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

[Cover]

Document to be filed:	Quarterly Securities Report
Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	August 1, 2019
Quarterly accounting period:	Second quarter of the 35th term (from April 1, 2019 to June 30, 2019)
Company name (Japanese):	日本たばこ産業株式会社 (*Nihon Tabako Sangyo Kabushiki-Kaisha*)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, President, Chief Executive Officer and Representative Director
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Contact person:	Kei Nakano, Senior Vice President, Communications
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	Six months ended June 30, 2018	Six months ended June 30, 2019	34th term
Accounting period	From January 1, 2018 to June 30, 2018	From January 1, 2019 to June 30, 2019	From January 1, 2018 to December 31, 2018
Revenue [Second quarter] (Millions of yen)	1,075,271 [560,221]	1,058,549 [553,127]	2,215,962
Profit before income taxes (Millions of yen)	290,367	290,618	531,486
Profit for the period (Millions of yen)	217,560	238,424	387,431
Profit attributable to owners of the parent company [Second quarter] (Millions of yen)	216,093 [112,081]	226,451 [105,611]	385,677
Comprehensive income (loss) for the period (Millions of yen)	44,911	210,948	129,302
Total equity (Millions of yen)	2,751,442	2,726,015	2,700,445
Total assets (Millions of yen)	4,996,058	5,467,263	5,461,400
Basic earnings per share [Second quarter] (Yen)	120.64 [62.57]	127.23 [59.54]	215.31
Diluted earnings per share (Yen)	120.58	127.18	215.20
Ratio of equity attributable to owners of the parent company to total assets (%)	53.66	48.39	48.17
Net cash flows from operating activities (Millions of yen)	229,158	221,938	461,389
Net cash flows from investing activities (Millions of yen)	(60,815)	(82,263)	(383,307)
Net cash flows from financing activities (Millions of yen)	(208,915)	(104,044)	(62,360)
Cash and cash equivalents at the end of the period (Millions of yen)	237,353	309,159	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 six months ended June 30, 2019, there were no material changes in the business of the Group (the Company, 225 consolidated subsidiaries and 10 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 six months ended June 30, 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.
Based on the Financial System Council tobacco business subcommittee's "Review of Warning Labels Regulations / Advertising Regulations" (published on December 28, 2018), which was described in the "II. Review of operations, 2. Business and other risks, (2) Risks relating to the Group's tobacco business, d. Regulations on tobacco products" of the previous fiscal year's Annual Securities Report, partial amendments of ordinances (the Ordinance for Enforcement of the Tobacco Business Act), advertising regulations, and related notices were promulgated on June 14, 2019. In response, the Tobacco Institute of Japan's voluntary standards regarding the advertising and sales promotion activities for tobacco products, with which the Company complies, were revised on the same day (June 14, 2019).

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 June 30, 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, little cigars and the like, 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.

(Cigarette Volume of Domestic Tobacco Business)

From the six months ended June 30, 2019, cigarette volume in the Domestic Tobacco Business includes little cigars, and the comparative results of the same period of the previous year are retrospectively adjusted. Measures affected by this adjustment are cigarette industry volume, cigarette sales volume, cigarette market share and RRP market share. Among these, figures for cigarette industry volume, cigarette market share, and RRP market share were estimated by the Company.
Little cigars are products that use cigarette paper made from tobacco leaves and are rolled in the same shape as cigarettes. They are categorized as cigars under the Tobacco Business Act.

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)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
Revenue	1,075.3	1,058.5	(1.6)%
Adjusted operating profit	317.8	287.8	(9.4)%
Operating profit	302.3	311.3	3.0%
Profit attributable to owners of the parent company	216.1	226.5	4.8%

<Revenue>

Revenue decreased by 1.6% from the same period of the previous year to ¥1,058.5 billion due to the impact of lower cigarette sales volume in the Domestic Tobacco Business, unfavorable foreign exchange effects of local currencies against the U.S. dollar in the International Tobacco Business, a decrease in revenue in the Pharmaceutical Business due mainly to the impact of the termination of the exclusive license agreements for six anti-HIV drugs in Japan, and a decrease in revenue in the Processed Food Business, 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 5.9% from the same period of the previous year, with declines in the Pharmaceutical Business being offset by increases in the Domestic Tobacco Business, International Tobacco Business and the Processed Food Business. Adjusted operating profit including foreign exchange effects decreased by 9.4% from the same period of the previous year to ¥287.8 billion, due to unfavorable foreign exchange effects of local currencies against the U.S. Dollar in the International Tobacco Business.

<Operating profit>

Operating profit increased by 3.0% from the same period of the previous year to ¥311.3 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 4.8% from the same period of the previous year to ¥226.5 billion due to an increase in operating profit and the reduced tax rate.

b. Operating segments

Domestic Tobacco Business

(Billions of cigarettes, Billions of yen)

Domestic Tobacco Business	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
Cigarette industry volume (Note 1)	66.0	61.2	(7.2)%
Sales volume (Note 2)	40.4	37.3	(7.5)%
Core revenue	272.2	282.3	3.7%
Adjusted operating profit	103.5	109.2	5.5%

<JT cigarette sales volume>

Cigarette industry volume fell 7.2% from the same period of the previous year as a result of impact of the fixed price revision in October 2018, expansion of the RRP market and the downtrend in total demand, among other factors. Cigarette market share of the Company decreased by 0.2ppt from the same period of the previous year to 61.0% due to intensified competition among low-end products although Camel took advantage of consumer downtrading to increase its sales. As a result, JT cigarette sales volume also fell by 7.5% from the same period of the previous year.

<RRP sales results>

The share of RRP in the domestic tobacco market was mid-22% range (shipment base). The Company’s RRP sales volume rose by 0.6 billion cigarettes from the same period of the previous year to 1.4 billion cigarette equivalent units. The market share of the Company based on consumer off-take was about 8%.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business grew by 3.7% 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.

RRP-related revenue increased by ¥9.2 billion from the same period of the previous year to ¥30.4 billion.

Adjusted operating profit increased by 5.5% 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 the figure stated above includes little cigars but excludes RRP and the like.

(Note: 2) In addition to the figure stated above for sales volume, during the six months ended June 30, 2019, 2.0 billion cigarettes were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company’s China Division (2.0 billion cigarettes in the same period of the previous year). Note also that the figure stated above includes little cigars but excludes RRP and the like.

International Tobacco Business

(Billions of cigarettes, Billions of yen)

International Tobacco Business	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
Total shipment volume (Note 3)	205.6	222.5	8.2%
GFB shipment volume (Note 4)	130.6	136.3	4.4%
Core revenue	620.0	607.5	(2.0)%
Adjusted operating profit	214.3	185.4	(13.5)%

(Millions of U.S. dollar)

International Tobacco Business [U.S. dollar-based]	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
Core revenue	5,705	5,520	(3.2)% [8.5%]
Adjusted operating profit	1,971	1,685	(14.5)% [9.3%]

* 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 8.2% 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 and positive effects from trade inventory adjustments, 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 various markets such as Iran, Sudan, Taiwan and also in many European markets, was not enough to compensate for the effects of declines in total demand in areas such as U.K., France, and Russia.

GFB shipment volume rose by 4.4% from the same period of the previous year, as a result of firm growth of all GFBs such as Winston (+2.2%), Camel (+6.9%), MEVIUS (+4.0%) and LD (+8.6%).

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit decreased by 2.0% and 13.5%, 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 3.2% 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 Ukraine, Canada, Germany and the Philippines. At constant rates of exchange, it increased by 8.5% from the same period of the previous year.

Dollar-based adjusted operating profit including foreign exchange effects fell by 14.5% from the same period of the previous year due to unfavorable foreign exchange effects, despite the effects of favorable pricing and other factors. At constant rates of exchange, it increased by 9.3% 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)

	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
South and West Europe			
Total shipment volume (Note 3)	32.8	33.3	1.5%
GFB shipment volume (Note 4)	26.6	27.0	1.5%
Core revenue	115.3	113.5	(1.6)%
Core revenue [U.S. dollar-based]	1,061	1,031	(2.8)% [3.7%]
North and Central Europe			
Total shipment volume (Note 3)	26.0	27.1	3.9%
GFB shipment volume (Note 4)	11.6	13.6	17.7%
Core revenue	114.5	114.4	(0.1)%
Core revenue [U.S. dollar-based]	1,054	1,040	(1.3)% [5.8%]
CIS+			
Total shipment volume (Note 3)	61.4	63.5	3.4%
GFB shipment volume (Note 4)	46.3	44.3	(4.4)%
Core revenue	149.4	143.2	(4.2)%
Core revenue [U.S. dollar-based]	1,375	1,301	(5.4)% [2.7%]
Rest-of-the-World			
Total shipment volume (Note 3)	85.5	98.7	15.5%
GFB shipment volume (Note 4)	46.1	51.4	11.5%
Core revenue	240.7	236.4	(1.8)%
Core revenue [U.S. dollar-based]	2,215	2,148	(3.0)% [15.6%]

* 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	Six months ended June 30, 2018	Six months ended June 30, 2019	Change	
USD/¥	108.67	110.06	1.39	1.3% depreciation
USD/RUB	59.34	65.34	6.00	9.2% depreciation
USD/GBP	0.73	0.77	0.05	6.0% depreciation
USD/EUR	0.83	0.89	0.06	6.6% depreciation
USD/CHF	0.97	1.00	0.03	3.3% depreciation
USD/TWD	29.53	30.96	1.43	4.6% depreciation
USD/TRY	4.08	5.62	1.53	27.3% depreciation
USD/IRR	44,974	96,571	51,597	53.4% depreciation

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
Revenue	53.2	41.8	(21.4)%
Adjusted operating profit	11.4	5.7	(49.8)%

<Revenue and adjusted operating profit>

Revenue decreased by 21.4% from the same period of the previous year due mainly to the impact of the termination of the exclusive license agreements for six anti-HIV drugs in Japan.

Adjusted operating profit decreased by 49.8% from the same period of the previous year due to a decrease in revenue.

Processed Food Business

(Billions of yen)

Processed Food Business	Six months ended June 30, 2018	Six months ended June 30, 2019	Change
Revenue	77.0	75.4	(2.1)%
Adjusted operating profit	1.4	1.6	11.6%

<Revenue and adjusted operating profit>

Despite growth in sales of staple food products and seasonings, revenue decreased by 2.1% from the previous fiscal year because it could not offset the effect mainly arising from a decline in sales of low-margin products.

Adjusted operating profit increased by 11.6% from the same period of the previous year due to the effect of price amendment, improvements in the product mix, and cost-reduction, despite higher raw material costs and logistics costs.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets at the end of the six months ended June 30, 2019 increased by ¥5.9 billion from the end of the previous fiscal year to ¥5,467.3 billion. This was mainly due to an increase in right-of-use assets resulting from the application of IFRS 16 despite amortization of intangible assets and a decrease in goodwill.

Liabilities

Total liabilities at the end of the six months ended June 30, 2019 decreased by ¥19.7 billion from the end of the previous fiscal year to ¥2,741.2 billion. This was mainly due to a decrease in trade and other payables and a decrease due to the payment of tobacco excise tax payables, despite 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 six months ended June 30, 2019 increased by ¥25.6 billion from the end of the previous fiscal year to ¥2,726.0 billion. This was mainly due to an increase in retained earnings as a result of the recording of profit attributable to owners of the parent company, despite the decline in equity caused mainly by the payment of cash dividends and acquisition of treasury shares.

b. Cash flow position

Cash and cash equivalents at the end of the six months ended June 30, 2019 increased by ¥27.1 billion from the end of the previous fiscal year to ¥309.2 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥237.4 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the six months ended June 30, 2019 were ¥221.9 billion, compared with ¥229.2 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 six months ended June 30, 2019 were ¥82.3 billion, compared with ¥60.8 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 six months ended June 30, 2019 were ¥104.0 billion, compared with ¥208.9 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 six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2019, were ¥32.4 billion.

During the six months ended June 30, 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) 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 June 30, 2019 accounted for ¥610.4 billion and ¥599.3 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥129.3 billion and ¥126.8 billion respectively.

Short-term debt

Short-term borrowings from financial institutions totaled ¥166.0 billion as of December 31, 2018 and ¥294.7 billion as of June 30, 2019. Commercial paper outstanding totaled ¥72.0 billion as of December 31, 2018 and ¥28.5 billion as of June 30, 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 June 30, 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 second quarter ended June 30, 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 June 30, 2019)	Number of shares issued (Share; as of the date of filing: August 1, 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)
April 1, 2019 to June 30, 2019	–	2,000,000	–	100,000	–	736,400

(5) Status of Major Shareholders

(As of June 30, 2019)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (excluding treasury shares) (%)
Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,926,200	37.60
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	84,365,000	4.76
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	63,726,244	3.59
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo, Japan	26,451,200	1.49
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	24,528,300	1.38
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	23,660,000	1.33
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo, Japan	22,744,400	1.28
JPMorgan Chase Bank 385151 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	20,847,317	1.18
State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	20,599,432	1.16
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	One Lincoln Street, Boston MA USA 02111 (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan)	19,649,061	1.11
Total	–	973,497,154	54.88

Note: In addition to the above, the Company held 226,242,386 shares of ordinary shares as treasury shares.

(6) Status of Voting Rights

a. Shares issued

(As of June 30, 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 226,242,300	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,645,100	17,736,451	(Note 2)
Shares less than one unit	Ordinary shares 112,600	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,736,451	–

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 86 shares of treasury shares.

b. Treasury shares

(As of June 30, 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	226,242,300	–	226,242,300	11.31
Total	–	226,242,300	–	226,242,300	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 six months ended June 30, 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 this second quarter period (from April 1, 2019 to June 30, 2019) and for the six months ended June 30, 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 June 30, 2019**
Assets		
Current assets		
Cash and cash equivalents (Note 6)	282,063	309,159
Trade and other receivables	456,591	464,430
Inventories	649,238	636,739
Other financial assets	35,633	24,378
Other current assets	385,872	409,568
Subtotal	1,809,396	1,844,275
Non-current assets held-for-sale	10	18,774
Total current assets	1,809,406	1,863,049
Non-current assets		
Property, plant and equipment (Note 7)	758,841	793,071
Goodwill (Note 7)	2,008,416	1,974,305
Intangible assets (Note 7)	503,076	465,830
Investment property	17,558	17,635
Retirement benefit assets	57,140	56,755
Investments accounted for using the equity method	66,807	48,030
Other financial assets	115,046	123,664
Deferred tax assets	125,109	124,925
Total non-current assets	3,651,993	3,604,214
Total assets	5,461,400	5,467,263

(Millions of yen)

	As of December 31, 2018	**As of June 30, 2019**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	380,516	348,015
Bonds and borrowings	250,466	334,973
Income tax payables	72,449	57,879
Other financial liabilities	4,486	19,076
Provisions	6,078	4,592
Other current liabilities	716,190	676,689
Total current liabilities	1,430,185	1,441,224
Non-current liabilities		
Bonds and borrowings	727,314	714,345
Other financial liabilities	10,067	39,223
Retirement benefit liabilities	321,838	308,726
Provisions	3,780	3,782
Other non-current liabilities	179,274	151,375
Deferred tax liabilities	88,497	82,573
Total non-current liabilities	1,330,770	1,300,024
Total liabilities	2,760,955	2,741,248
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(442,829)	(492,569)
Other components of equity	(423,357)	(451,132)
Retained earnings	2,660,381	2,752,759
Equity attributable to owners of the parent company	2,630,594	2,645,458
Non-controlling interests	69,851	80,557
Total equity	2,700,445	2,726,015
Total liabilities and equity	5,461,400	5,467,263

(2) Condensed Interim Consolidated Statement of Income

(For the six-month period)

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Revenue (Notes 5, 9)	1,075,271	1,058,549
Cost of sales	(443,511)	(448,420)
Gross profit	631,760	610,129
Other operating income (Note 10)	18,775	66,494
Share of profit in investments accounted for using the equity method	2,947	2,606
Selling, general and administrative expenses (Note 11)	(351,152)	(367,903)
Operating profit (Note 5)	302,330	311,326
Financial income (Note 12)	2,976	4,109
Financial costs (Note 12)	(14,939)	(24,817)
Profit before income taxes	290,367	290,618
Income taxes	(72,807)	(52,194)
Profit for the period	217,560	238,424
Attributable to		
Owners of the parent company	216,093	226,451
Non-controlling interests	1,468	11,972
Profit for the period	217,560	238,424
Interim earnings per share		
Basic (Yen) (Note 13)	120.64	127.23
Diluted (Yen) (Note 13)	120.58	127.18

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

(Millions of yen)

	2018	**2019**
Operating profit	302,330	311,326
Amortization cost of acquired intangibles arising from business acquisitions	28,973	34,673
Adjustment items (income)	(16,890)	(63,748)
Adjustment items (costs)	3,398	5,545
Adjusted operating profit (Note 5)	317,812	287,796

(For the three-month period)

Three months ended June 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Revenue (Note 5)	560,221	553,127
Cost of sales	(226,728)	(235,865)
Gross profit	333,493	317,262
Other operating income	1,129	3,289
Share of profit in investments accounted for using the equity method	2,442	1,861
Selling, general and administrative expenses	(181,508)	(193,679)
Operating profit (Note 5)	155,555	128,733
Financial income	1,215	1,826
Financial costs	(6,295)	(12,669)
Profit before income taxes	150,476	117,890
Income taxes	(37,409)	(13,152)
Profit for the period	113,067	104,739
Attributable to		
Owners of the parent company	112,081	105,611
Non-controlling interests	985	(872)
Profit for the period	113,067	104,739
Interim earnings per share		
Basic (Yen) (Note 13)	62.57	59.54
Diluted (Yen) (Note 13)	62.54	59.52

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

(Millions of yen)

	2018	**2019**
Operating profit	155,555	128,733
Amortization cost of acquired intangibles arising from business acquisitions	14,438	16,886
Adjustment items (income)	(384)	(1,939)
Adjustment items (costs)	145	5,342
Adjusted operating profit (Note 5)	169,755	149,021

(3) Condensed Interim Consolidated Statement of Comprehensive Income

(For the six-month period)

Six months ended June 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Profit for the period	217,560	238,424
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(4,293)	(2,067)
Remeasurements of defined benefit plans	(2,790)	—
Total of items that will not be reclassified to profit or loss	(7,083)	(2,067)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(165,363)	(25,318)
Net gain (loss) on derivatives designated as cash flow hedges	(203)	(91)
Total of items that may be reclassified subsequently to profit or loss	(165,566)	(25,408)
Other comprehensive income (loss), net of taxes	(172,649)	(27,476)
Comprehensive income (loss) for the period	44,911	210,948
Attributable to		
Owners of the parent company	44,005	199,375
Non-controlling interests	907	11,573
Comprehensive income (loss) for the period	44,911	210,948

(For the three-month period)

Three months ended June 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Profit for the period	113,067	104,739
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	2,185	(3,054)
Remeasurements of defined benefit plans	(2,767)	—
Total of items that will not be reclassified to profit or loss	(582)	(3,054)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(55,493)	(48,054)
Net gain (loss) on derivatives designated as cash flow hedges	(301)	238
Total of items that may be reclassified subsequently to profit or loss	(55,794)	(47,816)
Other comprehensive income (loss), net of taxes	(56,376)	(50,870)
Comprehensive income (loss) for the period	56,691	53,869
Attributable to		
Owners of the parent company	55,474	55,149
Non-controlling interests	1,216	(1,280)
Comprehensive income (loss) for the period	56,691	53,869

(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)	–	–	–	–	(164,810)	(203)	(4,286)
Comprehensive income (loss) for the period	–	–	–	–	(164,810)	(203)	(4,286)
Acquisition of treasury shares	–	–	(0)	–	–	–	–
Disposal of treasury shares	–	–	639	(575)	–	–	–
Share-based payments	–	–	–	32	–	–	–
Dividends (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	–	–	–	–	–	–	(566)
Other increase (decrease)	–	–	–	–	–	132	–
Total transactions with the owners	–	–	639	(543)	–	132	(566)
As of June 30, 2018	100,000	736,400	(442,996)	1,421	(372,694)	(160)	33,819
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)	–	–	–	–	(24,833)	(91)	(2,153)
Comprehensive income (loss) for the period	–	–	–	–	(24,833)	(91)	(2,153)
Acquisition of treasury shares	–	–	(50,000)	–	–	–	–
Disposal of treasury shares	–	–	261	(216)	–	–	–
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	–	–	–	–	–	–	(347)
Other increase (decrease)	–	–	–	–	–	(160)	–
Total transactions with the owners	–	–	(49,740)	(191)	–	(160)	(347)
As of June 30, 2019	100,000	736,400	(492,569)	1,356	(479,751)	192	27,070

(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	—	—	216,093	216,093	1,468	217,560
Other comprehensive income (loss)	(2,790)	(172,088)	—	(172,088)	(561)	(172,649)
Comprehensive income (loss) for the period	(2,790)	(172,088)	216,093	44,005	907	44,911
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(575)	(64)	0	—	0
Share-based payments	—	32	2	34	36	69
Dividends (Note 8)	—	—	(125,373)	(125,373)	(1,245)	(126,618)
Changes in the scope of consolidation	—	—	—	—	61	61
Changes in the ownership interest in a subsidiary without a loss of control	—	—	416	416	(9,556)	(9,140)
Transfer from other components of equity to retained earnings	2,790	2,224	(2,224)	—	—	—
Other increase (decrease)	—	132	—	132	—	132
Total transactions with the owners	2,790	1,812	(127,243)	(124,792)	(10,704)	(135,496)
As of June 30, 2018	—	(337,614)	2,625,111	2,680,900	70,542	2,751,442
As of January 1, 2019	—	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	—	—	226,451	226,451	11,972	238,424
Other comprehensive income (loss)	—	(27,077)	—	(27,077)	(399)	(27,476)
Comprehensive income (loss) for the period	—	(27,077)	226,451	199,375	11,573	210,948
Acquisition of treasury shares	—	—	—	(50,000)	—	(50,000)
Disposal of treasury shares	—	(216)	(44)	0	—	0
Share-based payments	—	26	(19)	7	47	54
Dividends (Note 8)	—	—	(134,357)	(134,357)	(915)	(135,272)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	1	0
Transfer from other components of equity to retained earnings	—	(347)	347	—	—	—
Other increase (decrease)	—	(160)	—	(160)	—	(160)
Total transactions with the owners	—	(698)	(134,073)	(184,511)	(867)	(185,378)
As of June 30, 2019	—	(451,132)	2,752,759	2,645,458	80,557	2,726,015

(5) Condensed Interim Consolidated Statement of Cash Flows

Six months ended June 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Cash flows from operating activities		
Profit before income taxes	290,367	290,618
Depreciation and amortization	76,396	91,252
Impairment losses	737	539
Interest and dividend income	(2,976)	(3,906)
Interest expense	6,958	14,247
Share of profit in investments accounted for using the equity method	(2,947)	(2,606)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(14,068)	113
(Increase) decrease in trade and other receivables	(18,181)	(17,648)
(Increase) decrease in inventories	(20,421)	1,802
Increase (decrease) in trade and other payables	(39,025)	(25,455)
Increase (decrease) in retirement benefit liabilities	(12,554)	(7,986)
(Increase) decrease in prepaid tobacco excise taxes	(11,128)	(4,296)
Increase (decrease) in tobacco excise tax payables	57,237	(23,138)
Increase (decrease) in consumption tax payables	6,672	25,719
Other	(29,408)	(36,331)
Subtotal	287,659	302,925
Interest and dividends received	7,104	8,794
Interest paid	(7,274)	(11,195)
Income taxes paid	(58,332)	(78,586)
Net cash flows from operating activities	229,158	221,938
Cash flows from investing activities		
Purchase of securities	(15,841)	(20,413)
Proceeds from sale and redemption of securities	2,516	23,933
Purchase of property, plant and equipment	(59,708)	(52,230)
Proceeds from sale of investment property	22,692	2,685
Purchase of intangible assets	(9,744)	(8,068)
Payments into time deposits	(57)	(262)
Proceeds from withdrawal of time deposits	37	193
Subsequent payments for past fiscal years' business combinations	(723)	(28,710)
Other	14	609
Net cash flows from investing activities	(60,815)	(82,263)

(Millions of yen)

	2018	**2019**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(125,354)	(134,320)
Dividends paid to non-controlling interests	(954)	(1,011)
Capital contribution from non-controlling interests	5	81
Increase (decrease) in short-term borrowings and commercial paper	(73,564)	88,748
Proceeds from long-term borrowings	1,634	—
Repayments of long-term borrowings	(578)	(521)
Repayments of lease liabilities	(849)	(7,020)
Acquisition of treasury shares	(0)	(50,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(9,255)	(1)
Other	0	0
Net cash flows from financing activities	(208,915)	(104,044)
Net increase (decrease) in cash and cash equivalents	(40,573)	35,631
Cash and cash equivalents at the beginning of the period	285,486	282,063
Effect of exchange rate changes on cash and cash equivalents	(7,561)	(8,535)
Cash and cash equivalents at the end of the period (Note 6)	237,353	309,159

Notes to Condensed Interim Consolidated Financial Statements
Six months ended June 30, 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 June 30, 2019 and for the six-month period ended June 30, 2019 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on July 31, 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 Judgments

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.

(For the six-month period)

Six months ended June 30, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	290,704	650,899	53,203	77,030	1,071,836	3,434	—	1,075,271
Intersegment revenue	4,019	13,086	—	0	17,105	2,954	(20,059)	—
Total revenue	294,724	663,985	53,203	77,030	1,088,942	6,388	(20,059)	1,075,271
Segment profit (loss)								
Adjusted operating profit (Note 1)	103,525	214,305	11,373	1,435	330,638	(13,049)	223	317,812

Six months ended June 30, 2019

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	302,723	635,651	41,807	75,423	1,055,604	2,945	—	1,058,549
Intersegment revenue	3,607	15,900	—	0	19,508	3,738	(23,245)	—
Total revenue	306,331	651,550	41,807	75,423	1,075,112	6,683	(23,245)	1,058,549
Segment profit (loss)								
Adjusted operating profit (Note 1)	109,198	185,406	5,714	1,601	301,918	(13,893)	(230)	287,796

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

Six months ended June 30, 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)	103,525	214,305	11,373	1,435	330,638	(13,049)	223	317,812
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(20,850)	—	—	(28,973)	—	—	(28,973)
Adjustment items (income) (Note 3)	1	1,565	—	19	1,584	15,305	—	16,890
Adjustment items (costs) (Note 4)	(286)	398	—	(5)	107	(3,505)	—	(3,398)
Operating profit (loss)	95,117	195,417	11,373	1,449	303,356	(1,249)	223	302,330
Financial income								2,976
Financial costs								(14,939)
Profit before income taxes								290,367

Six months ended June 30, 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)	109,198	185,406	5,714	1,601	301,918	(13,893)	(230)	287,796
Amortization cost of acquired intangibles arising from business acquisitions	(8,122)	(26,551)	—	—	(34,673)	—	—	(34,673)
Adjustment items (income) (Note 3)	24	804	61,018	—	61,845	1,903	—	63,748
Adjustment items (costs) (Note 4)	—	(938)	(4,225)	(172)	(5,335)	(210)	—	(5,545)
Operating profit (loss)	101,099	158,721	62,507	1,429	323,756	(12,199)	(230)	311,326
Financial income								4,109
Financial costs								(24,817)
Profit before income taxes								290,618

(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:

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gain on transfer of pharmaceutical licenses	—	60,518
Restructuring incomes	15,838	2,451
Other	1,052	780
Adjustment items (income)	16,890	63,748

Restructuring incomes for six months ended June 30, 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:

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Restructuring costs	3,398	5,389
Other	—	156
Adjustment items (costs)	3,398	5,545

Restructuring costs for six months ended June 30, 2019 mainly relate to business structure reform in the “Pharmaceutical Business.” The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

(For the three-month period)

Three months ended June 30, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	151,904	340,789	26,517	39,337	558,547	1,674	―	560,221
Intersegment revenue	2,209	6,880	―	0	9,089	1,493	(10,582)	―
Total revenue	154,113	347,669	26,517	39,337	567,636	3,167	(10,582)	560,221
Segment profit (loss)								
Adjusted operating profit (Note 1)	54,583	118,019	3,676	729	177,008	(7,030)	(224)	169,755

Three months ended June 30, 2019

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	158,057	335,286	19,020	39,443	551,807	1,320	―	553,127
Intersegment revenue	1,736	7,806	―	0	9,542	2,234	(11,776)	―
Total revenue	159,793	343,092	19,020	39,443	561,349	3,554	(11,776)	553,127
Segment profit (loss)								
Adjusted operating profit (Note 1)	58,181	96,220	1,243	1,316	156,960	(8,266)	327	149,021

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

Three months ended June 30, 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)	54,583	118,019	3,676	729	177,008	(7,030)	(224)	169,755
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(10,377)	—	—	(14,438)	—	—	(14,438)
Adjustment items (income) (Note 3)	—	382	—	—	382	2	—	384
Adjustment items (costs) (Note 4)	(8)	379	—	(5)	366	(511)	—	(145)
Operating profit (loss)	50,514	108,403	3,676	725	163,318	(7,539)	(224)	155,555
Financial income								1,215
Financial costs								(6,295)
Profit before income taxes								150,476

Three months ended June 30, 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)	58,181	96,220	1,243	1,316	156,960	(8,266)	327	149,021
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(12,824)	—	—	(16,886)	—	—	(16,886)
Adjustment items (income) (Note 3)	—	804	500	—	1,304	636	—	1,939
Adjustment items (costs) (Note 4)	—	(967)	(4,215)	(10)	(5,193)	(150)	—	(5,342)
Operating profit (loss)	54,120	83,232	(2,472)	1,305	136,186	(7,779)	327	128,733
Financial income								1,826
Financial costs								(12,669)
Profit before income taxes								117,890

(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 June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Restructuring incomes	323	1,160
Other	62	780
Adjustment items (income)	384	1,939

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

Three months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Restructuring costs	145	5,337
Other	—	6
Adjustment items (costs)	145	5,342

Restructuring costs for three months ended June 30, 2019 mainly relate to business structure reform in the “Pharmaceutical Business.”

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 June 30, 2019 includes cash and cash equivalents of ¥31,344 million and ¥10,269 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	59,886	—	8,813
Transfer to investment property	(1,078)	—	—
Transfer to non-current assets held-for-sale	(29)	—	—
Depreciation or amortization	(48,942)	—	(42,050)
Impairment losses	(508)	—	(10)
Sale or disposal	(2,666)	—	(157)
Exchange differences on translation of foreign operations	(9,808)	(23,499)	(3,920)
Other	(3,699)	(10,612)	79
As of June 30, 2019	793,071	1,974,305	465,830

8. Dividends

Dividends paid for each interim period are as follows:

Six months ended June 30, 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

Six months ended June 30, 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

Dividends, for which the effective date falls in the following quarter period, are as follows:

Six months ended June 30, 2018

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Board of Directors (August 1, 2018)	Ordinary shares	134,351	75	June 30, 2018	September 3, 2018

Six months ended June 30, 2019

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Board of Directors (July 31, 2019)	Ordinary shares	136,579	77	June 30, 2019	September 2, 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.

Six months ended June 30, 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)	272,215	620,023	—	—	—	892,239
Other	18,489	30,876	53,203	77,030	3,434	183,032
Total	290,704	650,899	53,203	77,030	3,434	1,075,271

Six months ended June 30, 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)	282,339	607,509	—	—	—	889,848
Other	20,385	28,141	41,807	75,423	2,945	168,701
Total	302,723	635,651	41,807	75,423	2,945	1,058,549

(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 ¥21,190 million and ¥30,423 million for the six months ended June 30, 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:

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
South and West Europe	115,327	113,476
North and Central Europe	114,543	114,429
CIS+	149,444	143,186
Rest-of-the-World	240,709	236,419
Total	620,023	607,509

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:

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gross turnover	3,667,813	3,717,817
Tobacco excise taxes and agency transaction amount	(2,592,543)	(2,659,268)
Revenue	1,075,271	1,058,549

10. Other Operating Income

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

Six months ended June 30, 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)	15,852	2,265
Other (Note)	2,923	3,712
Total	18,775	66,494

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

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gain on sale of property, plant and equipment, intangible assets and investment property	15,324	1,880
Other	514	571
Total	15,838	2,451

11. Selling, General and Administrative Expenses

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

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Advertising expenses	11,202	13,537
Promotion expenses	42,027	39,751
Commission	23,730	24,863
Employee benefit expenses (Note)	130,250	141,570
Research and development expenses	31,599	32,416
Depreciation and amortization	41,775	52,188
Impairment losses on other than financial assets (Note)	737	539
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	4,407	3,116
Other (Note)	65,424	59,922
Total	351,152	367,903

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

Six months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Employee benefit expenses	54	4,752
Impairment losses on other than financial assets	524	125
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	2,273	192
Other	547	319
Total	3,398	5,389

12. Financial Income and Financial Costs

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

Six months ended June 30 2018 and 2019 (Millions of yen)

Financial Income	2018	**2019**
Dividend income	1,615	1,567
Interest income	1,360	2,339
Other	0	203
Total	2,976	4,109

Six months ended June 30, 2018 and 2019 (Millions of yen)

Financial Costs	2018	**2019**
Interest expenses (Note 1)	6,958	14,247
Foreign exchange losses (Note 2)	4,895	7,642
Employee benefit expenses (Note 3)	1,447	1,432
Other	1,640	1,495
Total	14,939	24,817

(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

(For the six-month period)

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Six months ended June 30, 2018 and 2019	2018	**2019**
(Millions of yen)		
Profit for the period attributable to owners of the parent company	216,093	226,451
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic interim earnings per share	216,093	226,451

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

Six months ended June 30, 2018 and 2019	2018	**2019**
(Thousands of shares)		
Weighted-average number of shares during the period	1,791,203	1,779,826

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Six months ended June 30, 2018 and 2019	2018	**2019**
(Millions of yen)		
Profit for the period used for calculation of basic interim earnings per share	216,093	226,451
Adjustment	(0)	—
Profit for the period used for calculation of diluted interim earnings per share	216,093	226,451

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

Six months ended June 30, 2018 and 2019	2018	**2019**
(Thousands of shares)		
Weighted-average number of ordinary shares during the period	1,791,203	1,779,826
Increased number of ordinary shares under subscription rights to shares	871	734
Weighted-average number of diluted ordinary shares during the period	1,792,074	1,780,560

(For the three-month period)

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Three months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Profit for the period attributable to owners of the parent company	112,081	105,611
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	112,081	105,611

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

Three months ended June 30, 2018 and 2019 (Thousands of shares)

	2018	**2019**
Weighted-average number of shares during the period	1,791,331	1,773,741

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Three months ended June 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Profit for the period used for calculation of basic interim earnings per share	112,081	105,611
Adjustment	(0)	–
Profit for the period used for calculation of diluted interim earnings per share	112,081	105,611

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

Three months ended June 30, 2018 and 2019 (Thousands of shares)

	2018	**2019**
Weighted-average number of ordinary shares during the period	1,791,331	1,773,741
Increased number of ordinary shares under subscription rights to shares	744	724
Weighted-average number of diluted ordinary shares during the period	1,792,074	1,774,465

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 June 30, 2019**	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	129,313	129,978	126,813	129,164
Bonds	610,444	606,495	599,321	614,673

(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 June 30, 2019 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	－	4,694	－	4,694
Equity securities	53,360	－	6,134	59,494
Other	443	5,739	5,098	11,281
Total	53,803	10,433	11,232	75,468
Derivative liabilities	－	5,474	－	5,474
Total	－	5,474	－	5,474

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 June 30, 2019**
Acquisition of property, plant and equipment	54,030	53,994

16. Contingencies

As of June 30, 2019, a significant change to the contingent liabilities described in the consolidated financial statements for the fiscal year ended December 31, 2018 is as follows:

Canada Ontario Health-Care Cost Recovery Litigation:

As described in the consolidated financial statements for the fiscal year ended December 31, 2018, the Province of Ontario filed a health-care cost recovery litigation in Canada in September 2009 against tobacco industry members, including JTI-Mac, the Company's Canadian subsidiary, and the Company's indemnitees.

On May 7, 2019, the Province of Ontario's motion to amend the amount claimed from ¥4,116.5 billion (CAD 50.0 billion) to ¥27,168.9 billion (CAD 330.0 billion) was approved by the Court. Under the Ontario Rules of Civil Procedure, the parties may amend their allegations. This amendment by the Province of Ontario is purely a procedural matter and does not indicate that the Court endorses the amount claimed.

Aside from this amendment, this case continues to be stayed, along with all of the Canadian matters against JTI-Mac following the Court order upon JTI-Mac's application for protection under the Companies' Creditors Arrangement Act.

17. Subsequent Events

No items to report

2. Others

(Dividends)

The Board of Directors, at a meeting held on July 31, 2019, declared the following interim dividends for the current fiscal year.

(a) Total amount of interim dividends ¥136,579 million

(b) Amount per share ¥77.00

(c) Effective date of requests for payment, and commencement date of payments September 2, 2019

(Note) Dividends shall be paid to shareholders registered or recorded on the shareholder registry as of June 30, 2019.

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

July 31, 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 June 30, 2019, and the related condensed interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the six-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 June 30, 2019, and the consolidated results of their operations for the three-month and six-month periods then ended and their cash flows for the six-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.