,303	—	16,505
Adjustment items (costs) (Note 4)	(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

Three months ended March 31, 2019

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Adjusted operating profit (Note 1)	51,016	89,186	4,471	285	144,958	(5,627)	(557)	138,774
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(13,727)	—	—	(17,788)	—	—	(17,788)
Adjustment items (income) (Note 3)	24	—	60,518	—	60,542	1,267	—	61,809
Adjustment items (costs) (Note 4)	—	29	(10)	(162)	(142)	(60)	—	(202)
Operating profit (loss)	46,979	75,488	64,979	123	187,570	(4,420)	(557)	182,593
Financial income								2,283
Financial costs								(12,148)
Profit before income taxes								172,727

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	2019
Gain on transfer of pharmaceutical licenses	－	60,518
Restructuring incomes	15,515	1,291
Other	990	－
Adjustment items (income)	16,505	61,809

Restructuring incomes for three months ended March 31, 2018 and 2019 mainly relate to gains on sale of real estate. The breakdown of restructuring incomes is described in “10. Other Operating Income.”

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	2019
Restructuring costs	3,253	52
Other	－	150
Adjustment items (costs)	3,253	202

The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

6. Cash and Cash Equivalents

The Group’s Iranian subsidiaries’ ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. The Group’s Canadian subsidiary, JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”) is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the “Companies’ Creditors Arrangement Act (CCAA).” “Cash and cash equivalents” as of March 31, 2019 includes cash and cash equivalents of ¥24,997 million and ¥13,056 million held by the Group’s Iranian subsidiaries and JTI-Mac, respectively.

7. Property, Plant and Equipment, Goodwill and Intangible Assets

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

(Millions of yen)

Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2019	758,841	2,008,416	503,076
Cumulative effect of changes in accounting policies	41,073	–	–
As of January 1, 2019, after cumulative effect of changes in accounting policies	799,914	2,008,416	503,076
Individual acquisition	31,021	–	3,833
Transfer to investment property	(36)	–	–
Depreciation or amortization	(24,197)	–	(21,497)
Impairment losses	(200)	–	–
Sale or disposal	(1,571)	–	(57)
Exchange differences on translation of foreign operations	(1,572)	12,619	6,053
Other	(2,064)	(10,035)	231
As of March 31, 2019	801,296	2,010,999	491,639

8. Dividends

Dividends paid for each interim period are as follows:

Three months ended March 31, 2018

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

Three months ended March 31, 2019

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Annual Shareholders’ Meeting (March 20, 2019)	Ordinary shares	134,357	75	December 31, 2018	March 22, 2019

9. Revenue

(1) Disaggregation of Revenue

The disaggregation of "Revenue" for each interim period is as follows. The amounts are presented after eliminations of intercompany transactions.

Three months ended March 31, 2018 (Millions of yen)

	Reportable Segments					
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharma-ceuticals	Processed Food	Other	Consolidated
Core revenue from tobacco business (Note 1)	129,327	294,798	—	—	—	424,125
Other	9,473	15,313	26,686	37,693	1,760	90,925
Total	138,800	310,111	26,686	37,693	1,760	515,050

Three months ended March 31, 2019 (Millions of yen)

	Reportable Segments					
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharma-ceuticals	Processed Food	Other	Consolidated
Core revenue from tobacco business (Note 1)	133,477	286,760	—	—	—	420,237
Other	11,189	13,604	22,787	35,980	1,625	85,185
Total	144,666	300,364	22,787	35,980	1,625	505,422

(Note 1) The "Domestic Tobacco Business" does not include revenue related to imported tobacco delivery charges. In addition, the "International Tobacco Business" does not include revenue related to the distribution business and contract manufacturing.

(Note 2) Revenues from RRP in core revenue from the "Domestic Tobacco Business" were ¥8,264 million and ¥12,373 million for the three months ended March 31, 2018 and 2019, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

(Note 3) Core revenue by cluster from the "International Tobacco Business" is as follows:

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
South and West Europe	56,202	56,381
North and Central Europe	53,080	53,101
CIS+	68,252	60,433
Rest-of-the-World	117,263	116,845
Total	294,798	286,760

South and West Europe includes France, Italy and Spain. North and Central Europe includes Germany and the United Kingdom. CIS+ includes Romania and Russia. Rest-of-the-World includes Iran, Taiwan and Turkey.

(2) Gross Turnover

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gross turnover	1,769,488	1,770,276
Tobacco excise taxes and agency transaction amount	(1,254,439)	(1,264,854)
Revenue	515,050	505,422

10. Other Operating Income

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gain on transfer of pharmaceutical licenses	–	60,518
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	15,492	1,451
Other (Note)	2,153	1,237
Total	17,645	63,206

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gain on sale of property, plant and equipment, intangible assets and investment property	15,312	1,249
Other	203	43
Total	15,515	1,291

11. Selling, General and Administrative Expenses

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Advertising expenses	4,921	5,825
Promotion expenses	17,513	15,045
Commission	10,552	11,983
Employee benefit expenses (Note)	65,989	68,622
Research and development expenses	14,619	16,304
Depreciation and amortization	21,146	26,488
Impairment losses on other than financial assets (Note)	476	200
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	3,042	1,983
Other (Note)	31,385	27,775
Total	169,643	174,224

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Employee benefit expenses	278	(28)
Impairment losses on other than financial assets	318	(2)
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	1,885	80
Other	771	3
Total	3,253	52

12. Financial Income and Financial Costs

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

Three months ended March 31, 2018 and 2019 (Millions of yen)

Financial Income	2018	**2019**
Dividend income	1,149	1,124
Interest income	612	1,085
Other	3	74
Total	1,764	2,283

Three months ended March 31, 2018 and 2019 (Millions of yen)

Financial Costs	2018	**2019**
Interest expenses (Note 1)	3,352	6,650
Foreign exchange losses (Note 2)	3,557	4,009
Employee benefit expenses (Note 3)	728	719
Other	1,010	771
Total	8,648	12,148

(Note 1) Valuation gain (loss) of interest rate derivatives is included in interest expenses.
(Note 2) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.
(Note 3) Employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

13. Interim Earnings per Share

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Profit for the period attributable to owners of the parent company	104,011	120,840
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	104,011	120,840

B. Weighted-average Number of Ordinary Shares Outstanding During the Period

Three months ended March 31, 2018 and 2019 (Thousands of shares)

	2018	**2019**
Weighted-average number of shares during the period	1,791,073	1,785,979

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Three months ended March 31, 2018 and 2019 (Millions of yen)

	2018	**2019**
Profit for the period used for calculation of basic interim earnings per share	104,011	120,840
Adjustment	(0)	—
Profit for the period used for calculation of diluted interim earnings per share	104,011	120,840

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

Three months ended March 31, 2018 and 2019 (Thousands of shares)

	2018	**2019**
Weighted-average number of ordinary shares during the period	1,791,073	1,785,979
Increased number of ordinary shares under subscription rights to shares	1,001	745
Weighted-average number of diluted ordinary shares during the period	1,792,074	1,786,724

14. Financial Instruments

(Fair Value of Financial Instruments)

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

(Millions of yen)

	As of December 31, 2018		**As of March 31, 2019**	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	129,313	129,978	127,954	129,724
Bonds	610,444	606,495	610,596	617,221

(Note) Current portion is included.

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

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

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

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

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

As of December 31, 2018 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	−	8,653	−	8,653
Equity securities	58,847	−	5,837	64,684
Other	401	11,025	4,514	15,940
Total	59,248	19,677	10,351	89,277
Derivative liabilities	−	3,176	−	3,176
Total	−	3,176	−	3,176

As of March 31, 2019 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	−	3,977	−	3,977
Equity securities	60,006	−	5,919	65,925
Other	445	12,681	4,721	17,847
Total	60,451	16,658	10,640	87,749
Derivative liabilities	−	9,151	−	9,151
Total	−	9,151	−	9,151

15. Commitments

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

(Millions of yen)

	As of December 31, 2018	**As of March 31, 2019**
Acquisition of property, plant and equipment	54,030	51,365

16. Contingencies

As of March 31 2019, there are no significant changes to the matters described in the consolidated financial statements for the year ended December 31, 2018.

17. Subsequent Events

No items to report

2. Others
No items to report

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

April 26, 2019

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi (Seal)

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

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

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2019, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements, and for such internal control as management determines is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan.

A review consists primarily of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical procedures and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

We believe that we have obtained the evidence to provide a basis for our conclusion.

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the three-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.