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## [Cover]

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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, 2019	Nine months ended September 30, 2020	35th term
Accounting period	From January 1, 2019 to September 30, 2019	From January 1, 2020 to September 30, 2020	From January 1, 2019 to December 31, 2019
Revenue [Third quarter] (Millions of yen)	1,633,748 [575,198]	1,592,097 [561,879]	2,175,626
Profit before income taxes (Millions of yen)	411,564	345,558	465,232
Profit for the period (Millions of yen)	328,771	259,621	361,622
Profit attributable to owners of the parent company [Third quarter] (Millions of yen)	316,148 [89,697]	257,948 [85,452]	348,190
Comprehensive income (loss) for the period (Millions of yen)	254,435	45,112	365,816
Total equity (Millions of yen)	2,632,461	2,513,637	2,743,611
Total assets (Millions of yen)	5,267,857	5,243,734	5,553,071
Basic earnings per share [Third quarter] (Yen)	177.83 [50.57]	145.40 [48.16]	195.97
Diluted earnings per share (Yen)	177.75	145.33	195.87
Ratio of equity attributable to owners of the parent company to total assets (%)	48.45	46.42	47.95
Net cash flows from operating activities (Millions of yen)	257,770	398,159	540,410
Net cash flows from investing activities (Millions of yen)	(124,786)	(43,581)	(123,571)
Net cash flows from financing activities (Millions of yen)	(223,407)	(208,154)	(333,832)
Cash and cash equivalents at the end of the period (Millions of yen)	181,675	458,133	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 nine months ended September 30, 2020, there were neither material changes in the business of the Group (the Company, 232 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 nine months ended September 30, 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.

Concerning the spread of the novel coronavirus disease (COVID-19), the Group is conducting business operations of the tobacco business, the Pharmaceutical Business and the Processed Food Business fully in compliance with the policies and directives of the governments and relevant authorities of each country. From the perspective of preventing the spread of COVID-19 inside and outside the Group and ensuring the safety of employees and their families, etc., the Group has actively used teleworking, enhanced workplace hygiene management and implemented various other infection-prevention measures.

For the nine months ended September 30, 2020, the spread of COVID-19 has affected the Group businesses, including a decrease in duty-free sales in the tobacco business and a change in consumer trends in the Domestic Tobacco Business and the Processed Food Business due to people voluntarily staying home following the declaration of a state of emergency, and the impact is expected to lower revenue group-wide by approximately ¥45.0 billion.

At present, nothing is obstructing business continuity. However, it is unclear what impact there will be on mid- to long-term consumer trends and demand trends in each business, and regarding the business and financial impacts, it is also necessary to carefully monitor and examine foreign exchange rate trends and the responses of the governments and relevant authorities of each country. Because it is difficult at this time to predict when the spread of COVID-19 will be brought under control and its future impact, COVID-19 may negatively affect the Group's business performance going forward.

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.

### **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 September 30, 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.

The Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29 “Financial Reporting in Hyperinflationary Economies” (hereinafter referred to as “IAS 29”). However, the impact of IAS 29 is not included in adjusted operating profit at constant rates of exchange.

### **(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. Furthermore, growth rate in U.S. dollar-based core revenue from the tobacco business at constant rates of exchange is also presented as additional information.

The Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29. However, the impact of IAS 29 is not included in core revenue from the tobacco business at constant rates of exchange.

### **(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

	(Billions of yen)		
	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change
Revenue	1,633.7	1,592.1	(2.5)%
Adjusted operating profit	451.5	441.5	(2.2)%
Operating profit	440.6	390.2	(11.4)%
Profit attributable to owners of the parent company	316.1	257.9	(18.4)%

### **<Revenue>**

Revenue decreased by 2.5% from the same period of the previous year to ¥1,592.1 billion, with increases in the International Tobacco Business being offset by decreases in the Domestic Tobacco Business, the Pharmaceutical Business, and the Processed Food Business. The spread of COVID-19 has affected the Group businesses, and the impact is expected to lower revenue by approximately ¥45.0 billion.

### <Adjusted operating profit>

Adjusted operating profit at constant rates of exchange increased by 6.3% from the same period of the previous fiscal year driven by growth in the International Tobacco Business and the Pharmaceutical Business, partially offset by decreases in the Domestic Tobacco Business and the Processed Food Business. Adjusted operating profit including foreign exchange effects decreased by 2.2% from the same period of the previous year to ¥441.5 billion, due to unfavorable foreign exchange effects in the International Tobacco Business.

### <Operating profit>

Operating profit decreased by 11.4% from the same period of the previous year to ¥390.2 billion, 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 18.4% from the same period of the previous year to ¥257.9 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	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change
Cigarette industry volume <sup>(Note 1)</sup>	94.6	90.0	(4.9)%
Cigarette sales volume <sup>(Note 2)</sup>	57.4	54.0	(5.9)%
Core revenue	435.8	394.8	(9.4)%
Adjusted operating profit	165.4	139.0	(16.0)%

### <Cigarette sales volume>

Cigarette industry volume decreased 4.9% from the same period of the previous year due to the growth in the RRP category, the natural decline trend, the impact of price revisions in October 2019, full-scale implementation of the Partial Amendment of the Health Promotion Act in April 2020, as well as the spread of COVID-19, despite the higher one-time demand ahead of price revisions in October 2020 than that of October 2019, which is attributed to a greater increase in retail prices in 2020. The Company's cigarette sales volume fell by 5.9% from the same period of the previous year due to a decline in cigarette industry volume as well as our cigarette market share loss.

Cigarette market share of the Company decreased by 0.7 ppt from the same period of the previous year to 60.0% due to intensified competition among low-end products.

### <RRP sales results> <sup>(Note 3)</sup>

The share of RRP in the domestic tobacco market is estimated to have been about 25% (shipment basis). The Company's RRP sales volume reached 3.0 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 9.4% 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 price revisions in October 2019, a decrease in RRP-related revenue, and decreases in domestic duty-free sales and the China business sales. RRP-related revenue decreased by ¥5.6 billion from the same period of the previous year to ¥42.6 billion mainly due to a decrease in sales of devices, despite the increase in RRP sales volume. Furthermore, we estimate that the negative

impact of COVID-19 on core revenue from the tobacco business was approximately ¥20.0 billion, of which the effect on the domestic duty-free market and the Chinese business accounted for slightly over half.

Adjusted operating profit decreased by 16.0% from the same period of the previous year amid the prolonged impact of COVID-19 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, despite cost reductions through measures such as efficient cost management while investing in priority activities.

- (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 nine months ended September 30, 2020, 1.3 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, 2019	Nine months ended September 30, 2020	Change
Total shipment volume <sup>(Note 4)</sup>	338.6	330.0	(2.6)%
GFB shipment volume <sup>(Note 5)</sup>	210.2	213.2	1.4%
Core revenue	941.6	956.5	1.6%
Adjusted operating profit	296.5	314.8	6.2%

(Millions of U.S. dollars)

International Tobacco Business [U.S. dollar-based]	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change
Core revenue	8,632	8,901	3.1% [8.5%]
Adjusted operating profit	2,719	2,929	7.7% [19.0%]

\* 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 2.6% from the same period of the previous year due to the impact of COVID-19 on duty-free sales and markets in emerging countries, as well as contractions in total demand in multiple markets, such as Russia. Market share continued to grow in various markets, including the key markets of Italy, Iran, the U.K., Canada, Spain, Taiwan, Germany, the Philippines, Romania, etc.

GFB shipment volume increased 1.4%, with the robust performance of Winston (+2.6%) and LD (+4.5%), more than offsetting the decline of Camel (-2.9%) and MEVIUS (-3.0%).

### <Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit increased by 1.6% and 6.2%, respectively, from the same period of the previous year, as the favorable pricing effects and volume effects exceeded the unfavorable foreign exchange effects. The impact from the spread of COVID-19 is expected to lower core revenue from the tobacco business by approximately ¥17.0 billion.

Despite unfavorable foreign exchange effects, U.S. dollar-based core revenue from the tobacco business including foreign exchange effects increased by 3.1% from the same period of the previous year as a result of the effects of favorable pricing in Germany, the Philippines, Romania, etc. and the volume effects in the U.K., Canada, Taiwan, Germany, the Philippines, etc. At constant rates of exchange, it increased by 8.5% 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 7.7% from the same period of the previous year as a result of the effects of favorable pricing and the volume effects, etc. At constant rates of exchange, it increased by 19.0% from the same period of the previous year.

### The Regional Breakdown of International Tobacco Business <sup>(Note 6)</sup>

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

	(Billions of cigarettes, Billions of yen, Millions of U.S. dollars)		
	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change
<b>South and West Europe</b>			
Total shipment volume <sup>(Note 4)</sup>	50.8	51.8	1.9%
GFB shipment volume <sup>(Note 5)</sup>	41.4	43.4	5.0%
Core revenue	171.5	172.0	0.3%
Core revenue [U.S. dollar-based]	1,571	1,599	1.8% [1.3%]
<b>North and Central Europe</b>			
Total shipment volume <sup>(Note 4)</sup>	41.9	47.5	13.1%
GFB shipment volume <sup>(Note 5)</sup>	21.3	24.9	16.7%
Core revenue	177.3	202.6	14.3%
Core revenue [U.S. dollar-based]	1,625	1,885	16.0% [16.4%]
<b>CIS+</b>			
Total shipment volume <sup>(Note 4)</sup>	99.2	92.9	(6.3)%
GFB shipment volume <sup>(Note 5)</sup>	68.7	62.7	(8.7)%
Core revenue	228.6	229.0	0.1%
Core revenue [U.S. dollar-based]	2,097	2,130	1.6% [8.6%]
<b>Rest-of-the-World</b>			
Total shipment volume <sup>(Note 4)</sup>	146.7	137.8	(6.1)%
GFB shipment volume <sup>(Note 5)</sup>	78.7	82.2	4.3%
Core revenue	364.2	352.9	(3.1)%
Core revenue [U.S. dollar-based]	3,338	3,286	(1.6)% [8.1%]

\* 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. (Note 7)

Foreign exchange rate per U.S. dollar	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change	
USD/JPY	109.12	107.55	(1.57)	1.4% appreciation
USD/RUB	65.08	70.69	5.60	7.9% depreciation
USD/GBP	0.79	0.79	0.00	0.2% depreciation
USD/EUR	0.89	0.89	0.00	0.1% depreciation
USD/CHF	1.00	0.95	(0.04)	4.7% appreciation
USD/TWD	31.03	29.79	(1.24)	4.2% appreciation
USD/TRY	5.63	6.72	1.09	16.2% depreciation
USD/IRR	102,297			

(Note: 7) In accordance with IAS 29, the closing currency rates for the month ended September 2020 have been applied when converting financial statements of subsidiaries located in hyperinflationary economies to the U.S. dollar. Similarly, the month-end rates are also applied upon conversions from the U.S. dollar to the Japanese yen. (USD/IRR: 253,917, USD/JPY: 105.80)

## Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change
Revenue	63.3	57.5	(9.1)%
Adjusted operating profit	7.8	12.6	61.4%

### <Revenue and adjusted operating profit>

Revenue decreased by 9.1% from the same period of the previous year due mainly to lower royalty revenue overseas. The impact from the spread of COVID-19 on revenue is expected to be immaterial.

Adjusted operating profit increased by 61.4% 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 trials for the clinical development of the product for which manufacturing and marketing application were submitted, and due to an increase in profit at Group company Torii Pharmaceutical Co., Ltd.

## Processed Food Business

(Billions of yen)

Processed Food Business	Nine months ended September 30, 2019	Nine months ended September 30, 2020	Change
Revenue	114.8	108.6	(5.4)%
Adjusted operating profit	2.9	0.9	(70.4)%

### <Revenue and adjusted operating profit>

Revenue was affected by restrictions on non-essential outings following the declaration of the state of emergency, and although there was a growth in sales from rising demand for products for use at home in the frozen and ambient foods business, the decline in sales resulting from the fall in demand for products used in restaurants in the frozen and ambient foods business and the seasonings business as well as demand in the bakery business led to a revenue decrease of 5.4% from the same period of the previous year. The impact from the spread of COVID-19 is expected to lower revenue by approximately ¥7.0 billion.

Adjusted operating profit decreased by 70.4% from the same period of the previous year due to a decrease in revenue and an increase in logistics costs in the frozen and ambient foods business, despite improvements in the product mix.



## **(2) Financial Position and Cash Flow Position**

### **a. Financial position**

#### **Assets**

Total assets at the end of the nine months ended September 30, 2020 decreased by ¥309.3 billion from the end of the previous fiscal year to ¥5,243.7 billion. This was mainly due to decreases in goodwill, inventories, intangible assets, and property, plant and equipment caused by foreign exchange effects.

#### **Liabilities**

Total liabilities at the end of the nine months ended September 30, 2020 decreased by ¥79.4 billion from the end of the previous fiscal year to ¥2,730.1 billion. This was mainly due to the redemption of bonds, a decrease in tobacco excise tax payables and the repayment of short-term borrowings, despite commercial paper issuances and a rise in subordinated loan.

#### **Equity**

Total equity at the end of the nine months ended September 30, 2020 decreased by ¥230.0 billion from the end of the previous fiscal year to ¥2,513.6 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 nine months ended September 30, 2020 increased by ¥101.0 billion from the end of the previous fiscal year to ¥458.1 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥181.7 billion.

#### **Cash flows from (used in) operating activities**

Net cash flows from operating activities during the nine months ended September 30, 2020 were ¥398.2 billion, compared with ¥257.8 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 nine months ended September 30, 2020 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, 2020 were ¥43.6 billion, compared with ¥124.8 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 nine months ended September 30, 2020 were ¥208.2 billion, compared with ¥223.4 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 nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2020, were ¥43.4 billion.

During the nine months ended September 30, 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 first quarter ended March 31, 2020.

#### (6) Main Facilities

During the nine months ended September 30, 2020, facilities with significant changes among the Group's main facilities mentioned in the previous fiscal year's Annual Securities Report are as follows. This was due to the transfer of the Sakura Plant owned by Torii Pharmaceutical Co., Ltd., a Group company.

[Domestic Subsidiaries]

(as of September 30, 2020)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)					Number of employees (Person)	
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures		Total
			Size (thousand m <sup>2</sup> )	Amount					
Torii Pharmaceutical Co., Ltd. Headquarters, other regional sales headquarters, etc. (Head Office: Chuo-ku, Tokyo)	Pharmaceutical Business	Pharmaceuticals manufacturing facility and other	3	337	1,386	305	86	2,114	576

#### (7) 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 ¥144.0 billion, but at the end of the six months ended June 30, 2020, this was revised to ¥123.0 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.

#### (8) 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 September 30, 2020 accounted for ¥666.6 billion and ¥596.5 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥115.3 billion and ¥204.1 billion respectively.

##### Short-term debt

Short-term borrowings from financial institutions totaled ¥192.6 billion as of December 31, 2019 and ¥127.4 billion as of September 30, 2020. There was no commercial paper outstanding as of December 31, 2019, but as of September 30, 2020, the outstanding balance was ¥107.4 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 September 30, 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.

### **3. Important Operational Contracts**

No important operational contracts were determined or entered into during the third quarter ended September 30, 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 September 30, 2020)	Number of shares issued (Share; as of the date of filing: October 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)
July 1, 2020 to September 30, 2020	—	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, 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 225,757,300	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,807,100	17,738,071	(Note 2)
Shares less than one unit	Ordinary shares 435,600	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,738,071	–

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 77 shares of treasury shares.

### b. Treasury shares

(as of September 30, 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	225,757,300	–	225,757,300	11.29
Total	–	225,757,300	–	225,757,300	11.29

Note: The treasury shares of 239,200 shares were allotted on May 26, based on the allocation of treasury shares towards the Restricted Stock Remuneration Plan, which was resolved at the meeting of the Board of Directors of the Company held on April 30, 2020.

## 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, 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 this third quarter period (from July 1, 2020 to September 30, 2020) and for the nine months ended September 30, 2020 were reviewed by Deloitte Touche Tohmatsu LLC.

## 1. Condensed Interim Consolidated Financial Statements

### (1) Condensed Interim Consolidated Statement of Financial Position

	As of December 31, 2019	(Millions of yen) As of September 30, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 6)	357,158	458,133
Trade and other receivables	458,513	433,559
Inventories	677,586	600,122
Other financial assets	21,943	25,941
Other current assets	410,443	354,132
Subtotal	1,925,643	1,871,888
Non-current assets held for sale	30	40,202
Total current assets	1,925,673	1,912,090
<b>Non-current assets</b>		
Property, plant and equipment (Note 7)	803,239	753,248
Goodwill (Note 7)	2,002,595	1,871,909
Intangible assets (Note 7)	440,434	376,525
Investment property	16,588	4,748
Retirement benefit assets	67,377	65,249
Investments accounted for using the equity method	52,903	37,926
Other financial assets	109,568	99,484
Deferred tax assets	134,696	122,555
Total non-current assets	3,627,397	3,331,644
<b>Total assets</b>	5,553,071	5,243,734

	As of December 31, 2019	(Millions of yen) As of September 30, 2020
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	408,597	374,638
Bonds and borrowings	284,135	346,031
Income tax payables	69,543	48,522
Other financial liabilities	21,862	23,085
Provisions	16,570	14,412
Other current liabilities	701,050	617,418
Subtotal	1,501,757	1,424,105
Liabilities directly associated with non-current assets held for sale	-	441
<b>Total current liabilities</b>	1,501,757	1,424,546
<b>Non-current liabilities</b>		
Bonds and borrowings (Note 8)	690,367	689,439
Other financial liabilities	41,062	50,730
Retirement benefit liabilities	320,614	312,957
Provisions	19,463	14,591
Other non-current liabilities	155,768	165,235
Deferred tax liabilities	80,430	72,599
<b>Total non-current liabilities</b>	1,307,702	1,305,551
<b>Total liabilities</b>	2,809,459	2,730,097
<b>Equity</b>		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(492,469)	(491,513)
Other components of equity	(431,741)	(646,218)
Retained earnings	2,750,506	2,735,604
Equity attributable to owners of the parent company	2,662,696	2,434,273
Non-controlling interests	80,916	79,364
<b>Total equity</b>	2,743,611	2,513,637
<b>Total liabilities and equity</b>	5,553,071	5,243,734



**(2) Condensed Interim Consolidated Statement of Income**

(For the nine-month period)

**Nine months ended September 30, 2019 and 2020**

	(Millions of yen)	
	2019	2020
Revenue (Notes 5, 10)	1,633,748	1,592,097
Cost of sales	(689,768)	(671,038)
Gross profit	943,979	921,058
Other operating income (Note 11)	72,228	5,250
Share of profit in investments accounted for using the equity method	3,837	3,038
Selling, general and administrative expenses (Note 12)	(579,447)	(539,166)
Operating profit (Note 5)	440,597	390,181
Financial income (Note 13)	5,929	5,832
Financial costs (Note 13)	(34,962)	(50,454)
Profit before income taxes	411,564	345,558
Income taxes	(82,792)	(85,937)
Profit for the period	328,771	259,621
<b>Attributable to</b>		
Owners of the parent company	316,148	257,948
Non-controlling interests	12,623	1,673
Profit for the period	328,771	259,621
<b>Interim earnings per share</b>		
Basic (Yen) (Note 14)	177.83	145.40
Diluted (Yen) (Note 14)	177.75	145.33

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

	(Millions of yen)	
	2019	2020
Operating profit	440,597	390,181
Amortization cost of acquired intangibles arising from business acquisitions	51,137	47,975
Adjustment items (income)	(65,416)	(3,124)
Adjustment items (costs)	25,203	6,502
Adjusted operating profit (Note 5)	451,522	441,533

(For the three-month period)  
**Three months ended September 30, 2019 and 2020**

	(Millions of yen)	
	2019	2020
Revenue (Note 5)	575,198	561,879
Cost of sales	(241,348)	(234,587)
Gross profit	333,850	327,291
Other operating income	5,733	1,245
Share of profit in investments accounted for using the equity method	1,231	1,425
Selling, general and administrative expenses	(211,544)	(191,769)
Operating profit (Note 5)	129,271	138,192
Financial income	1,821	2,093
Financial costs	(10,146)	(20,688)
Profit before income taxes	120,946	119,597
Income taxes	(30,598)	(33,330)
Profit for the period	90,348	86,267
<b>Attributable to</b>		
Owners of the parent company	89,697	85,452
Non-controlling interests	651	814
Profit for the period	90,348	86,267
<b>Interim earnings per share</b>		
Basic (Yen) (Note 14)	50.57	48.16
Diluted (Yen) (Note 14)	50.54	48.14

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

	(Millions of yen)	
	2019	2020
Operating profit	129,271	138,192
Amortization cost of acquired intangibles arising from business acquisitions	16,464	15,331
Adjustment items (income)	(1,667)	(1,398)
Adjustment items (costs)	19,658	1,775
Adjusted operating profit (Note 5)	163,726	153,900

**(3) Condensed Interim Consolidated Statement of Comprehensive Income**

(For the nine-month period)

**Nine months ended September 30, 2019 and 2020**

(Millions of yen)

	2019	2020
Profit for the period	328,771	259,621
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(907)	(3,154)
Remeasurements of defined benefit plans	-	(48)
Total of items that will not be reclassified to profit or loss	(907)	(3,203)
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation of foreign operations	(73,195)	(211,510)
Net gain (loss) on derivatives designated as cash flow hedges	(235)	203
Total of items that may be reclassified subsequently to profit or loss	(73,429)	(211,307)
Other comprehensive income (loss), net of taxes	(74,336)	(214,509)
Comprehensive income (loss) for the period	254,435	45,112
<b>Attributable to</b>		
Owners of the parent company	242,439	44,113
Non-controlling interests	11,996	999
Comprehensive income (loss) for the period	254,435	45,112

(For the three-month period)  
**Three months ended September 30, 2019 and 2020**

	2019	(Millions of yen) 2020
Profit for the period	90,348	86,267
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	1,160	40
Remeasurements of defined benefit plans	-	-
Total of items that will not be reclassified to profit or loss	1,160	40
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation of foreign operations	(47,877)	(59,688)
Net gain (loss) on derivatives designated as cash flow hedges	(144)	148
Total of items that may be reclassified subsequently to profit or loss	(48,021)	(59,540)
Other comprehensive income (loss), net of taxes	(46,860)	(59,500)
Comprehensive income (loss) for the period	43,487	26,767
<b>Attributable to</b>		
Owners of the parent company	43,064	26,126
Non-controlling interests	423	641
Comprehensive income (loss) for the period	43,487	26,767

#### (4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

Equity attributable to owners of the parent company

	Other components of equity						Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
	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	
<b>As of January 1, 2019</b>	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 9)	-	-	-	-	-	-	-
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)
<b>As of September 30, 2019</b>	<u>100,000</u>	<u>736,400</u>	<u>(492,487)</u>	<u>1,494</u>	<u>(527,391)</u>	<u>94</u>	<u>28,221</u>
<b>As of January 1, 2020</b>	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(210,936)	203	(3,076)
Comprehensive income (loss) for the period	-	-	-	-	(210,936)	203	(3,076)
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	957	(328)	-	-	-
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	-	-	-	-	-	-	(368)
Other increase (decrease)	-	-	-	-	-	(2)	-
Total transactions with the owners	-	-	956	(298)	-	(2)	(368)
<b>As of September 30, 2020</b>	<u>100,000</u>	<u>736,400</u>	<u>(491,513)</u>	<u>1,258</u>	<u>(655,301)</u>	<u>69</u>	<u>7,756</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				
<b>As of January 1, 2019</b>	-	(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 9)	-	-	(270,936)	(270,936)	(1,569)	(272,505)
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)
<b>As of September 30, 2019</b>	-	(497,582)	2,705,848	2,552,179	80,283	2,632,461
<b>As of January 1, 2020</b>	-	(431,741)	2,750,506	2,662,696	80,916	2,743,611
Profit for the period	-	-	257,948	257,948	1,673	259,621
Other comprehensive income (loss)	(27)	(213,835)	-	(213,835)	(674)	(214,509)
Comprehensive income (loss) for the period	(27)	(213,835)	257,948	44,113	999	45,112
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(328)	(628)	0	-	0
Share-based payments	-	30	349	378	35	414
Dividends (Note 9)	-	-	(273,200)	(273,200)	(1,204)	(274,403)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	288	288	(1,383)	(1,094)
Transfer from other components of equity to retained earnings	27	(342)	342	-	-	-
Other increase (decrease)	-	(2)	-	(2)	-	(2)
Total transactions with the owners	27	(642)	(272,849)	(272,535)	(2,551)	(275,086)
<b>As of September 30, 2020</b>	-	(646,218)	2,735,604	2,434,273	79,364	2,513,637

**(5) Condensed Interim Consolidated Statement of Cash Flows**  
**Nine months ended September 30, 2019 and 2020**

	2019	(Millions of yen) 2020
<b>Cash flows from operating activities</b>		
Profit before income taxes	411,564	345,558
Depreciation and amortization	135,871	135,151
Impairment losses	3,251	3,623
Interest and dividend income	(5,708)	(4,549)
Interest expense	21,198	16,718
Share of profit in investments accounted for using the equity method	(3,837)	(3,038)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(183)	(911)
(Increase) decrease in trade and other receivables	(30,840)	(8,110)
(Increase) decrease in inventories	(7,242)	35,055
Increase (decrease) in trade and other payables	(20,225)	(11,831)
Increase (decrease) in retirement benefit liabilities	(12,102)	(6,702)
(Increase) decrease in prepaid tobacco excise taxes	3,877	10,236
Increase (decrease) in tobacco excise tax payables	(119,922)	(51,241)
Increase (decrease) in consumption tax payables	12,704	2,946
Other	3,992	28,312
Subtotal	392,397	491,215
Interest and dividends received	10,917	9,372
Interest paid	(19,594)	(15,456)
Income taxes paid	(125,950)	(86,972)
Net cash flows from operating activities	257,770	398,159
<b>Cash flows from investing activities</b>		
Purchase of securities	(33,117)	(31,504)
Proceeds from sale and redemption of securities	28,085	41,639
Purchase of property, plant and equipment	(78,454)	(57,668)
Proceeds from sale of investment property	3,985	3,087
Purchase of intangible assets	(13,194)	(17,777)
Payments into time deposits	(209)	(338)
Proceeds from withdrawal of time deposits	204	209
Subsequent payments for past fiscal years' business combinations	(33,537)	(1,004)
Proceeds from sale of investments in associates	-	17,402
Other	1,451	2,373
Net cash flows from investing activities	(124,786)	(43,581)

	2019	(Millions of yen) 2020
<b>Cash flows from financing activities</b>		
Dividends paid to owners of the parent company (Note 9)	(270,650)	(272,753)
Dividends paid to non-controlling interests	(1,333)	(1,141)
Capital contribution from non-controlling interests	81	89
Increase (decrease) in short-term borrowings and commercial paper	120,259	51,012
Proceeds from long-term borrowings	-	100,101
Repayments of long-term borrowings	(11,327)	(11,744)
Redemption of bonds	-	(60,000)
Repayments of lease liabilities	(10,436)	(12,596)
Acquisition of treasury shares	(50,000)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	(1,121)
Other	0	0
Net cash flows from financing activities	(223,407)	(208,154)
<b>Net increase (decrease) in cash and cash equivalents</b>	(90,423)	146,424
<b>Cash and cash equivalents at the beginning of the period</b>	282,063	357,158
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(9,965)	(45,448)
<b>Cash and cash equivalents at the end of the period (Note 6)</b>	181,675	458,133



## 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 September 30, 2020 and for the nine-month period ended September 30, 2020 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on October 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.

#### (Hyperinflationary Accounting Adjustments)

The Group applies accounting adjustments to the underlying financial statements of the subsidiaries in the hyperinflationary economy as required by IAS 29, "Financial Reporting in Hyperinflationary Economies" (hereinafter referred to as "IAS 29").

The details are stated in "17. Hyperinflationary Accounting Adjustments."

#### (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"
IFRS 16	Leases	Amendments to permit a practical expedient for COVID-19-related rent concessions

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

IFRS 16 amendment mentioned above has been early applied since May 2020. The change in accounting policy has been applied retrospectively from January 1, 2020, which has no impact on the condensed interim consolidated financial statements for the first quarter ended March 31, 2020.

### 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.

The spread of COVID-19 has affected the Group businesses, including a decrease in duty-free sales in the tobacco business and a change in consumer trends in the Domestic Tobacco Business and the Processed Food Business due to people voluntarily staying home following the declaration of a state of emergency.

The Group anticipates the impact from the spread of COVID-19 to continue till at least the end of year December 31, 2020. However, at present, there is no material impact on accounting estimates and judgements.

## 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 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.

(For the nine-month period)

Nine months ended September 30, 2019

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
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	<u>471,928</u>	<u>1,006,285</u>	<u>63,310</u>	<u>114,756</u>	<u>1,656,280</u>	<u>9,858</u>	<u>(32,390)</u>	<u>1,633,748</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>165,393</u>	<u>296,464</u>	<u>7,819</u>	<u>2,891</u>	<u>472,567</u>	<u>(21,002)</u>	<u>(44)</u>	<u>451,522</u>

Nine months ended September 30, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Revenue								
External revenue	425,157	998,733	57,533	108,556	1,589,979	2,118	-	1,592,097
Intersegment revenue	5,667	19,632	-	0	25,300	4,031	(29,330)	-
Total revenue	<u>430,824</u>	<u>1,018,365</u>	<u>57,533</u>	<u>108,556</u>	<u>1,615,278</u>	<u>6,149</u>	<u>(29,330)</u>	<u>1,592,097</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>139,001</u>	<u>314,806</u>	<u>12,623</u>	<u>856</u>	<u>467,286</u>	<u>(25,384)</u>	<u>(369)</u>	<u>441,533</u>

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

Nine months ended September 30, 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)	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								<u>411,564</u>

Nine months ended September 30, 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)	139,001	314,806	12,623	856	467,286	(25,384)	(369)	441,533
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(35,791)	-	-	(47,975)	-	-	(47,975)
Adjustment items (income) (Note 3)	-	320	150	0	471	2,654	-	3,124
Adjustment items (costs) (Note 4)	-	(3,189)	(841)	(0)	(4,031)	(2,471)	-	(6,502)
Operating profit (loss)	126,817	276,146	11,932	856	415,751	(25,202)	(369)	390,181
Financial income								5,832
Financial costs								(50,454)
Profit before income taxes								<u>345,558</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:

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gain on transfer of pharmaceutical licenses	60,518	-
Restructuring incomes	3,448	2,667
Other	1,450	458
Adjustment items (income)	<u>65,416</u>	<u>3,124</u>

Restructuring incomes for nine months ended September 30, 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:

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Restructuring costs	23,759	3,483
Other	1,444	3,019
Adjustment items (costs)	<u>25,203</u>	<u>6,502</u>

Restructuring costs for nine months ended September 30, 2019 mainly relate to business operation transformation in the “International Tobacco Business” and business restructuring in the “Pharmaceutical Business.” The breakdown of restructuring costs is described in “12. Selling, general and administrative expenses.” Other (costs) for nine months ended September 30, 2019 mainly relates to disposal of real estate.

(For the three-month period)  
Three months ended September 30, 2019

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
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	<u>165,598</u>	<u>354,735</u>	<u>21,503</u>	<u>39,333</u>	<u>581,168</u>	<u>3,175</u>	<u>(9,145)</u>	<u>575,198</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>56,196</u>	<u>111,058</u>	<u>2,105</u>	<u>1,290</u>	<u>170,649</u>	<u>(7,109)</u>	<u>186</u>	<u>163,726</u>

Three months ended September 30, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Revenue								
External revenue	157,425	346,803	20,261	36,717	561,205	673	-	561,879
Intersegment revenue	1,894	7,486	-	0	9,381	1,283	(10,663)	-
Total revenue	<u>159,319</u>	<u>354,289</u>	<u>20,261</u>	<u>36,717</u>	<u>570,586</u>	<u>1,956</u>	<u>(10,663)</u>	<u>561,879</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>57,182</u>	<u>100,480</u>	<u>4,689</u>	<u>508</u>	<u>162,859</u>	<u>(8,563)</u>	<u>(397)</u>	<u>153,900</u>

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

Three months ended September 30, 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)	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								<u>120,946</u>

Three months ended September 30, 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)	57,182	100,480	4,689	508	162,859	(8,563)	(397)	153,900
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(11,269)	-	-	(15,331)	-	-	(15,331)
Adjustment items (income) (Note 3)	-	32	-	0	32	1,366	-	1,398
Adjustment items (costs) (Note 4)	-	(396)	49	0	(347)	(1,428)	-	(1,775)
Operating profit (loss)	53,121	88,847	4,738	508	147,214	(8,625)	(397)	138,192
Financial income								2,093
Financial costs								(20,688)
Profit before income taxes								<u>119,597</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 September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Restructuring incomes	997	1,366
Other	670	32
Adjustment items (income)	<u>1,667</u>	<u>1,398</u>

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

Three months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Restructuring costs	18,370	487
Other	1,289	1,288
Adjustment items (costs)	<u>19,658</u>	<u>1,775</u>

Restructuring costs for three months ended September 30, 2019 mainly relate to business operation transformation in the “International Tobacco Business.” Other (costs) 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, 2020 includes cash and cash equivalents of ¥39,656 million and ¥40,895 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	86,848	-	16,680
Transfer to investment property	(963)	-	-
Transfer to non-current assets held for sale	(29,669)	-	(20)
Depreciation or amortization	(75,645)	-	(59,159)
Impairment losses	(3,251)	-	(82)
Reversal of impairment losses	36	-	13
Sale or disposal	(1,566)	-	(880)
Exchange differences on translation of foreign operations	(24,878)	(130,686)	(20,632)
Other	(902)	-	171
As of September 30, 2020	<u>753,248</u>	<u>1,871,909</u>	<u>376,525</u>

## 8. Borrowings

The Company entered into a subordinated loan agreement (aggregate amount of borrowings: ¥100,000 million, carrying amount: ¥99,031 million, repayment date: January 31, 2080) for the nine months ended September 30, 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 in January 2025.

## 9. Dividends

Dividends paid for each interim period are as follows:

### Nine months ended September 30, 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
Board of Directors (July 31, 2019)	Ordinary shares	136,579	77	June 30, 2019	September 2, 2019

### Nine months ended September 30, 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
Board of Directors (July 31, 2020)	Ordinary shares	136,617	77	June 30, 2020	September 1, 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.

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

Nine months ended September 30, 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)	394,795	956,460	-	-	-	1,351,255
Other	30,361	42,273	57,533	108,556	2,118	240,842
Total	<u>425,157</u>	<u>998,733</u>	<u>57,533</u>	<u>108,556</u>	<u>2,118</u>	<u>1,592,097</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 ¥48,245 million and ¥42,600 million for the nine months ended September 30, 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:

Nine months ended September 30, 2019 and 2020

(Millions of yen)

	2019	2020
South and West Europe	171,469	172,006
North and Central Europe	177,266	202,582
CIS+	228,633	228,953
Rest-of-the-World	364,203	352,919
Total	<u>941,570</u>	<u>956,460</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:

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gross turnover	5,711,383	5,727,554
Tobacco excise taxes and agency transaction amount	(4,077,635)	(4,135,458)
Revenue	<u>1,633,748</u>	<u>1,592,097</u>

**11. Other Operating Income**

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

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gain on transfer of pharmaceutical licenses	60,518	-
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	3,403	2,998
Other (Note)	8,306	2,252
Total	<u>72,228</u>	<u>5,250</u>

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

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gain on sale of property, plant and equipment, intangible assets and investment property	2,877	2,632
Other	571	35
Total	<u>3,448</u>	<u>2,667</u>

## 12. 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, 2019 and 2020

	2019	(Millions of yen) 2020
Advertising expenses	21,418	16,445
Promotion expenses	63,932	53,740
Commission	37,640	39,597
Employee benefit expenses (Note)	232,851	223,136
Research and development expenses	48,460	43,405
Depreciation and amortization	77,851	78,010
Impairment losses on other than financial assets (Note)	3,251	3,623
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	4,669	3,204
Other (Note)	89,375	78,005
Total	<u>579,447</u>	<u>539,166</u>

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

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Employee benefit expenses	22,417	796
Impairment losses on other than financial assets	396	323
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	245	281
Other	700	2,084
Total	<u>23,759</u>	<u>3,483</u>

### 13. 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, 2019 and 2020

Financial Income	(Millions of yen)	
	2019	2020
Dividend income	1,743	693
Interest income	3,966	3,856
Gain on net monetary position	-	1,279
Other	221	4
Total	<u>5,929</u>	<u>5,832</u>

Nine months ended September 30, 2019 and 2020

Financial Costs	(Millions of yen)	
	2019	2020
Interest expenses	21,198	16,718
Foreign exchange losses (Note 1)	8,827	30,618
Employee benefit expenses (Note 2)	2,122	1,600
Other	2,816	1,519
Total	<u>34,962</u>	<u>50,454</u>

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.

(Note 2) Employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

#### 14. 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, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period attributable to owners of the parent company	316,148	257,948
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic interim earnings per share	316,148	257,948

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

Nine months ended September 30, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of shares during the period	1,777,787	1,774,089

##### (2) Basis of Calculating Diluted Interim Earnings per Share

###### A. Profit Attributable to Diluted Ordinary Shareholders

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period used for calculation of basic interim earnings per share	316,148	257,948
Adjustment	-	(0)
Profit for the period used for calculation of diluted interim earnings per share	316,148	257,948

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

Nine months ended September 30, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of ordinary shares during the period	1,777,787	1,774,089
Increased number of ordinary shares under subscription rights to shares	810	799
Weighted-average number of diluted ordinary shares during the period	1,778,597	1,774,888

(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, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period attributable to owners of the parent company	89,697	85,452
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic interim earnings per share	89,697	85,452

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

Three months ended September 30, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of shares during the period	1,773,775	1,774,243

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Three months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Profit for the period used for calculation of basic interim earnings per share	89,697	85,452
Adjustment	-	(0)
Profit for the period used for calculation of diluted interim earnings per share	89,697	85,452

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

Three months ended September 30, 2019 and 2020

	2019	(Thousands of shares) 2020
Weighted-average number of ordinary shares during the period	1,773,775	1,774,243
Increased number of ordinary shares under subscription rights to shares	959	774
Weighted-average number of diluted ordinary shares during the period	1,774,734	1,775,017



## 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 September 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	115,297	116,804	204,144	206,981
Bonds (Note)	666,623	683,650	596,517	629,376

(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 of bonds issued by the Group is based on the market price for those having market prices, and based on the present value that is obtained by discounting the total of principal and interest by the interest rate, for which the remaining period and credit risk of such bonds are taken into consideration.

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	26,270	20,238	11,927	58,435
Derivative liabilities	-	7,739	-	7,739
Total	-	7,739	-	7,739

As of September 30, 2020

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Derivative assets	-	15,182	-	15,182
Equity securities	20,742	-	6,961	27,703
Other	717	8,679	3,994	13,391
Total	21,459	23,861	10,955	56,275
Derivative liabilities	-	6,313	-	6,313
Total	-	6,313	-	6,313

## 16. Commitments

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

	As of December 31, 2019	As of September 30, 2020
Acquisition of property, plant and equipment	35,747	38,880

(Millions of yen)

## 17. Hyperinflationary Accounting Adjustments

As required by IAS 29, the Group's condensed interim consolidated financial statements include the financial statements of the subsidiaries in the hyperinflationary economy, restated in terms of the measuring unit current at the end of the reporting period.

For the restatement of the financial statements of the subsidiaries in Iran, the Group applies the conversion coefficient derived from the Consumer Price Index of Iran published by the Statistical Centre of Iran.

Consumer Price Index and corresponding conversion coefficients of Iran at the end of reporting periods are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2015	93	262
31 December 2016	102	240
31 December 2017	112	218
31 December 2018	152	161
31 December 2019	194	126
30 September 2020	244	100

The Group's subsidiaries in the hyperinflationary economy have restated their non-monetary items held at historical cost, such as property, plant and equipment, by applying the conversion coefficient at the acquisition date. Monetary items and non-monetary items held at current cost are not restated, as they are considered to be expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of consolidation, the financial statements of the Group's subsidiaries in the hyperinflationary economy are translated using the spot exchange rates at the end of the reporting period.

## 18. Contingencies

As of September 30 2020, there are no significant changes to the matters described in the consolidated financial statements for the year ended December 31, 2019.

## 19. Subsequent Events

The Group's subsidiary, JT International Financial Services B.V. issued Euro-denominated Deeply Subordinated Guaranteed Fixed Rate Resettable Capital Securities (hereinafter referred to as the "Bonds") on October 7, 2020 as follows:

	Euro-denominated Deeply Subordinated Guaranteed Fixed Rate Resettable Capital Securities due 2081 (with interest deferral clause)	Euro-denominated Deeply Subordinated Guaranteed Fixed Rate Resettable Capital Securities due 2083 (with interest deferral clause)
(1) Total amount of issue	EUR 500 million	EUR 500 million
(2) Interest rate	2.375% per annum Interest rate is fixed until April 7, 2026 and such fixed interest rate will be reset every 5 years thereafter.	2.875% per annum Interest rate is fixed until January 7, 2029 and such fixed interest rate will be reset every 5 years thereafter.
(3) Issue price	EUR 100 per face value of EUR 100	EUR 100 per face value of EUR 100
(4) Redemption price	EUR 100 per face value of EUR 100	EUR 100 per face value of EUR 100
(5) Issue date	October 7, 2020	October 7, 2020
(6) Maturity date	April 7, 2081	October 7, 2083
(7) Early redemption	The Issuer may redeem the Bonds at its own discretion in the 3-month period ending on and including April 7, 2026 and on each interest payment date thereafter. There are some other provisions where the Bonds may be redeemed prior to maturity.	The Issuer may redeem the Bonds at its own discretion in the 3-month period ending on and including January 7, 2029 and on each interest payment date thereafter. There are some other provisions where the Bonds may be redeemed prior to maturity.
(8) Guarantee	Subordinated guarantee by the Company (the "Guarantee")	
(9) Use of proceeds	Repayment of short-term borrowings and others	
(10) Other terms	<p>a. Interest deferral clause The Issuer may defer the payment of interest at its own discretion.</p> <p>b. Subordination clause In the event of any liquidation of the Issuer, the rights and claims of the holders of the Bonds against the Issuer will rank (i) junior to the claims of all holders of senior obligations of the Issuer, (ii) pari passu among the Bonds concurrently issued and with the claims of holders of all parity obligations of the Issuer and preferred shares of the Issuer and (iii) senior to the claims of holders of ordinary shares of the Issuer. In the event of any liquidation of the Company, the rights and claims under the Guarantee will rank (i) junior to the claims of all holders of senior obligations of the Company, (ii) pari passu among the Guarantee for the Bonds concurrently issued and with the claims of holders of all parity obligations of the Company and preferred shares of the Company and (iii) senior to the claims of holders of ordinary shares of the Company.</p> <p>c. Replacement restriction There is no contractual provision on replacement restrictions. However, when the Bonds are redeemed prior to maturity, the Company and the Issuer intend to refinance through means which will be assigned credit ratings equivalent to or higher than that of the Bonds by rating agencies within the twelve months prior to such redemption prior to maturity. The Issuer may decide not to implement such refinance if predefined financial requirements are met.</p>	



## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

October 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 September 30, 2020, 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, 2020, 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.