

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

[Cover]

Document to be filed:	Quarterly Securities Report
Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	April 30, 2020
Quarterly accounting period:	First quarter of the 36th term (from January 1, 2020 to March 31, 2020)
Company name (Japanese):	日本たばこ産業株式会社 (<i>Nihon Tabako Sangyo Kabushiki-Kaisha</i>)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, Representative Director and President, Chief Executive Officer
Location of head office:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Hiroyuki Fukuda, Senior Vice President, Communications
Place of contact:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Hiroyuki Fukuda, Senior Vice President, Communications
Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in Principal Management Benchmarks

Term	Three months ended March 31, 2019	Three months ended March 31, 2020	35th term
Accounting period	From January 1, 2019 to March 31, 2019	From January 1, 2020 to March 31, 2020	From January 1, 2019 to December 31, 2019
Revenue (Millions of yen)	505,422	519,620	2,175,626
Profit before income taxes (Millions of yen)	172,727	115,102	465,232
Profit for the period (Millions of yen)	133,685	86,882	361,622
Profit attributable to owners of the parent company (Millions of yen)	120,840	86,373	348,190
Comprehensive income (loss) for the period (Millions of yen)	157,079	(103,489)	365,816
Total equity (Millions of yen)	2,672,565	2,501,844	2,743,611
Total assets (Millions of yen)	5,465,896	5,201,980	5,553,071
Basic earnings per share (Yen)	67.66	48.69	195.97
Diluted earnings per share (Yen)	67.63	48.67	195.87
Ratio of equity attributable to owners of the parent company to total assets (%)	47.39	46.57	47.95
Net cash flows from operating activities (Millions of yen)	121,168	(1,943)	540,410
Net cash flows from investing activities (Millions of yen)	(39,427)	(7,518)	(123,571)
Net cash flows from financing activities (Millions of yen)	(101,415)	(31,099)	(333,832)
Cash and cash equivalents at the end of the period (Millions of yen)	261,463	301,059	357,158

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

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

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

4. Revenue does not include consumption taxes.

2. Business Description

During the three months ended March 31, 2020, there were neither material changes in the business of the Group (the Company, 231 consolidated subsidiaries and 12 companies accounted for by the equity method) mentioned in the previous fiscal year's Annual Securities Report nor changes in principal subsidiaries and affiliates.

II. Review of Operations

1. Business and Other Risks

During the three months ended March 31, 2020, 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.

Furthermore, although the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of March 31, 2020) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 5 of March 31, 2020) were established on March 27, 2020, the review of tobacco excise tax left the situation unchanged from that described in "II. Review of Operations, 2. Business and Other Risks, (2) Risks Relating to the Group's Tobacco Business, c. Taxes levied on tobacco" in the Annual Securities Report for the previous fiscal year.

At present, nothing is obstructing business continuity and no major risks have materialized concerning any of the business operations of the Tobacco Business, the Pharmaceutical Business and the Processed Food Business as a result of the spread of the novel coronavirus disease (COVID-19), and the Group is fully conducting business in compliance with the policies and directives of the governments and relevant authorities of each country. Furthermore, although an impact from the spread of COVID-19 has been confirmed in part for the three months ended March 31, 2020, the financial aspect of that impact remains at a limited level. Nevertheless, in addition to an unavoidable impact on the duty-free business in the tobacco business, it is unclear what impact there will be on the short-term and long-term demand, and regarding the business and financial impacts, it is also necessary to carefully monitor and examine foreign exchange rate trends. Depending on circumstances going forward, the Group's business performance may be negatively affected. At present, there are no problems in procuring the necessary funds for business operations, and the amount of credit available through commitment lines is sufficient. However, as a provision for unforeseen circumstances, the Group increased its on-hand liquidity by ¥100.0 billion or more through the issuance of commercial papers in April 2020 and other means.

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.

Matters concerning the future in this document were determined as of March 31, 2020.

(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. 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 tobacco vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.

The Group is committed to developing, testing and bringing to market such new and innovative products for sustainable growth.

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

(1) Business Results

a. Consolidated results

	Three months ended March 31, 2019	Three months ended March 31, 2020	(Billions of yen) Change
Revenue	505.4	519.6	2.8%
Adjusted operating profit	138.8	146.9	5.8%
Operating profit	182.6	129.0	(29.4)%
Profit attributable to owners of the parent company	120.8	86.4	(28.5)%

<Revenue>

Revenue increased by 2.8% from the same period of the previous year to ¥519.6 billion, 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>

Adjusted operating profit at constant rates of exchange increased by 14.0% from the same period of the previous year with growth in the International Tobacco Business, the Pharmaceutical Business and the Processed Food Business, being partially offset by a decrease in the Domestic Tobacco Business. Adjusted operating profit including foreign exchange effects increased by a more modest 5.8% from the same period of the previous year to ¥146.9 billion, due to unfavorable foreign exchange effects in the International Tobacco Business.

<Operating profit>

Operating profit decreased by 29.4% from the same period of the previous year to ¥129.0 billion, despite the countering factor of an increase in adjusted operating profit, due to factors such as the disappearance of

revenue relating to the termination of exclusive license agreements for six anti-HIV drugs in Japan in the Pharmaceutical Business during the previous year.

<Profit attributable to owners of the parent company>

Profit attributable to owners of the parent decreased by 28.5% from the same period of the previous year to ¥86.4 billion, due mainly to a decline in operating profit and an increase in financing costs.

b. Operating segments

Domestic Tobacco Business

(Billions of cigarettes, Billions of yen)

Domestic Tobacco Business	Three months ended March 31, 2019	Three months ended March 31, 2020	Change
Cigarette industry volume ^(Note 1)	29.4	28.8	(2.2)%
Cigarette sales volume ^(Note 2)	17.9	17.2	(4.2)%
Core revenue	133.5	125.8	(5.7)%
Adjusted operating profit	51.0	43.2	(15.3)%

<Cigarette sales volume>

Cigarette industry volume fell by 2.2% from the same period of the previous year, despite the increased number of business days caused by the leap year, etc., due to the expansion of the RRP market, the downtrend in total demand, and the impact of fixed price revision. The Company's cigarette sales volume fell by 4.2% from the same period of the previous year due to a decline in cigarette industry volume as well as our market share loss.

Cigarette market share of the Company decreased by 1.2 ppt from the same period of the previous year to 59.7% due to intensified competition among low-end products.

<RRP sales results> ^(Note 3)

The share of RRP in the domestic tobacco market is estimated to have been about 24% (shipment basis). The Company's RRP sales volume reached 0.9 billion cigarette equivalent units, and in the RRP category, the market share of the Company based on consumer off-take is estimated to have been about 10%.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business fell by 5.7% from the same period of the previous year, due to the impact of lower cigarette sales volume, the effect of a negative price gap in cigarettes caused by leaving the prices of some products unchanged after the consumption tax was increased in October 2019, and a decline in duty-free sales. RRP-related revenue increased by ¥0.6 billion from the same period of the previous year to ¥13.0 billion.

Adjusted operating profit decreased by 15.3% from the same period of the previous year due to lower core revenue from the tobacco business as well as a rise in expenses related to the strengthening of promotions for RRP and little cigars.

(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 the sales volume associated with RRP and the like.

(Note: 2) In addition to the figure stated above for sales volume, during the three months ended March 31, 2020, 0.6 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 (0.9 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	Three months ended March 31, 2019	Three months ended March 31, 2020	Change
Total shipment volume ^(Note 4)	104.7	104.1	(0.6)%
GFB shipment volume ^(Note 5)	64.4	67.5	4.8%
Core revenue	286.8	312.0	8.8%
Adjusted operating profit	89.2	104.1	16.7%

(Millions of U.S. dollar)

International Tobacco Business [U.S. dollar-based]	Three months ended March 31, 2019	Three months ended March 31, 2020	Change
Core revenue	2,602	2,866	10.2% [14.1%]
Adjusted operating profit	809	956	18.1% [29.4%]

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

<Total shipment volume and market share>

Total shipment volume fell by 0.6% from the same period of the previous year. Despite being supported by share increases mostly for GFB in a variety of markets, and despite the positive effects from trade inventory adjustments in multiple markets primarily in Europe resulting from the response to the spread of COVID-19, price increases caused by factors such as higher taxes led to a decline in industry volume, and restrictions on air travel caused duty-free sales to decline. Total shipment volume excluding the effects from trade inventory adjustments fell by 2.4% from the same period of the previous year. Market share continued to grow in various markets, including the key markets of Iran, the U.K., Taiwan, etc.

GFB shipment volume rose by 4.8% from the same period of the previous year, as a result of firm growth of Winston (+5.7%), Camel (+3.4%) and LD (+5.9%).

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit increased by 8.8% and 16.7%, respectively, from the same period of the previous year as a result of the effects of favorable pricing and the volume effects, despite unfavorable foreign exchange effects.

Despite unfavorable foreign exchange effects, U.S. dollar-based core revenue from the tobacco business including foreign exchange effects increased by 10.2% from the same period of the previous year as a result of the effects of favorable pricing in the U.K., Turkey, the Philippines, Russia, etc. and the volume effects. At constant rates of exchange, it increased by 14.1% from the same period of the previous year.

Despite unfavorable foreign exchange effects, U.S. dollar-based adjusted operating profit including foreign exchange effects increased by 18.1% from the same period of the previous year as a result of the effects of favorable pricing and the volume effects. At constant rates of exchange, it increased by 29.4% 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)

	Three months ended March 31, 2019	Three months ended March 31, 2020	Change	
South and West Europe				
Total shipment volume ^(Note 4)	16.6	17.7	6.7%	
GFB shipment volume ^(Note 5)	13.6	14.7	7.8%	
Core revenue	56.4	59.4	5.4%	
Core revenue [U.S. dollar-based]	512	546	6.7% [9.3%]	
North and Central Europe				
Total shipment volume ^(Note 4)	12.9	14.2	9.9%	
GFB shipment volume ^(Note 5)	6.3	7.4	17.1%	
Core revenue	53.1	59.6	12.2%	
Core revenue [U.S. dollar-based]	482	547	13.6% [16.8%]	
CIS+				
Total shipment volume ^(Note 4)	27.5	26.8	(2.7)%	
GFB shipment volume ^(Note 5)	19.7	18.2	(7.6)%	
Core revenue	60.4	69.3	14.7%	
Core revenue [U.S. dollar-based]	548	637	16.1% [17.7%]	
Rest-of-the-World				
Total shipment volume ^(Note 4)	47.8	45.5	(4.7)%	
GFB shipment volume ^(Note 5)	24.8	27.3	9.9%	
Core revenue	116.8	123.7	5.9%	
Core revenue [U.S. dollar-based]	1,060	1,136	7.2% [13.3%]	

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

(Note: 4) Includes fine cut tobacco, cigars, pipe tobacco, snus, kretek and T-Vapor products, except for contract manufacturing products, waterpipe tobacco products and E-vapor products.

(Note: 5) GFB (Global Flagship Brands) consists of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS, 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	Three months ended March 31, 2019	Three months ended March 31, 2020	Change	
USD/¥	110.22	108.86	(1.36)	1.2% appreciation
USD/RUB	66.12	66.33	0.21	0.3% depreciation
USD/GBP	0.77	0.78	0.01	1.7% depreciation
USD/EUR	0.88	0.91	0.03	2.9% depreciation
USD/CHF	1.00	0.97	(0.03)	3.0% appreciation
USD/TWD	30.82	30.11	(0.71)	2.4% appreciation
USD/TRY	5.36	6.10	0.74	12.1% depreciation
USD/IRR	88,454	128,673	40,219	31.3% depreciation

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Three months ended March 31, 2019	Three months ended March 31, 2020	Change
Revenue	22.8	20.7	(9.0)%
Adjusted operating profit	4.5	6.6	47.1%

<Revenue and adjusted operating profit>

Despite strong sales for the Group company Torii Pharmaceutical Co., Ltd., revenue decreased by 9.0% from the same period of the previous year due mainly to lower royalty revenue overseas.

Adjusted operating profit increased by 47.1% from the same period of the previous year, despite the decline in revenue, due to the decrease in research and development expenses following the completion of testing, and due to an increase in profit at Torii Pharmaceutical Co., Ltd.

Processed Food Business

(Billions of yen)

Processed Food Business	Three months ended March 31, 2019	Three months ended March 31, 2020	Change
Revenue	36.0	36.7	2.1%
Adjusted operating profit	0.3	0.4	46.8%

<Revenue and adjusted operating profit>

Due to growth in sales from rising demand in the frozen and ambient foods business for products for use at home, revenue increased by 2.1% from the same period of the previous year, despite lower sales of products in the frozen and ambient foods business and the seasonings business of products used in restaurants, and a decline in sales of the bakery business.

Adjusted operating profit increased by 46.8% from the same period of the previous year due to an increase in revenue.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets at the end of the three months ended March 31, 2020 decreased by ¥351.1 billion from the end of the previous fiscal year to ¥5,202.0 billion. This was mainly due to the decline caused by foreign exchange effects and a decrease in cash arising from the payment of cash dividends.

Liabilities

Total liabilities at the end of the three months ended March 31, 2020 decreased by ¥109.3 billion from the end of the previous fiscal year to ¥2,700.1 billion. This was mainly due to a decrease in tobacco excise tax payables, despite a rise in subordinated loan.

Equity

Total equity at the end of the three months ended March 31, 2020 decreased by ¥241.8 billion from the end of the previous fiscal year to ¥2,501.8 billion. This was mainly due to the fall in exchange differences on translation of foreign operations.

b. Cash flow position

Cash and cash equivalents at the end of the three months ended March 31, 2020 decreased by ¥56.1 billion from the end of the previous fiscal year to ¥301.1 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥261.5 billion.

Cash flows from (used in) operating activities

Net cash flows used in operating activities during the three months ended March 31, 2020 were ¥1.9 billion, compared with ¥121.2 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 as well as payments of trade and other payables, 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 three months ended March 31, 2020 is for four months.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the three months ended March 31, 2020 were ¥7.5 billion, compared with ¥39.4 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment, and intangible assets, despite the proceeds from sale of investments in associates.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the three months ended March 31, 2020 were ¥31.1 billion, compared with ¥101.4 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends, despite the proceeds from subordinated loan.

(3) Management Policy, Management Strategy, Etc.

During the three months ended March 31, 2020, there were no material changes in management policy, management strategy, etc. stipulated by the Group mentioned in the previous fiscal year's Annual Securities Report.

(4) Operational and Financial Issues to Be Addressed

During the three months ended March 31, 2020, there were no material changes in issues to be addressed by the Group mentioned in the previous fiscal year's Annual Securities Report.

(5) Research and Development Activities

Research and development expenses of the entire Group during the three months ended March 31, 2020, were ¥15.0 billion.

During the three months ended March 31, 2020, 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.

In January 2020, D-LAB was set up by the corporate divisions of the Company for the purpose of research and development, and expenses associated with this organization were included in research and development expenses, beginning in the three months ended March 31, 2020.

(6) Analysis of Capital Resources and Liquidity of Funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

Please refer to “(2) Financial Position and Cash Flow Position, b. Cash flow position.”

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2019 and as of March 31, 2020 accounted for ¥666.6 billion and ¥660.8 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥115.3 billion and ¥213.5 billion respectively.

Short-term debt

Short-term borrowings from financial institutions totaled ¥192.6 billion as of December 31, 2019 and ¥179.2 billion as of March 31, 2020. There was no commercial paper outstanding as of December 31, 2019, but as of March 31, 2020, the outstanding balance was ¥20.0 billion.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of March 31, 2020, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

Moreover, in April 2020, as a provision for unforeseen circumstances, the Group increased its on-hand liquidity by ¥100.0 billion or more through the issuance of commercial papers and other means.

3. Important Operational Contracts

No important operational contracts were determined or entered into during the first quarter ended March 31, 2020.

III. Filing Company

1. Information on the Company's Shares

(1) Total Number of Shares Authorized

a. Total number of shares authorized

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

b. Number of shares issued

Class	Number of shares issued (Share; as of March 31, 2020)	Number of shares issued (Share; as of the date of filing: April 30, 2020)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	—	—

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

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

(2) Status of Subscription Rights to Shares

a. Stock options

No items to report.

b. Other status of subscription rights to shares

No items to report.

(3) Exercise of Bond Certificates With Subscription Rights to Shares With Exercise Price Amendment Clause

No items to report.

(4) Trends in Total Number of Shares Issued and Share Capital

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
January 1, 2020 to March 31, 2020	—	2,000,000	—	100,000	—	736,400

(5) Status of Major Shareholders

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

(6) Status of Voting Rights

a. Shares issued

(as of March 31, 2020)

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 226,027,400	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,721,600	17,737,216	(Note 2)
Shares less than one unit	Ordinary shares 251,000	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,737,216	–

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 21 shares of treasury shares.

b. Treasury shares

(as of March 31, 2020)

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, Toranomom 2-chome, Minato-ku, Tokyo, Japan	226,027,400	–	226,027,400	11.30
Total	–	226,027,400	–	226,027,400	11.30

2. Status of Officers

After filing the previous fiscal year’s Annual Securities Report, there were no personnel changes of officers during the three months ended March 31, 2020.

IV. Accounting

1. Preparation Policy for the Condensed Interim Consolidated Financial Statements

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

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

2. Audit Certification

In accordance with the provisions of Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act, the condensed interim consolidated financial statements for the three months ended March 31, 2020 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, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and cash equivalents (Note 6)	357,158	301,059
Trade and other receivables	458,513	407,044
Inventories	677,586	622,118
Other financial assets	21,943	40,847
Other current assets	410,443	391,719
Subtotal	1,925,643	1,762,787
Non-current assets held-for-sale	30	26
Total current assets	1,925,673	1,762,812
Non-current assets		
Property, plant and equipment (Note 7)	803,239	782,179
Goodwill (Note 7)	2,002,595	1,887,666
Intangible assets (Note 7)	440,434	410,871
Investment property	16,588	16,489
Retirement benefit assets	67,377	64,707
Investments accounted for using the equity method	52,903	41,976
Other financial assets	109,568	102,812
Deferred tax assets	134,696	132,468
Total non-current assets	3,627,397	3,439,167
Total assets	5,553,071	5,201,980

	As of December 31, 2019	(Millions of yen) As of March 31, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	408,597	351,398
Bonds and borrowings	284,135	290,436
Income tax payables	69,543	58,566
Other financial liabilities	21,862	21,577
Provisions	16,570	18,298
Other current liabilities	701,050	579,815
Total current liabilities	1,501,757	1,320,089
Non-current liabilities		
Bonds and borrowings (Note 8)	690,367	783,125
Other financial liabilities	41,062	49,534
Retirement benefit liabilities	320,614	307,645
Provisions	19,463	17,225
Other non-current liabilities	155,768	149,918
Deferred tax liabilities	80,430	72,600
Total non-current liabilities	1,307,702	1,380,046
Total liabilities	2,809,459	2,700,135
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(492,469)	(492,101)
Other components of equity	(431,741)	(622,464)
Retained earnings	2,750,506	2,700,870
Equity attributable to owners of the parent company	2,662,696	2,422,705
Non-controlling interests	80,916	79,139
Total equity	2,743,611	2,501,844
Total liabilities and equity	5,553,071	5,201,980

(2) Condensed Interim Consolidated Statement of Income
Three months ended March 31, 2019 and 2020

	(Millions of yen)	
	2019	2020
Revenue (Notes 5, 10)	505,422	519,620
Cost of sales	(212,555)	(221,131)
Gross profit	292,867	298,489
Other operating income (Note 11)	63,206	3,032
Share of profit in investments accounted for using the equity method	744	620
Selling, general and administrative expenses (Note 12)	(174,224)	(173,187)
Operating profit (Note 5)	182,593	128,953
Financial income (Note 13)	2,283	1,600
Financial costs (Note 13)	(12,148)	(15,452)
Profit before income taxes	172,727	115,102
Income taxes	(39,043)	(28,221)
Profit for the period	133,685	86,882
Attributable to		
Owners of the parent company	120,840	86,373
Non-controlling interests	12,845	508
Profit for the period	133,685	86,882
Interim earnings per share		
Basic (Yen) (Note 14)	67.66	48.69
Diluted (Yen) (Note 14)	67.63	48.67

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

	(Millions of yen)	
	2019	2020
Operating profit	182,593	128,953
Amortization cost of acquired intangibles arising from business acquisitions	17,788	17,059
Adjustment items (income)	(61,809)	(1,321)
Adjustment items (costs)	202	2,175
Adjusted operating profit (Note 5)	138,774	146,866

(3) Condensed Interim Consolidated Statement of Comprehensive Income
Three months ended March 31, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period	133,685	86,882
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	987	(3,968)
Remeasurements of defined benefit plans	-	-
Total of items that will not be reclassified to profit or loss	987	(3,968)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	22,736	(186,392)
Net gain (loss) on derivatives designated as cash flow hedges	(328)	(11)
Total of items that may be reclassified subsequently to profit or loss	22,408	(186,403)
Other comprehensive income (loss), net of taxes	23,394	(190,371)
Comprehensive income (loss) for the period	157,079	(103,489)
Attributable to		
Owners of the parent company	144,226	(103,727)
Non-controlling interests	12,853	237
Comprehensive income (loss) for the period	157,079	(103,489)

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
				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, 2019	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	22,846	(328)	868
Comprehensive income (loss) for the period	-	-	-	-	22,846	(328)	868
Acquisition of treasury shares	-	-	(50,000)	-	-	-	-
Disposal of treasury shares	-	-	202	(176)	-	-	-
Share-based payments	-	-	-	26	-	-	-
Dividends (Note 9)	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(24)
Other increase (decrease)	-	-	-	-	-	(124)	-
Total transactions with the owners	-	-	(49,798)	(151)	-	(124)	(24)
As of March 31, 2019	<u>100,000</u>	<u>736,400</u>	<u>(492,627)</u>	<u>1,396</u>	<u>(432,072)</u>	<u>(9)</u>	<u>30,414</u>
As of January 1, 2020	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(186,215)	(11)	(3,874)
Comprehensive income (loss) for the period	-	-	-	-	(186,215)	(11)	(3,874)
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	368	(273)	-	-	-
Share-based payments	-	-	-	30	-	-	-
Dividends (Note 9)	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(367)
Other increase (decrease)	-	-	-	-	-	(14)	-
Total transactions with the owners	-	-	368	(243)	-	(14)	(367)
As of March 31, 2020	<u>100,000</u>	<u>736,400</u>	<u>(492,101)</u>	<u>1,313</u>	<u>(630,581)</u>	<u>(157)</u>	<u>6,960</u>

(Millions of yen)

	Equity attributable to owners of the parent company					Total equity
	Other components of equity		Retained earnings	Total	Non-controlling interests	
	Remeasurements of defined benefit plans	Total				
As of January 1, 2019	-	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	-	-	120,840	120,840	12,845	133,685
Other comprehensive income (loss)	-	23,386	-	23,386	9	23,394
Comprehensive income (loss) for the period	-	23,386	120,840	144,226	12,853	157,079
Acquisition of treasury shares	-	-	-	(50,000)	-	(50,000)
Disposal of treasury shares	-	(176)	(26)	0	-	0
Share-based payments	-	26	-	26	-	26
Dividends (Note 9)	-	-	(134,357)	(134,357)	(618)	(134,975)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(0)	(0)	115	115
Transfer from other components of equity to retained earnings	-	(24)	24	-	-	-
Other increase (decrease)	-	(124)	-	(124)	-	(124)
Total transactions with the owners	-	(299)	(134,359)	(184,456)	(503)	(184,959)
As of March 31, 2019	-	(400,271)	2,646,862	2,590,364	82,201	2,672,565
As of January 1, 2020	-	(431,741)	2,750,506	2,662,696	80,916	2,743,611
Profit for the period	-	-	86,373	86,373	508	86,882
Other comprehensive income (loss)	-	(190,100)	-	(190,100)	(271)	(190,371)
Comprehensive income (loss) for the period	-	(190,100)	86,373	(103,727)	237	(103,489)
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(273)	(95)	0	-	0
Share-based payments	-	30	-	30	-	30
Dividends (Note 9)	-	-	(136,583)	(136,583)	(612)	(137,195)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	303	303	(1,401)	(1,098)
Transfer from other components of equity to retained earnings	-	(367)	367	-	-	-
Other increase (decrease)	-	(14)	-	(14)	-	(14)
Total transactions with the owners	-	(623)	(136,009)	(136,264)	(2,013)	(138,277)
As of March 31, 2020	-	(622,464)	2,700,870	2,422,705	79,139	2,501,844

(5) Condensed Interim Consolidated Statement of Cash Flows
Three months ended March 31, 2019 and 2020

	2019	(Millions of yen) 2020
Cash flows from operating activities		
Profit before income taxes	172,727	115,102
Depreciation and amortization	45,824	46,470
Impairment losses	200	989
Interest and dividend income	(2,209)	(1,599)
Interest expense	6,650	5,631
Share of profit in investments accounted for using the equity method	(744)	(620)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	34	(1,166)
(Increase) decrease in trade and other receivables	25,271	11,589
(Increase) decrease in inventories	(7,183)	33,609
Increase (decrease) in trade and other payables	(8,019)	(41,529)
Increase (decrease) in retirement benefit liabilities	(9,383)	(12,755)
(Increase) decrease in prepaid tobacco excise taxes	(11,870)	(22,012)
Increase (decrease) in tobacco excise tax payables	(2,729)	(71,056)
Increase (decrease) in consumption tax payables	140	(8,049)
Other	(25,793)	(19,655)
Subtotal	182,916	34,949
Interest and dividends received	4,065	2,966
Interest paid	(5,368)	(4,473)
Income taxes paid	(60,444)	(35,385)
Net cash flows from operating activities	121,168	(1,943)
Cash flows from investing activities		
Purchase of securities	(16,253)	(14,345)
Proceeds from sale and redemption of securities	13,246	16,398
Purchase of property, plant and equipment	(27,208)	(18,798)
Proceeds from sale of investment property	2,014	1,500
Purchase of intangible assets	(4,352)	(10,493)
Payments into time deposits	(196)	-
Proceeds from withdrawal of time deposits	187	25
Proceeds from sale of investments in associates	-	17,402
Other	(6,865)	793
Net cash flows from investing activities	(39,427)	(7,518)

	2019	(Millions of yen) 2020
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 9)	(132,416)	(134,781)
Dividends paid to non-controlling interests	(721)	(552)
Capital contribution from non-controlling interests	82	22
Increase (decrease) in short-term borrowings and commercial paper	85,620	10,906
Proceeds from long-term borrowings	-	98,888
Repayments of long-term borrowings	(280)	(239)
Repayments of lease liabilities	(3,700)	(4,223)
Acquisition of treasury shares	(50,000)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(0)	(1,120)
Other	0	0
Net cash flows from financing activities	(101,415)	(31,099)
Net increase (decrease) in cash and cash equivalents	(19,674)	(40,561)
Cash and cash equivalents at the beginning of the period	282,063	357,158
Effect of exchange rate changes on cash and cash equivalents	(925)	(15,538)
Cash and cash equivalents at the end of the period (Note 6)	261,463	301,059

Notes to Condensed Interim Consolidated Financial Statements

1. Reporting Entity

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

The condensed interim consolidated financial statements for the three-month period ended March 31, 2020 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on April 30, 2020 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, 2019.

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, 2019 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, 2020.

	IFRS	Description of new standards and amendments
IFRS 3	Business Combinations	Amendments to definition of "business"

The adoption of the above standards and interpretations does not have a material impact on the condensed interim consolidated financial statements.

4. Significant Accounting Estimates and Judgements

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

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

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the year ended December 31, 2019.

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 the type of products sold, their characteristics, and their 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 expense categories are excluded from segmental performance. Transactions within segments are primarily based upon prevailing market prices.

Three months ended March 31, 2019

(Millions of yen)

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

Three months ended March 31, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	135,107	326,161	20,728	36,749	518,745	876	-	519,620
Intersegment revenue	1,738	6,751	-	0	8,489	1,408	(9,897)	-
Total revenue	<u>136,846</u>	<u>332,912</u>	<u>20,728</u>	<u>36,749</u>	<u>527,234</u>	<u>2,283</u>	<u>(9,897)</u>	<u>519,620</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>43,232</u>	<u>104,057</u>	<u>6,579</u>	<u>419</u>	<u>154,286</u>	<u>(7,530)</u>	<u>109</u>	<u>146,866</u>

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

Three months ended March 31, 2019

(Millions of yen)

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

Three months ended March 31, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	43,232	104,057	6,579	419	154,286	(7,530)	109	146,866
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(12,998)	-	-	(17,059)	-	-	(17,059)
Adjustment items (income) (Note 3)	-	33	-	-	33	1,287	-	1,321
Adjustment items (costs) (Note 4)	-	(1,408)	(6)	(0)	(1,414)	(761)	-	(2,175)
Operating profit (loss)	39,171	89,685	6,573	419	135,847	(7,003)	109	128,953
Financial income								1,600
Financial costs								(15,452)
Profit before income taxes								<u>115,102</u>

(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 real estate rental and corporate expenditure relating to corporate communication and operation of the head office.

(Note 3) The breakdown of “Adjustment items (income)” is as follows:

Three months ended March 31, 2019 and 2020

	2019	2020
Gain on transfer of pharmaceutical licenses	60,518	-
Restructuring incomes	1,291	1,287
Other	-	33
Adjustment items (income)	<u>61,809</u>	<u>1,321</u>

Restructuring incomes for three months ended March 31, 2019 and 2020 mainly relate to gains on sale of real estate. The breakdown of restructuring incomes is described in “11. Other Operating Income.”

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

Three months ended March 31, 2019 and 2020

	2019	2020
Restructuring costs	52	1,430
Other	150	745
Adjustment items (costs)	<u>202</u>	<u>2,175</u>

The breakdown of restructuring costs is described in “12. Selling, general and administrative expenses.”

6. Cash and Cash Equivalents

The Group’s Iranian subsidiaries’ ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. The Group’s Canadian subsidiary, JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”) is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the “Companies’ Creditors Arrangement Act (CCAA).” “Cash and cash equivalents” as of March 31, 2020 includes cash and cash equivalents of ¥48,995 million and ¥25,310 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:

Carrying Amount	(Millions of yen)		
	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2020	803,239	2,002,595	440,434
Individual acquisition	33,988	-	9,865
Transfer to investment property	(579)	-	-
Transfer to non-current assets held-for-sale	(12)	-	-
Depreciation or amortization	(25,481)	-	(20,860)
Impairment losses	(881)	-	-
Reversal of impairment losses	23	-	13
Sale or disposal	(298)	-	(69)
Exchange differences on translation of foreign operations	(27,749)	(114,929)	(18,684)
Other	(71)	-	172
As of March 31, 2020	<u>782,179</u>	<u>1,887,666</u>	<u>410,871</u>

8. Borrowings

The Company entered into a subordinated loan agreement (aggregate amount of borrowings: ¥100,000 million, carrying amount: ¥98,923 million, repayment date: January 31, 2080) for the three months ended March 31, 2020.

The Company may, at its option, repay early all or a portion of the principal on any interest payment date on or after the interest payment date of January 2025.

9. Dividends

Dividends paid for each interim period are as follows:

Three months ended March 31, 2019

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

Three months ended March 31, 2020

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution) Annual Shareholders' Meeting (March 19, 2020)	Ordinary shares	136,583	77	December 31, 2019	March 23, 2020

10. Revenue

(1) Disaggregation of Revenue

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

Three months ended March 31, 2019

(Millions of yen)

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

Three months ended March 31, 2020

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharmaceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	125,834	312,047	-	-	-	437,881
Other	9,273	14,114	20,728	36,749	876	81,739
Total	<u>135,107</u>	<u>326,161</u>	<u>20,728</u>	<u>36,749</u>	<u>876</u>	<u>519,620</u>

(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 ¥12,373 million and ¥12,968 million for the three months ended March 31, 2019 and 2020, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

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

Three months ended March 31, 2019 and 2020

(Millions of yen)

	2019	2020
South and West Europe	56,381	59,432
North and Central Europe	53,101	59,595
CIS+	60,433	69,325
Rest-of-the-World	116,845	123,694
Total	<u>286,760</u>	<u>312,047</u>

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

(2) Gross Turnover

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

Three months ended March 31, 2019 and 2020

	2019	2020
		(Millions of yen)
Gross turnover	1,770,276	1,799,662
Tobacco excise taxes and agency transaction amount	(1,264,854)	(1,280,041)
Revenue	<u>505,422</u>	<u>519,620</u>

11. Other Operating Income

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

Three months ended March 31, 2019 and 2020

	2019	2020
		(Millions of yen)
Gain on transfer of pharmaceutical licenses	60,518	-
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	1,451	1,414
Other (Note)	1,237	1,617
Total	<u>63,206</u>	<u>3,032</u>

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

Three months ended March 31, 2019 and 2020

	2019	2020
		(Millions of yen)
Gain on sale of property, plant and equipment, intangible assets and investment property	1,249	1,266
Other	43	21
Total	<u>1,291</u>	<u>1,287</u>

12. Selling, General and Administrative Expenses

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

Three months ended March 31, 2019 and 2020

	2019	(Millions of yen) 2020
Advertising expenses	5,825	5,441
Promotion expenses	15,045	15,238
Commission	11,983	12,545
Employee benefit expenses (Note)	68,622	71,026
Research and development expenses	16,304	15,011
Depreciation and amortization	26,488	26,747
Impairment losses on other than financial assets (Note)	200	989
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	1,983	642
Other (Note)	27,775	25,549
Total	<u>174,224</u>	<u>173,187</u>

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

Three months ended March 31, 2019 and 2020

	2019	(Millions of yen) 2020
Employee benefit expenses	(28)	1,295
Impairment losses on other than financial assets	(2)	72
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	80	16
Other	3	46
Total	<u>52</u>	<u>1,430</u>

13. Financial Income and Financial Costs

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

Three months ended March 31, 2019 and 2020

		(Millions of yen)
Financial Income	2019	2020
Dividend income	1,124	7
Interest income	1,085	1,592
Other	74	1
Total	<u>2,283</u>	<u>1,600</u>

Three months ended March 31, 2019 and 2020

		(Millions of yen)
Financial Costs	2019	2020
Interest expenses (Note 1)	6,650	5,631
Foreign exchange losses (Note 2)	4,009	8,054
Employee benefit expenses (Note 3)	719	559
Other	771	1,208
Total	<u>12,148</u>	<u>15,452</u>

(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.

14. Interim Earnings per Share

(1) Basis of Calculating Basic Interim Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

Three months ended March 31, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period attributable to owners of the parent company	120,840	86,373
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic interim earnings per share	120,840	86,373

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

Three months ended March 31, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of shares during the period	1,785,979	1,773,938

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Three months ended March 31, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period used for calculation of basic interim earnings per share	120,840	86,373
Adjustment	-	(0)
Profit for the period used for calculation of diluted interim earnings per share	120,840	86,373

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

Three months ended March 31, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of ordinary shares during the period	1,785,979	1,773,938
Increased number of ordinary shares under subscription rights to shares	745	840
Weighted-average number of diluted ordinary shares during the period	1,786,724	1,774,778

15. 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, 2019		As of March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	115,297	116,804	213,497	216,195
Bonds	666,623	683,650	660,825	672,079

(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, 2019

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Derivative assets	-	2,564	-	2,564
Equity securities	25,829	-	6,919	32,747
Other	442	17,673	5,008	23,123
Total	<u>26,270</u>	<u>20,238</u>	<u>11,927</u>	<u>58,435</u>
Derivative liabilities	-	7,739	-	7,739
Total	<u>-</u>	<u>7,739</u>	<u>-</u>	<u>7,739</u>

As of March 31, 2020

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Derivative assets	-	24,004	-	24,004
Equity securities	20,226	-	6,118	26,344
Other	399	17,683	3,688	21,770
Total	<u>20,625</u>	<u>41,687</u>	<u>9,806</u>	<u>72,118</u>
Derivative liabilities	-	6,003	-	6,003
Total	<u>-</u>	<u>6,003</u>	<u>-</u>	<u>6,003</u>

16. Commitments

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

	As of December 31, 2019	(Millions of yen) As of March 31, 2020
Acquisition of property, plant and equipment	35,747	41,133

17. Contingencies

As of March 31 2020, there are no significant changes to the matters described in the consolidated financial statements for the year ended December 31, 2019.

18. Subsequent Events

The Company issued commercial papers to be used for short-term working capital in order to strength liquidity on hand and prepare for unexpected situations which might be caused by the spread of COVID-19 as follows:

- (1) Total amount of issue: ¥100 billion
- (2) Issue date: April 6, 2020
- (3) Redemption date: October 1, 2020
- (4) Interest rates: Interest rates determined in consideration of short-term money market rates

2. Others

No items to report

B. Information on Guarantee Companies, etc. of Filing Company

No items to report

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

April 30, 2020

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC

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

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

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

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have reviewed the condensed interim consolidated financial statements included in the Accounting Section, namely, the condensed interim consolidated statement of financial position of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2020, and the related condensed interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related notes.

Management's Responsibility for the Condensed Interim Consolidated Financial Statements

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

Accountant's Responsibility

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

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

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

Accountant's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Japan Tobacco Inc. and its consolidated subsidiaries as of March 31, 2020, and the consolidated results of their operations and their cash flows for the three-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting."

Interest

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

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