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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:	November 1, 2019
Quarterly accounting period:	Third quarter of the 35th term (from July 1, 2019 to September 30, 2019)
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Company name (English):	JAPAN TOBACCO INC.
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A. Company Information

I. Overview of the Group

1. Trends in Principal Management Benchmarks

Term	Nine months ended September 30, 2018	Nine months ended September 30, 2019	34th term
Accounting period	From January 1, 2018 to September 30, 2018	From January 1, 2019 to September 30, 2019	From January 1, 2018 to December 31, 2018
Revenue [Third quarter] (Millions of yen)	1,675,819 [600,548]	1,633,748 [575,198]	2,215,962
Profit before income taxes (Millions of yen)	449,402	411,564	531,486
Profit for the period (Millions of yen)	334,878	328,771	387,431
Profit attributable to owners of the parent company [Third quarter] (Millions of yen)	332,686 [116,593]	316,148 [89,697]	385,677
Comprehensive income (loss) for the period (Millions of yen)	153,784	254,435	129,302
Total equity (Millions of yen)	2,725,266	2,632,461	2,700,445
Total assets (Millions of yen)	5,347,070	5,267,857	5,461,400
Basic earnings per share [Third quarter] (Yen)	185.73 [65.09]	177.83 [50.57]	215.31
Diluted earnings per share (Yen)	185.64	177.75	215.20
Ratio of equity attributable to owners of the parent company to total assets (%)	49.64	48.45	48.17
Net cash flows from operating activities (Millions of yen)	427,618	257,770	461,389
Net cash flows from investing activities (Millions of yen)	(233,925)	(124,786)	(383,307)
Net cash flows from financing activities (Millions of yen)	(176,789)	(223,407)	(62,360)
Cash and cash equivalents at the end of the period (Millions of yen)	283,280	181,675	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 nine months ended September 30, 2019, there were no material changes in the business of the Group (the Company, 230 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 nine months ended September 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, Situation in Japan" 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).
In addition, with regard to the regulations of various countries described in "II. Review of operations, 2. Business and other risks, (2) Risks relating to the Group's tobacco business, d. Regulations on tobacco products, Situation overseas," in the U.S. in particular, there have been moves by the federal government and multiple state governments to consider, or to adopt, regulatory measures to ban the sale of flavored electronic cigarettes, and going forward there may be an increase in the number of regions and countries considering similar regulations.

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 September 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 second quarter 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)

	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
Revenue	1,675.8	1,633.7	(2.5)%
Adjusted operating profit	511.0	451.5	(11.6)%
Operating profit	477.1	440.6	(7.6)%
Profit attributable to owners of the parent company	332.7	316.1	(5.0)%

<Revenue>

Revenue decreased by 2.5% from the same period of the previous year to ¥1,633.7 billion due to the impact of lower cigarette sales volume in the Domestic Tobacco Business, unfavorable foreign exchange effects in the International Tobacco Business, a decrease in revenue in the Pharmaceutical Business due to 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 3.0% from the same period of the previous year, with declines in the Domestic Tobacco Business and the Pharmaceutical Business being offset by increases in the International Tobacco Business and the Processed Food Business. Adjusted operating profit including foreign exchange effects decreased by 11.6% from the same period of the previous year to ¥451.5 billion, due to unfavorable foreign exchange effects in the International Tobacco Business.

<Operating profit>

Although operating profit was boosted by the termination of exclusive license agreements for six anti-HIV drugs in Japan in the Pharmaceutical Business, the decline in adjusted operating profit, a smaller gain on sales of real estate, the increase in amortization cost of acquired intangibles arising from business acquisitions, and the recording of implementation expenses related to the transformation of business operation systems in the International Tobacco Business, etc., resulted in a year-on-year decrease of 7.6%, to ¥440.6 billion.

<Profit attributable to owners of the parent company>

Although temporary factors led to a reduced tax rate, profit attributable to owners of the parent company was affected by the decrease in operating profit and the deterioration of financial gain (loss), and declined by 5.0% from the same period of the previous year, to ¥316.1 billion.

b. Operating segments

Domestic Tobacco Business

(Billions of cigarettes, Billions of yen)

Domestic Tobacco Business	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
Cigarette industry volume (Note 1)	104.3	94.6	(9.3)%
Sales volume (Note 2)	64.2	57.4	(10.5)%
Core revenue	444.4	435.8	(1.9)%
Adjusted operating profit	172.8	165.4	(4.3)%

<JT cigarette sales volume>

Cigarette industry volume fell 9.3% 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. In addition, compared to the October 2018 increase in tobacco excise tax, the October 2019 increase in consumption tax resulted in a smaller rise in prices, so the one-off increase in demand ahead of the price increase was significantly lower in year-on-year terms, which was also a factor in the high rate of volume decline.

Cigarette market share of the Company decreased by 0.8ppt from the same period of the previous year to 60.7% due mainly to the effects of 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 10.5% from the same period of the previous year.

<RRP sales results> (Note 3)

The share of RRP in the domestic tobacco market was mid-22% range (shipment base). The Company’s RRP sales volume rose by 0.5 billion cigarettes from the same period of the previous year to 2.3 billion cigarette equivalent units. The market share of the Company based on consumer off-take was about 9%.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business fell by 1.9% from the same period of the previous fiscal year, with the effects of favorable cigarette pricing and an increase of RRP-related revenue, etc., not offsetting the impact of lower cigarette sales volume.

RRP-related revenue increased by ¥2.2 billion from the same period of the previous year to ¥48.2 billion.

Adjusted operating profit decreased by 4.3% from the same period of the previous year, due mainly to the impact of lower cigarette sales volume despite the effects of favorable cigarette pricing.

(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 nine months ended September 30, 2019, 3.1 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 (3.1 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.

(Note: 3) RRP sales volume is converted at the equivalent of 20 cigarettes per pack. The above figures do not include sales volume sold at duty-free shops in Japan. Also, RRP-related revenue includes revenue from duty-free shops in Japan and revenue from devices and associated accessories, etc.

International Tobacco Business

(Billions of cigarettes, Billions of yen)

International Tobacco Business	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
Total shipment volume (Note 4)	320.1	338.6	5.8%
GFB shipment volume (Note 5)	201.3	210.2	4.4%
Core revenue	953.2	941.6	(1.2)%
Adjusted operating profit	336.9	296.5	(12.0)%

(Millions of U.S. dollar)

International Tobacco Business [U.S. dollar-based]	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
Core revenue	8,695	8,632	(0.7)% [8.9%]
Adjusted operating profit	3,071	2,719	(11.5)% [10.2%]

* 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 5.8% 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 negative effects from trade inventory adjustments, total shipment volume declined by 0.4%, 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, Spain and Taiwan, was not enough to compensate for the effects of declines in total demand in areas such as Russia.

GFB shipment volume rose by 4.4% from the same period of the previous year, as a result of growth of all GFBs such as Winston (+3.0%), Camel (+6.3%), MEVIUS (+0.4%) and LD (+8.5%).

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit decreased by 1.2% and 12.0%, 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.

Dollar-based core revenue from the tobacco business including foreign exchange effects decreased by 0.7% 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, Turkey and the Philippines. At constant rates of exchange, it increased by 8.9% from the same period of the previous year.

Dollar-based adjusted operating profit including foreign exchange effects fell by 11.5% from the same period of the previous year due mainly to investment both in markets where we have made acquisitions and in RRPs, as well as unfavorable foreign exchange effects, despite the effects of favorable pricing and other factors. At constant rates of exchange, it increased by 10.2% from the same period of the previous year.

The Regional Breakdown of International Tobacco Business (Note 6)

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

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

	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
South and West Europe			
Total shipment volume (Note 4)	49.4	50.8	2.9%
GFB shipment volume (Note 5)	40.0	41.4	3.5%
Core revenue	173.6	171.5	(1.2)%
Core revenue [U.S. dollar-based]	1,584	1,571	(0.8)% [5.0%]
North and Central Europe			
Total shipment volume (Note 4)	40.1	41.9	4.5%
GFB shipment volume (Note 5)	18.1	21.3	18.1%
Core revenue	176.6	177.3	0.4%
Core revenue [U.S. dollar-based]	1,611	1,625	0.9% [7.4%]
CIS+			
Total shipment volume (Note 4)	99.6	99.2	(0.4)%
GFB shipment volume (Note 5)	71.7	68.7	(4.1)%
Core revenue	237.7	228.6	(3.8)%
Core revenue [U.S. dollar-based]	2,167	2,097	(3.2)% [2.2%]
Rest-of-the-World			
Total shipment volume (Note 4)	131.0	146.7	12.0%
GFB shipment volume (Note 5)	71.6	78.7	10.0%
Core revenue	365.3	364.2	(0.3)%
Core revenue [U.S. dollar-based]	3,333	3,338	0.2% [15.9%]

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

(Note: 4) Includes fine cut tobacco, cigars, pipe tobacco, snus and kretek, except for contract manufacturing products, waterpipe tobacco products and RRP.

(Note: 5) GFBs (Global Flagship Brands) consist of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS and LD.

(Note: 6) 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	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change	
USD/¥	109.60	109.12	(0.48)	0.4% appreciation
USD/RUB	61.41	65.08	3.67	5.6% depreciation
USD/GBP	0.74	0.79	0.05	5.8% depreciation
USD/EUR	0.84	0.89	0.05	5.9% depreciation
USD/CHF	0.97	1.00	0.02	2.3% depreciation
USD/TWD	29.90	31.03	1.13	3.6% depreciation
USD/TRY	4.60	5.63	1.03	18.4% depreciation
USD/IRR	53,867	102,297	48,430	47.3% depreciation

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
Revenue	81.8	63.3	(22.6)%
Adjusted operating profit	19.3	7.8	(59.4)%

<Revenue and adjusted operating profit>

Revenue decreased by 22.6% 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 and lower royalty revenue overseas.

Adjusted operating profit decreased by 59.4% from the same period of the previous year due to a decrease in revenue.

Processed Food Business

(Billions of yen)

Processed Food Business	Nine months ended September 30, 2018	Nine months ended September 30, 2019	Change
Revenue	117.2	114.8	(2.1)%
Adjusted operating profit	2.1	2.9	40.0%

<Revenue and adjusted operating profit>

Despite growth in sales of staple food products, revenue decreased by 2.1% from the previous fiscal year due mainly to the effect arising from a decline in sales of low-margin products.

Despite declines in revenue and increases in raw material costs and logistics costs, adjusted operating profit increased by 40.0% from the same period of the previous fiscal year, helped by the effects of price amendment, as well as profitability enhancement initiatives such as improvements in the product mix and cost reductions.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets at the end of the nine months ended September 30, 2019 decreased by ¥193.5 billion from the end of the previous fiscal year to ¥5,267.9 billion. This was mainly due to the decline caused by a decrease in cash arising from the payment of cash dividends, amortization of intangible assets, and foreign exchange effects, despite an increase in right-of-use assets resulting from the application of IFRS 16.

Liabilities

Total liabilities at the end of the nine months ended September 30, 2019 decreased by ¥125.6 billion from the end of the previous fiscal year to ¥2,635.4 billion. This was mainly due to the decline caused by the payment of tobacco excise tax payables and foreign exchange effects, despite increased demand for working capital and a rise in short-term borrowings obtained in association with acquisition of treasury shares.

Equity

Total equity at the end of the nine months ended September 30, 2019 decreased by ¥68.0 billion from the end of the previous fiscal year to ¥2,632.5 billion. This was mainly due to the decline caused by the payment of cash dividends, the acquisition of treasury shares and foreign exchange effects, despite an increase in retained earnings as a result of the recording of profit attributable to owners of the parent company.

b. Cash flow position

Cash and cash equivalents at the end of the nine months ended September 30, 2019 decreased by ¥100.4 billion from the end of the previous fiscal year to ¥181.7 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥283.3 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the nine months ended September 30, 2019 were ¥257.8 billion, compared with ¥427.6 billion provided in the same period of the previous year. This was mainly due to payments of national and international tobacco excise taxes and income taxes, despite the generation of a stable cash inflow from the tobacco business.

The last day of the previous fiscal year was a holiday for financial institutions. As a result, the amount of national tobacco excise tax payable for the nine months ended September 30, 2019 is for ten months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the nine months ended September 30, 2019 were ¥124.8 billion, compared with ¥233.9 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 nine months ended September 30, 2019 were ¥223.4 billion, compared with ¥176.8 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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2019 were ¥48.5 billion.

During the nine months ended September 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) Plans for new installation and retirement of facilities

As of the end of the previous fiscal year, the plan for capital expenditures (facility construction and expansion) for the whole of the fiscal year under review was set at ¥156.0 billion, but at the end of the nine months ended September 30, 2019, this was revised to ¥138.0 billion.
Moreover, there were no material changes in the main details and purposes of the capital expenditures by segment mentioned in the previous fiscal year's Annual Securities Report.

(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 (including the current portion) as of December 31, 2018 and as of September 30, 2019 accounted for ¥610.4 billion and ¥595.6 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥129.3 billion and ¥113.9 billion respectively.

Short-term debt

Short-term borrowings from financial institutions totaled ¥166.0 billion as of December 31, 2018 and ¥298.3 billion as of September 30, 2019. Commercial paper outstanding totaled ¥72.0 billion as of December 31, 2018 and ¥53.8 billion as of September 30, 2019.

Note: From the first quarter ended March 31, 2019, lease liabilities 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 September 30, 2019, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group had 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 third quarter ended September 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 September 30, 2019)	Number of shares issued (Share; as of the date of filing: November 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

Subscription rights to shares issued during the third quarter ended September 30, 2019 are as follows.

Resolution date	June 14, 2019
Positions and number of persons granted	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 20 persons
Number of subscription rights to shares*	1,566 units
Class of shares to be issued upon exercise of subscription rights to shares*	Ordinary shares (the Company's standard class of shares with no rights limitations)
Number of shares to be issued upon exercise of subscription rights to shares*	313,200 shares (Note 1)
Paying due upon exercise of subscription rights to shares*	¥1 per share
Exercise period of subscription rights to shares*	From July 2, 2019 to July 1, 2049
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares*	¥188,000 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares*	(Note 2)
Conditions for exercising subscription rights to shares*	(Note 3)
Assignment of subscription rights to shares*	The approval of the Board of Directors is required for the assignment of subscription rights to shares.
Provisions for acquiring subscription rights to shares*	(Note 4)
Matters regarding delivery of subscription rights to shares accompanied by reorganization*	(Note 5)

* Details from the time of the issuance of subscription rights (July 1, 2019) are presented here.

Notes: 1. Number of shares to be issued upon exercise of subscription rights to shares

The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each subscription right to shares (hereinafter, "Number of Shares Granted") shall be 200. However, in cases where the Company conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of the Company after the date on which the Company allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of the Company and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date.

When adjusting the Number of Shares Granted, the Company shall notify the persons holding subscription rights to shares who are registered in the registry of the subscription rights to shares (hereinafter, "Subscription rights to shares Holder(s)") or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, the Company shall later do so as soon as possible.

2. Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares

   a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Regulation on Accounting of Companies. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen.

b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.

3. Conditions for exercising subscription rights to shares

a. Subscription rights to shares Holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board (including *sikkoyaku* at a company with nominating committees, etc.), Audit & Supervisory Board Member and Executive Officer of the Company.

b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.

4. Provisions for acquiring subscription rights to shares

In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "in cases where the resolution of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with nominating committees, etc.) is made"), the Company may acquire subscription rights to shares on the date separately provided for by the Board of Directors. In this case, the Company shall, in exchange for acquiring each subscription right to shares, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

Value per share = Closing price for regular transactions of ordinary shares of the Company on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "the resolution of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with nominating committees, etc.) is made") – ¥1

a. Proposal to ask approval of a contract of merger where the Company is not to be the surviving company

b. Proposal to ask approval of a contract or plan of company split where the Company would be the split company

c. Proposal to ask approval of a share exchange contract or share transfer plan where the Company becomes a wholly-owned subsidiary

5. Matters regarding delivery of subscription rights to shares accompanied by reorganization

In cases where the Company merges (limited to cases where the Company is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where the Company becomes the split company in either case), or exchanges or transfers shares (limited to cases where the Company becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, "Reorganization"), the Company shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, "Remaining Subscription rights to shares"). However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.

a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder

b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
Ordinary shares of the Company Subject to Reorganization

c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.

d. Value of property to be contributed when subscription rights to shares are exercised
The value of the property to be contributed when each subscription right to shares to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to be issued upon exercise of each subscription right to shares, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.

e. Period during which subscription rights to shares can be exercised
From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in "Exercise period of subscription rights to shares" mentioned above.

f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as "Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares" mentioned above.

g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization.

h. Provisions for acquiring subscription rights to shares
To be determined in the same manner as "Provisions for acquiring subscription rights to shares" mentioned above.

i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as “Conditions for exercising subscription rights to shares” mentioned above.

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)
July 1, 2019 to September 30, 2019	–	2,000,000	–	100,000	–	736,400

(5) Status of Major Shareholders

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

(6) Status of Voting Rights

a. Shares issued

(as of September 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 226,204,400	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,658,000	17,736,580	(Note 2)
Shares less than one unit	Ordinary shares 137,600	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,736,580	–

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 63 shares of treasury shares.

b. Treasury shares

(as of September 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	226,204,400	–	226,204,400	11.31
Total	–	226,204,400	–	226,204,400	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 nine months ended September 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 third quarter period (from July 1, 2019 to September 30, 2019) and for the nine months ended September 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 September 30, 2019**
Assets		
Current assets		
Cash and cash equivalents (Note 6)	282,063	181,675
Trade and other receivables	456,591	470,876
Inventories	649,238	642,346
Other financial assets	35,633	32,598
Other current assets	385,872	376,818
Subtotal	1,809,396	1,704,313
Non-current assets held-for-sale	10	17,790
Total current assets	1,809,406	1,722,102
Non-current assets		
Property, plant and equipment (Note 7)	758,841	790,962
Goodwill (Note 7)	2,008,416	1,943,130
Intangible assets (Note 7)	503,076	443,754
Investment property	17,558	16,596
Retirement benefit assets	57,140	55,818
Investments accounted for using the equity method	66,807	48,182
Other financial assets	115,046	126,171
Deferred tax assets	125,109	121,142
Total non-current assets	3,651,993	3,545,754
Total assets	5,461,400	5,267,857

(Millions of yen)

	As of December 31, 2018	**As of September 30, 2019**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	380,516	348,239
Bonds and borrowings	250,466	423,244
Income tax payables	72,449	41,137
Other financial liabilities	4,486	18,293
Provisions	6,078	11,258
Other current liabilities	716,190	550,399
Total current liabilities	1,430,185	1,392,569
Non-current liabilities		
Bonds and borrowings	727,314	638,383
Other financial liabilities	10,067	41,224
Retirement benefit liabilities	321,838	301,951
Provisions	3,780	18,205
Other non-current liabilities	179,274	162,559
Deferred tax liabilities	88,497	80,505
Total non-current liabilities	1,330,770	1,242,826
Total liabilities	2,760,955	2,635,395
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(442,829)	(492,487)
Other components of equity	(423,357)	(497,582)
Retained earnings	2,660,381	2,705,848
Equity attributable to owners of the parent company	2,630,594	2,552,179
Non-controlling interests	69,851	80,283
Total equity	2,700,445	2,632,461
Total liabilities and equity	5,461,400	5,267,857

(2) Condensed Interim Consolidated Statement of Income

(For the nine-month period)

Nine months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Revenue (Notes 5, 9)	1,675,819	1,633,748
Cost of sales	(685,128)	(689,768)
Gross profit	990,691	943,979
Other operating income (Note 10)	23,958	72,228
Share of profit in investments accounted for using the equity method	2,987	3,837
Selling, general and administrative expenses (Note 11)	(540,543)	(579,447)
Operating profit (Note 5)	477,093	440,597
Financial income (Note 12)	4,063	5,929
Financial costs (Note 12)	(31,755)	(34,962)
Profit before income taxes	449,402	411,564
Income taxes	(114,523)	(82,792)
Profit for the period	334,878	328,771
Attributable to		
Owners of the parent company	332,686	316,148
Non-controlling interests	2,192	12,623
Profit for the period	334,878	328,771
Interim earnings per share		
Basic (Yen) (Note 13)	185.73	177.83
Diluted (Yen) (Note 13)	185.64	177.75

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

(Millions of yen)

	2018	**2019**
Operating profit	477,093	440,597
Amortization cost of acquired intangibles arising from business acquisitions	44,722	51,137
Adjustment items (income)	(17,043)	(65,416)
Adjustment items (costs)	6,218	25,203
Adjusted operating profit (Note 5)	510,991	451,522

(For the three-month period)

Three months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Revenue (Note 5)	600,548	575,198
Cost of sales	(241,617)	(241,348)
Gross profit	358,931	333,850
Other operating income	5,183	5,733
Share of profit in investments accounted for using the equity method	40	1,231
Selling, general and administrative expenses	(189,391)	(211,544)
Operating profit (Note 5)	174,763	129,271
Financial income	1,088	1,821
Financial costs	(16,816)	(10,146)
Profit before income taxes	159,035	120,946
Income taxes	(41,717)	(30,598)
Profit for the period	117,318	90,348
Attributable to		
Owners of the parent company	116,593	89,697
Non-controlling interests	725	651
Profit for the period	117,318	90,348
Interim earnings per share		
Basic (Yen) (Note 13)	65.09	50.57
Diluted (Yen) (Note 13)	65.06	50.54

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

(Millions of yen)

	2018	**2019**
Operating profit	174,763	129,271
Amortization cost of acquired intangibles arising from business acquisitions	15,749	16,464
Adjustment items (income)	(153)	(1,667)
Adjustment items (costs)	2,820	19,658
Adjusted operating profit (Note 5)	193,179	163,726

(3) Condensed Interim Consolidated Statement of Comprehensive Income

(For the nine-month period)

Nine months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Profit for the period	334,878	328,771
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	(3,876)	(907)
Remeasurements of defined benefit plans	(2,790)	–
Total of items that will not be reclassified to profit or loss	(6,666)	(907)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(174,178)	(73,195)
Net gain (loss) on derivatives designated as cash flow hedges	(250)	(235)
Total of items that may be reclassified subsequently to profit or loss	(174,428)	(73,429)
Other comprehensive income (loss), net of taxes	(181,094)	(74,336)
Comprehensive income (loss) for the period	153,784	254,435
Attributable to		
Owners of the parent company	151,733	242,439
Non-controlling interests	2,052	11,996
Comprehensive income (loss) for the period	153,784	254,435

(For the three-month period)

Three months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Profit for the period	117,318	90,348
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	417	1,160
Remeasurements of defined benefit plans	—	—
Total of items that will not be reclassified to profit or loss	417	1,160
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(8,814)	(47,877)
Net gain (loss) on derivatives designated as cash flow hedges	(48)	(144)
Total of items that may be reclassified subsequently to profit or loss	(8,862)	(48,021)
Other comprehensive income (loss), net of taxes	(8,445)	(46,860)
Comprehensive income (loss) for the period	108,873	43,487
Attributable to		
Owners of the parent company	107,728	43,064
Non-controlling interests	1,145	423
Comprehensive income (loss) for the period	108,873	43,487

(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)	–	–	–	–	(173,975)	(250)	(3,939)
Comprehensive income (loss) for the period	–	–	–	–	(173,975)	(250)	(3,939)
Acquisition of treasury shares	–	–	(0)	–	–	–	–
Disposal of treasury shares	–	–	682	(601)	–	–	–
Share-based payments	–	–	–	207	–	–	–
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	–	–	–	–	–	–	(810)
Other increase (decrease)	–	–	–	–	–	(77)	–
Total transactions with the owners	–	–	682	(394)	–	(77)	(810)
As of September 30, 2018	100,000	736,400	(442,954)	1,570	(381,859)	(416)	33,921
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)	–	–	–	–	(72,473)	(235)	(1,002)
Comprehensive income (loss) for the period	–	–	–	–	(72,473)	(235)	(1,002)
Acquisition of treasury shares	–	–	(50,000)	–	–	–	–
Disposal of treasury shares	–	–	343	(270)	–	–	–
Share-based payments	–	–	–	217	–	–	–
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)	–	–	–	–	–	(115)	–
Total transactions with the owners	–	–	(49,657)	(53)	–	(115)	(347)
As of September 30, 2019	100,000	736,400	(492,487)	1,494	(527,391)	94	28,221

(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	—	—	332,686	332,686	2,192	334,878
Other comprehensive income (loss)	(2,790)	(180,954)	—	(180,954)	(140)	(181,094)
Comprehensive income (loss) for the period	(2,790)	(180,954)	332,686	151,733	2,052	153,784
Acquisition of treasury shares	—	—	—	(0)	—	(0)
Disposal of treasury shares	—	(601)	(81)	0	—	0
Share-based payments	—	207	2	208	36	244
Dividends (Note 8)	—	—	(259,724)	(259,724)	(1,793)	(261,517)
Changes in the scope of consolidation	—	—	—	—	28	28
Changes in the ownership interest in a subsidiary without a loss of control	—	—	495	495	(9,719)	(9,224)
Transfer from other components of equity to retained earnings	2,790	1,979	(1,979)	—	—	—
Other increase (decrease)	—	(77)	—	(77)	—	(77)
Total transactions with the owners	2,790	1,508	(261,287)	(259,097)	(11,448)	(270,546)
As of September 30, 2018	—	(346,784)	2,607,660	2,654,323	70,943	2,725,266
As of January 1, 2019	—	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	—	—	316,148	316,148	12,623	328,771
Other comprehensive income (loss)	—	(73,709)	—	(73,709)	(627)	(74,336)
Comprehensive income (loss) for the period	—	(73,709)	316,148	242,439	11,996	254,435
Acquisition of treasury shares	—	—	—	(50,000)	—	(50,000)
Disposal of treasury shares	—	(270)	(73)	0	—	0
Share-based payments	—	217	(19)	198	47	245
Dividends (Note 8)	—	—	(270,936)	(270,936)	(1,569)	(272,505)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	(42)	(43)
Transfer from other components of equity to retained earnings	—	(347)	347	—	—	—
Other increase (decrease)	—	(115)	—	(115)	—	(115)
Total transactions with the owners	—	(516)	(270,681)	(320,854)	(1,565)	(322,419)
As of September 30, 2019	—	(497,582)	2,705,848	2,552,179	80,283	2,632,461

(5) Condensed Interim Consolidated Statement of Cash Flows

Nine months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Cash flows from operating activities		
Profit before income taxes	449,402	411,564
Depreciation and amortization	116,291	135,871
Impairment losses	870	3,251
Interest and dividend income	(4,061)	(5,708)
Interest expense	10,803	21,198
Share of profit in investments accounted for using the equity method	(2,987)	(3,837)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(13,156)	(183)
(Increase) decrease in trade and other receivables	(64,446)	(30,840)
(Increase) decrease in inventories	(35,400)	(7,242)
Increase (decrease) in trade and other payables	10,644	(20,225)
Increase (decrease) in retirement benefit liabilities	(11,458)	(12,102)
(Increase) decrease in prepaid tobacco excise taxes	(14,251)	3,877
Increase (decrease) in tobacco excise tax payables	89,304	(119,922)
Increase (decrease) in consumption tax payables	1,229	12,704
Other	(2,400)	3,992
Subtotal	530,382	392,397
Interest and dividends received	9,687	10,917
Interest paid	(9,556)	(19,594)
Income taxes paid	(102,896)	(125,950)
Net cash flows from operating activities	427,618	257,770
Cash flows from investing activities		
Purchase of securities	(25,300)	(33,117)
Proceeds from sale and redemption of securities	3,912	28,085
Purchase of property, plant and equipment	(90,164)	(78,454)
Proceeds from sale of investment property	23,851	3,985
Purchase of intangible assets	(16,506)	(13,194)
Payments into time deposits	(64)	(209)
Proceeds from withdrawal of time deposits	56	204
Payments for business combinations	(131,919)	—
Subsequent payments for past fiscal years' business combinations	(3,530)	(33,537)
Other	5,741	1,451
Net cash flows from investing activities	(233,925)	(124,786)

(Millions of yen)

	2018	**2019**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(259,375)	(270,650)
Dividends paid to non-controlling interests	(1,514)	(1,333)
Capital contribution from non-controlling interests	9	81
Increase (decrease) in short-term borrowings and commercial paper	(191,790)	120,259
Proceeds from long-term borrowings	1,632	—
Repayments of long-term borrowings	(2,479)	(11,327)
Proceeds from issuance of bonds	341,516	—
Redemption of bonds	(54,086)	—
Repayments of lease liabilities	(1,281)	(10,436)
Acquisition of treasury shares	(0)	(50,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(9,420)	(1)
Other	0	0
Net cash flows from financing activities	(176,789)	(223,407)
Net increase (decrease) in cash and cash equivalents	16,904	(90,423)
Cash and cash equivalents at the beginning of the period	285,486	282,063
Effect of exchange rate changes on cash and cash equivalents	(19,110)	(9,965)
Cash and cash equivalents at the end of the period (Note 6)	283,280	181,675

Notes to Condensed Interim Consolidated Financial Statements
Nine months ended September 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 September 30, 2019 and for the nine-month period ended September 30, 2019 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on October 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 nine-month period)

Nine months ended September 30, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	472,390	999,409	81,754	117,163	1,670,716	5,103	−	1,675,819
Intersegment revenue	5,983	19,366	−	0	25,349	4,332	(29,681)	−
Total revenue	478,373	1,018,774	81,754	117,163	1,696,065	9,435	(29,681)	1,675,819
Segment profit (loss)								
Adjusted operating profit (Note 1)	172,800	336,864	19,281	2,064	531,008	(20,062)	44	510,991

Nine months ended September 30, 2019

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	466,444	984,685	63,310	114,755	1,629,195	4,553	−	1,633,748
Intersegment revenue	5,484	21,600	−	1	27,085	5,306	(32,390)	−
Total revenue	471,928	1,006,285	63,310	114,756	1,656,280	9,858	(32,390)	1,633,748
Segment profit (loss)								
Adjusted operating profit (Note 1)	165,393	296,464	7,819	2,891	472,567	(21,002)	(44)	451,522

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

Nine months ended September 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)	172,800	336,864	19,281	2,064	531,008	(20,062)	44	510,991
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(32,538)	―	―	(44,722)	―	―	(44,722)
Adjustment items (income) (Note 3)	5	1,599	―	35	1,640	15,403	―	17,043
Adjustment items (costs) (Note 4)	(286)	(1,153)	―	(1,194)	(2,633)	(3,586)	―	(6,218)
Operating profit (loss)	160,335	304,772	19,281	906	485,293	(8,244)	44	477,093
Financial income								4,063
Financial costs								(31,755)
Profit before income taxes								449,402

Nine months ended September 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)	165,393	296,464	7,819	2,891	472,567	(21,002)	(44)	451,522
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(38,954)	―	―	(51,137)	―	―	(51,137)
Adjustment items (income) (Note 3)	24	1,474	61,018	461	62,977	2,439	―	65,416
Adjustment items (costs) (Note 4)	―	(19,320)	(4,039)	(278)	(23,637)	(1,566)	―	(25,203)
Operating profit (loss)	153,234	239,664	64,798	3,074	460,769	(20,128)	(44)	440,597
Financial income								5,929
Financial costs								(34,962)
Profit before income taxes								411,564

(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:

Nine months ended September 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gain on transfer of pharmaceutical licenses	–	60,518
Restructuring incomes	15,991	3,448
Other	1,052	1,450
Adjustment items (income)	17,043	65,416

Restructuring incomes for nine months ended September 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:

Nine months ended September 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Restructuring costs	5,166	23,759
Other	1,053	1,444
Adjustment items (costs)	6,218	25,203

Restructuring costs for nine months ended September 30, 2018 mainly related to disposal of real estate and rationalization of the production and distribution system in some markets in the "International Tobacco Business." Restructuring costs for nine months ended September 30, 2019 mainly relate to business operation transformation in the "International Tobacco Business" and business structure reform in the "Pharmaceutical Business." Restructuring costs included in "Cost of sales" were ¥12 million for nine months ended September 30, 2018. Restructuring costs included in "Selling, general and administrative expenses" were ¥5,153 million and ¥23,759 million for nine months ended September 30, 2018 and 2019, respectively. The breakdown of restructuring costs is described in "11. Selling, General and Administrative Expenses." Other for nine months ended September 30, 2018 relates to settlement of the litigation in September 2018. Other for nine months ended September 30, 2019 mainly relates to disposal of real estate.

(For the three-month period)

Three months ended September 30, 2018

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	181,686	348,509	28,550	40,133	598,879	1,669	－	600,548
Intersegment revenue	1,964	6,280	－	0	8,244	1,378	(9,622)	－
Total revenue	183,650	354,789	28,550	40,134	607,123	3,047	(9,622)	600,548
Segment profit (loss)								
Adjusted operating profit (Note 1)	69,274	122,558	7,908	629	200,370	(7,012)	(179)	193,179

Three months ended September 30, 2019

(Millions of yen)

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	163,721	349,035	21,503	39,332	573,591	1,607	－	575,198
Intersegment revenue	1,877	5,700	－	0	7,577	1,568	(9,145)	－
Total revenue	165,598	354,735	21,503	39,333	581,168	3,175	(9,145)	575,198
Segment profit (loss)								
Adjusted operating profit (Note 1)	56,196	111,058	2,105	1,290	170,649	(7,109)	186	163,726

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

Three months ended September 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)	69,274	122,558	7,908	629	200,370	(7,012)	(179)	193,179
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(11,688)	—	—	(15,749)	—	—	(15,749)
Adjustment items (income) (Note 3)	4	34	—	16	55	98	—	153
Adjustment items (costs) (Note 4)	(0)	(1,550)	—	(1,189)	(2,739)	(81)	—	(2,820)
Operating profit (loss)	65,218	109,354	7,908	(543)	181,937	(6,995)	(179)	174,763
Financial income								1,088
Financial costs								(16,816)
Profit before income taxes								159,035

Three months ended September 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)	56,196	111,058	2,105	1,290	170,649	(7,109)	186	163,726
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(12,403)	—	—	(16,464)	—	—	(16,464)
Adjustment items (income) (Note 3)	—	670	—	461	1,132	536	—	1,667
Adjustment items (costs) (Note 4)	—	(18,383)	185	(105)	(18,303)	(1,356)	—	(19,658)
Operating profit (loss)	52,134	80,943	2,291	1,646	137,014	(7,929)	186	129,271
Financial income								1,821
Financial costs								(10,146)
Profit before income taxes								120,946

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

	2018	**2019**
Restructuring incomes	153	997
Other	−	670
Adjustment items (income)	153	1,667

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

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

	2018	**2019**
Restructuring costs	1,768	18,370
Other	1,053	1,289
Adjustment items (costs)	2,820	19,658

Restructuring costs for three months ended September 30, 2019 mainly relate to business operation transformation in the "International Tobacco Business." Other for three months ended September 30, 2018 relates to settlement of the litigation in September 2018. Other for three months ended September 30, 2019 mainly relates to disposal of real estate.

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 September 30, 2019 includes cash and cash equivalents of ¥43,278 million and ¥15,020 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	95,469	–	12,330
Transfer to investment property	(1,088)	–	–
Transfer to non-current assets held-for-sale	(14)	–	–
Depreciation or amortization	(73,470)	–	(61,996)
Impairment losses	(2,326)	–	(11)
Reversal of impairment losses	96	–	–
Sale or disposal	(3,964)	–	(171)
Exchange differences on translation of foreign operations	(18,466)	(60,131)	(9,502)
Other	(5,189)	(5,155)	28
As of September 30, 2019	790,962	1,943,130	443,754

8. Dividends

Dividends paid for each interim period are as follows:

Nine months ended September 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
Board of Directors (August 1, 2018)	Ordinary shares	134,351	75	June 30, 2018	September 3, 2018

Nine months ended September 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
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.

Nine months ended September 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)	444,388	953,159	—	—	—	1,397,547
Other	28,002	46,250	81,754	117,163	5,103	278,272
Total	472,390	999,409	81,754	117,163	5,103	1,675,819

Nine months ended September 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)	435,812	941,570	—	—	—	1,377,383
Other	30,632	43,115	63,310	114,755	4,553	256,365
Total	466,444	984,685	63,310	114,755	4,553	1,633,748

(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 ¥46,079 million and ¥48,245 million for the nine months ended September 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:

Nine months ended September 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
South and West Europe	173,579	171,469
North and Central Europe	176,594	177,266
CIS+	237,691	228,633
Rest-of-the-World	365,294	364,203
Total	953,159	941,570

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:

Nine months ended September 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gross turnover	5,718,082	5,711,383
Tobacco excise taxes and agency transaction amount	(4,042,264)	(4,077,635)
Revenue	1,675,819	1,633,748

10. Other Operating Income

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

Nine months ended September 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)	15,910	3,403
Other (Note)	8,048	8,306
Total	23,958	72,228

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

Nine months ended September 30, 2018 and 2019 (Millions of yen)

	2018	**2019**
Gain on sale of property, plant and equipment, intangible assets and investment property	15,291	2,877
Other	700	571
Total	15,991	3,448

11. Selling, General and Administrative Expenses

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

Nine months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Advertising expenses	18,432	21,418
Promotion expenses	67,707	63,932
Commission	36,323	37,640
Employee benefit expenses (Note)	199,647	232,851
Research and development expenses	47,429	48,460
Depreciation and amortization	63,966	77,851
Impairment losses on other than financial assets (Note)	870	3,251
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	6,171	4,669
Other (Note)	99,998	89,375
Total	540,543	579,447

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

Nine months ended September 30, 2018 and 2019

(Millions of yen)

	2018	**2019**
Employee benefit expenses	81	22,417
Impairment losses on other than financial assets	615	396
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	2,872	245
Other	1,586	700
Total	5,153	23,759

12. Financial Income and Financial Costs

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

Nine months ended September 30 2018 and 2019 (Millions of yen)

Financial Income	2018	**2019**
Dividend income	1,631	1,743
Interest income	2,430	3,966
Other	2	221
Total	4,063	5,929

Nine months ended September 30, 2018 and 2019 (Millions of yen)

Financial Costs	2018	**2019**
Interest expenses (Note 1)	10,803	21,198
Foreign exchange losses (Note 2)	16,452	8,827
Employee benefit expenses (Note 3)	2,162	2,122
Other	2,339	2,816
Total	31,755	34,962

(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 nine-month period)

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Nine months ended September 30, 2018 and 2019	2018	2019
		(Millions of yen)
Profit for the period attributable to owners of the parent company	332,686	316,148
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	332,686	316,148

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

Nine months ended September 30, 2018 and 2019	2018	2019
		(Thousands of shares)
Weighted-average number of shares during the period	1,791,257	1,777,787

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Nine months ended September 30, 2018 and 2019	2018	2019
		(Millions of yen)
Profit for the period used for calculation of basic interim earnings per share	332,686	316,148
Adjustment	(0)	–
Profit for the period used for calculation of diluted interim earnings per share	332,686	316,148

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

Nine months ended September 30, 2018 and 2019	2018	2019
		(Thousands of shares)
Weighted-average number of ordinary shares during the period	1,791,257	1,777,787
Increased number of ordinary shares under subscription rights to shares	867	810
Weighted-average number of diluted ordinary shares during the period	1,792,123	1,778,597

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

	2018	**2019**
Profit for the period attributable to owners of the parent company	116,593	89,697
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic interim earnings per share	116,593	89,697

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

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

	2018	**2019**
Weighted-average number of shares during the period	1,791,363	1,773,775

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

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

	2018	**2019**
Profit for the period used for calculation of basic interim earnings per share	116,593	89,697
Adjustment	–	–
Profit for the period used for calculation of diluted interim earnings per share	116,593	89,697

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

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

	2018	**2019**
Weighted-average number of ordinary shares during the period	1,791,363	1,773,775
Increased number of ordinary shares under subscription rights to shares	857	959
Weighted-average number of diluted ordinary shares during the period	1,792,220	1,774,734

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 September 30, 2019**	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	129,313	129,978	113,907	116,237
Bonds (Note)	610,444	606,495	595,611	615,738

(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 September 30, 2019 (Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	—	4,148	—	4,148
Equity securities	54,890	—	6,518	61,407
Other	415	16,833	5,417	22,665
Total	55,305	20,981	11,934	88,221
Derivative liabilities	—	4,235	—	4,235
Total	—	4,235	—	4,235

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 September 30, 2019**
Acquisition of property, plant and equipment	54,030	47,701

16. Contingencies

As of September 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 ¥4,074.5 billion (CAD 50.0 billion) to ¥26,891.7 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 have been paid to shareholders registered or recorded on the shareholder registry as of June 30, 2019.

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

October 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 September 30, 2019, and the related condensed interim consolidated statements of income and comprehensive income for the three month and nine month periods then ended and the condensed interim consolidated statements of changes in equity and cash flows for the nine 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 September 30, 2019, and the consolidated results of their operations for the three month and nine month periods then ended and their cash flows for the nine 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.