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Quarterly accounting period:	First quarter of the 37th term (from January 1, 2021 to March 31, 2021)
Company name (Japanese):	日本たばこ産業株式会社 (Nihon Tabako Sangyo Kabushiki-Kaisha)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, Representative Director and President, Chief Executive Officer
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Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in Principal Management Benchmarks

Term	Three months ended March 31, 2020	Three months ended March 31, 2021	36th term
Accounting period	From January 1, 2020 to March 31, 2020	From January 1, 2021 to March 31, 2021	From January 1, 2020 to December 31, 2020
Revenue (Millions of yen)	519,620	547,366	2,092,561
Profit before income taxes (Millions of yen)	115,102	156,342	420,063
Profit for the period (Millions of yen)	86,882	114,039	312,029
Profit attributable to owners of the parent company (Millions of yen)	86,373	113,786	310,253
Comprehensive income (loss) for the period (Millions of yen)	(103,489)	243,127	132,883
Total equity (Millions of yen)	2,501,844	2,705,275	2,599,495
Total assets (Millions of yen)	5,201,980	5,398,190	5,381,382
Basic earnings per share (Yen)	48.69	64.13	174.88
Diluted earnings per share (Yen)	48.67	64.10	174.80
Ratio of equity attributable to owners of the parent company to total assets (%)	46.57	48.69	46.88
Net cash flows from operating activities (Millions of yen)	(1,943)	12,354	519,833
Net cash flows from investing activities (Millions of yen)	(7,518)	(22,449)	5,354
Net cash flows from financing activities (Millions of yen)	(31,099)	(127,449)	(297,404)
Cash and cash equivalents at the end of the period (Millions of yen)	301,059	424,306	538,844

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, 2021, there were neither material changes in the business of the Group (the Company, 236 consolidated subsidiaries and 13 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, 2021, 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.

Concerning the spread of the novel coronavirus disease (COVID-19), the Group continues to conduct business operations of each business fully in compliance with the policies and directives of the governments and relevant authorities of each country, and nothing is obstructing business continuity at present. For the three months ended March 31, 2021, due to the spread of COVID-19, the tobacco business experienced a decrease in duty-free sales due to a lag in the recovery in the number of travelers, and the Processed Food Business experienced a decrease in sales of food-service products of the frozen and ambient food business due to people voluntarily staying at home, etc., while the International Tobacco Business experienced an increase in industry volume in some high-unit markets because of travel restrictions. Regarding the impact of the spread of COVID-19 in the second quarter and thereafter, bearing in mind that the impact will have to run its course, and that it is difficult at this time to predict when the spread of COVID-19 will be brought under control and its future impact on each business. In addition, 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. Accordingly, the consolidated earnings forecasts announced on February 9, 2021, have been left unchanged.

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 March 31, 2021.

(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 FX is also presented as additional information. The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant FX, at mid to high single digit over the mid- to long-term, and will continue to pursue this goal. Adjusted operating profit at constant FX is a financial measurement that excludes foreign exchange effects calculated and translated using the foreign exchange rates of the same period of the previous year and the increase in revenue or profit caused by inflation in some markets calculated using certain methods from core revenue or from adjusted operating profit for the current period in the International Tobacco Business.

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 core revenue from the tobacco business and adjusted operating profit at constant FX.

(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 US dollar-based core revenue from the tobacco business at constant FX is also presented as additional information.

(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)			
	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
Revenue	519.6	547.4	5.3%
Adjusted operating profit	146.9	178.1	21.3%
Operating profit	129.0	160.1	24.2%
Profit attributable to owners of the parent company	86.4	113.8	31.7%

<Revenue>

Revenue increased by 5.3% from the same period of the previous year to ¥547.4 billion, with declines in the Domestic Tobacco Business, the Pharmaceutical Business and the Processed Food Business being offset by increases in the International Tobacco Business. Due to the spread of COVID-19, the tobacco business experienced a decrease in duty-free sales due to a lag in the recovery in the number of travelers, and the Processed Food Business experienced a decrease in sales of food-service products of the frozen and ambient food business due to people voluntarily staying at home, etc., while the International Tobacco Business experienced an increase in industry volume in some high-unit markets because of travel restrictions.

<Adjusted operating profit>

Adjusted operating profit at constant FX increased by 27.2% from the same period of the previous year driven by growth in the Domestic Tobacco Business and International Tobacco Business, partially offset by decreases in the Pharmaceutical Business and the Processed Food Business. Adjusted operating profit including foreign exchange effects increased by 21.3% from the same period of the previous year to ¥178.1 billion, despite unfavorable foreign exchange effects in the International Tobacco Business.

<Operating profit>

Operating profit increased by 24.2% from the same period of the previous year to ¥160.1 billion due mainly to an increase in adjusted operating profit.

<Profit attributable to owners of the parent company>

Profit attributable to owners of the parent increased by 31.7% from the same period of the previous year to ¥113.8 billion, due mainly to an increase in operating profit and an improvement in financing costs.

b. Operating segments

Domestic Tobacco Business

(Billions of cigarettes, Billions of yen)			
Domestic Tobacco Business	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
Cigarette industry volume ^(Note 1)	28.8	25.0	(13.0)%
Cigarette sales volume ^(Note 2)	17.2	14.9	(13.3)%
RRP industry volume ^(Note 3)	9.3	10.6	13.5%
RRP sales volume ^(Note 4)	0.9	1.0	19.3%
Core revenue	125.8	124.1	(1.4)%
Adjusted operating profit	43.2	48.0	11.1%

<Cigarette sales volume and RRP sales volume>

Cigarette industry volume decreased 13.0% from the same period of the previous year to 25.0 billion cigarettes, due to the natural decline trend, the growth in the RRP category, the impact of price revisions, and COVID-19. The Company's cigarette sales volume fell by 13.3% from the same period of the previous year to 14.9 billion cigarettes due to a decline in cigarette industry volume as well as our cigarette market share loss. Cigarette market share of the Company decreased by 0.2 percentage points from the same period of the previous year to 59.5% due to the shift to RRP and intensified competition among low-end products caused by downtrading.

RRP industry volume increased by 13.5% from the same period of the previous year to 10.6 billion cigarettes, and the share of the market was 29.7%. In addition to the increase in RRP industry volume, the Company's RRP sales volume increased by 19.3% from the same period of the previous year to 1.0 billion cigarette equivalent units, due to the launch in July 2020 of the Ploom S 2.0, and the expansion to nationwide sales of the Ploom TECH+ with in February 2021, resulting in a market share for the Company of 9.8% in the RRP category.

Combined cigarette industry and RRP volume decreased by 6.5% from the same period of the previous year to 35.6 billion cigarettes, while the Company's sales volume decreased by 11.7% to 15.9 billion cigarettes, and the Company's market share declined by 2.6 percentage points to 44.8%.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business fell by 1.4% from the same period of the previous year, due to an unfavorable cigarette sales volume variance and the impact of lower sales in the domestic duty-free market and the China market, despite a positive cigarette price/mix variance, and an increase in RRP-related revenue ^(Note 4). RRP-related revenue increased by ¥1.8 billion from the same period of the previous year to ¥14.7 billion mainly due to increases in RRP sales volume and sales of devices.

Adjusted operating profit grew 11.1% from the same period of the previous year, due mainly to the positive cigarette price/mix variance, growth in RRP sales volume, and lower promotion expenses, and despite the decline in core revenue from the tobacco business.

(Note: 1) Cigarette industry volume includes sales volume for the whole Japanese cigarette market. Note also that the figure stated above includes little cigars but excludes RRP.

- (Note: 2) In addition to the figure stated above for sales volume, during the three months ended March 31, 2021, 0.4 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 (0.6 billion cigarettes in the same period of the previous year). Note also that the figure stated above includes little cigars but excludes RRP.
- (Note: 3) RRP industry volume includes sales volume for the whole Japanese RRP market (converted at the equivalent of 20 cigarettes per pack). Note also that the figure stated above excludes devices and associated accessories, etc.
- (Note: 4) RRP sales volume does 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.
- (Note: 5) Figures for cigarette industry volume and market share were estimated by the Company.

International Tobacco Business

(Billions of cigarettes, Billions of yen)

International Tobacco Business	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
Total shipment volume ^(Note 6)	104.1	110.2	5.8%
GFB shipment volume ^(Note 7)	67.5	73.7	9.1%
Core revenue	312.0	349.0	11.8%
Adjusted operating profit	104.1	133.6	28.4%

(Millions of US dollars)

International Tobacco Business [US dollar-based]	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
Core revenue	2,866	3,284	14.6% [14.0%]
Adjusted operating profit	956	1,258	31.6% [36.9%]

* The figures in parentheses "[]" show change from the same period of the previous year at constant FX (US dollar-based)

<Total shipment volume and market share>

Total shipping volume increased by 5.8% from the same period of the previous year to 110.2 billion cigarettes, due to rising market share in multiple markets, the favorable inventory adjustments in Russia, and increases in industry volume in some markets with higher unit prices due to travel restrictions caused by COVID-19. Total shipment volume excluding the favorable inventory adjustments rose by 5.2% from the same period of the previous year. Market share continued to grow in various markets, including the key markets of Italy, Spain, Taiwan, Turkey, France, etc.

GFB shipment volume rose by 9.1% from the same period of the previous year to 73.7 billion cigarettes, as a result of firm growth of all GFBs such as Winston (+9.4%), Camel (+11.4%), MEVIUS (+1.2%) and LD (+7.9%).

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit increased by 11.8% and 28.4%, 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.

US dollar-based core revenue from the tobacco business including foreign exchange effects increased by 14.6% from the same period of the previous year as a result of the effects of favorable pricing in multiple markets and the volume effects in the U.K., Taiwan, etc. At constant FX, it increased by 14.0% from the same period of the previous year.

US dollar-based adjusted operating profit including foreign exchange effects rose by 31.6% from the same period of the previous year, due to the effects of favorable pricing, volume effects and other factors, despite unfavorable foreign exchange effects stemming from the decline of IRR, RUB and other currencies, and a rise in expenses related to the strengthening of promotions for RRP. At constant FX, it increased by 36.9% from the same period of the previous year.

The Regional Breakdown of International Tobacco Business ^(Note 8)

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

(Billions of cigarettes, Billions of yen, Millions of US dollars)

	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
South and West Europe			
Total shipment volume ^(Note 6)	17.7	18.1	2.0%
GFB shipment volume ^(Note 7)	14.7	15.4	4.8%
Core revenue	59.4	62.9	5.9%
Core revenue [US dollar-based]	546	593	8.6% [(0.5)%]
North and Central Europe			
Total shipment volume ^(Note 6)	14.2	15.8	11.6%
GFB shipment volume ^(Note 7)	7.4	8.7	18.1%
Core revenue	59.6	71.2	19.5%
Core revenue [US dollar-based]	547	671	22.6% [13.3%]
CIS+			
Total shipment volume ^(Note 6)	26.8	29.1	8.8%
GFB shipment volume ^(Note 7)	18.2	20.8	14.1%
Core revenue	69.3	76.1	9.7%
Core revenue [US dollar-based]	637	717	12.6% [21.5%]
Rest-of-the-World			
Total shipment volume ^(Note 6)	45.5	47.2	3.7%
GFB shipment volume ^(Note 7)	27.3	28.8	5.6%
Core revenue	123.7	138.8	12.2%
Core revenue [US dollar-based]	1,136	1,303	14.6% [17.1%]

* The figures in parentheses “[]” show change from the same period of the previous year at constant FX (US dollar-based)

(Note: 6) 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: 7) GFB (Global Flagship Brands) consists of four brands, which serve as flagships of the Group’s brand portfolio - Winston, Camel, MEVIUS, LD.

(Note: 8) 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 US dollar were as follows. (Note 9)

Foreign exchange rate per US dollar	Three months ended March 31, 2020	Three months ended March 31, 2021	Change	
USD/JPY	108.86	106.09	(2.77)	2.5% appreciation
USD/RUB	66.33	74.34	8.01	10.8% depreciation
USD/GBP	0.78	0.73	(0.06)	7.8% appreciation
USD/EUR	0.91	0.83	(0.08)	9.4% appreciation
USD/CHF	0.97	0.90	(0.06)	7.1% appreciation
USD/TWD	30.11	28.07	(2.04)	7.3% appreciation
USD/TRY	6.10	7.37	1.27	17.2% depreciation
USD/IRR	128,673			

(Note: 9) In accordance with IAS 29, the closing currency rates for the month ended March 2021 have been applied when converting financial statements of subsidiaries located in hyperinflationary economies to the US dollar. Similarly, the month-end rates are also applied upon conversions from the US dollar to the Japanese yen. (USD/IRR: 229,510, USD/JPY: 110.71)

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
Revenue	20.7	19.7	(5.2)%
Adjusted operating profit	6.6	4.2	(35.7)%

<Revenue and adjusted operating profit>

Revenue decreased by 5.2% from the same period of the previous year due mainly to lower royalty revenue overseas. Adjusted operating profit decreased by 35.7% from the same period of the previous year mainly due to the decrease in revenue and a decline in profit at Torii Pharmaceutical Co., Ltd., which is a consolidated subsidiary of the Company.

Processed Food Business

(Billions of yen)

Processed Food Business	Three months ended March 31, 2020	Three months ended March 31, 2021	Change
Revenue	36.7	33.8	(8.0)%
Adjusted operating profit	0.4	0.3	(22.2)%

<Revenue and adjusted operating profit>

Revenue continued to be affected by the impact of people voluntarily staying at home, etc. due to COVID-19, and in addition to the fall in sales of food-service products within the frozen and ambient food business, demand for household products in the same business, which recorded a temporary increase in the same period of the previous year, declined in relative terms. This led to revenue falling by 8.0% from the same period of the previous year.

Adjusted operating profit decreased by 22.2% from the same period of the previous year due mainly to the decrease in revenue, despite cost reductions and other factors.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets at the end of the three months ended March 31, 2021 increased by ¥16.8 billion from the end of the previous fiscal year to ¥5,398.2 billion. This was mainly due to the increase caused by foreign exchange effects, which offset a decrease in cash arising from the payment of cash dividends and tobacco excise tax.

Liabilities

Total liabilities at the end of the three months ended March 31, 2021 decreased by ¥89.0 billion from the end of the previous fiscal year to ¥2,692.9 billion. This was mainly due to a decrease in trade and other payables and a decrease in tobacco excise tax payables, despite an increase in short-term borrowings.

Equity

Total assets at the end of the three months ended March 31, 2021 increased by ¥105.8 billion from the end of the previous fiscal year to ¥2,705.3 billion. This was mainly due to the rise 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, 2021 decreased by ¥114.5 billion from the end of the previous fiscal year to ¥424.3 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥301.1 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the three months ended March 31, 2021 were ¥12.4 billion, compared with ¥1.9 billion used 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, 2021 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, 2021 were ¥22.4 billion, compared with ¥7.5 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.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the three months ended March 31, 2021 were ¥127.4 billion, compared with ¥31.1 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends, despite the proceeds from short-term borrowings.

(3) Management Policy, Management Strategy, Etc.

During the three months ended March 31, 2021, 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, 2021, 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, 2021, were ¥14.7 billion.

During the three months ended March 31, 2021, there were no material changes in the status of the Group's research and development activities mentioned in the previous fiscal year's Annual Securities Report.

(6) Analysis of Capital Resources and Liquidity of Funds

a. Funding requirements

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

b. Resources of funds

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

<Cash flows>

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

<Interest-bearing debt>

Long-term debt

Bonds issued (including the current portion) as of December 31, 2020 and as of March 31, 2021 accounted for ¥702.3 billion and ¥730.8 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥205.0 billion and ¥205.8 billion respectively.

Short-term debt

Short-term borrowings from financial institutions totaled ¥51.6 billion as of December 31, 2020 and ¥62.7 billion as of March 31, 2021. There was no commercial paper outstanding on both periods.

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, 2021, the Group had committed lines of credit from major financial institutions both domestic and international. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

3. Important Operational Contracts

No important operational contracts were determined or entered into during the first quarter ended March 31, 2021.

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, 2021)	Number of shares issued (Share; as of the date of filing: April 30, 2021)	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, 2021 to March 31, 2021	—	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, 2021)

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 225,734,000	—	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,727,000	17,737,270	(Note 2)
Shares less than one unit	Ordinary shares 539,000	—	(Note 3)
Total number of shares issued	2,000,000,000	—	—
Total number of voting rights	—	17,737,270	—

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 42 shares of treasury shares.

b. Treasury shares

(as of March 31, 2021)

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.	1-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan	225,734,000	—	225,734,000	11.29
Total	—	225,734,000	—	225,734,000	11.29

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, 2021.

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, 2021 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, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and cash equivalents (Note 6)	538,844	424,306
Trade and other receivables	412,144	431,276
Inventories	539,762	553,038
Other financial assets	18,828	21,262
Other current assets	493,992	499,995
Subtotal	2,003,570	1,929,876
Non-current assets held for sale	348	966
Total current assets	2,003,919	1,930,842
Non-current assets		
Property, plant and equipment (Note 7)	759,290	767,178
Goodwill (Note 7)	1,909,392	1,987,879
Intangible assets (Note 7)	363,604	363,375
Investment property	4,744	4,170
Retirement benefit assets	70,528	76,359
Investments accounted for using the equity method	40,230	41,930
Other financial assets	107,143	113,487
Deferred tax assets	122,534	112,969
Total non-current assets	3,377,464	3,467,348
Total assets	5,381,382	5,398,190

		(Millions of yen)
	As of December 31, 2020	As of March 31, 2021
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	436,540	382,827
Bonds and borrowings	141,469	158,322
Income tax payables	46,462	29,784
Other financial liabilities	27,588	26,738
Provisions	19,420	26,037
Other current liabilities	652,314	611,831
Total current liabilities	1,323,793	1,235,540
Non-current liabilities		
Bonds and borrowings	817,412	840,980
Other financial liabilities	50,164	49,647
Retirement benefit liabilities	331,752	312,834
Provisions	31,338	25,698
Other non-current liabilities	162,982	158,610
Deferred tax liabilities	64,447	69,606
Total non-current liabilities	1,458,095	1,457,375
Total liabilities	2,781,888	2,692,915
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(491,507)	(491,462)
Other components of equity	(605,776)	(488,977)
Retained earnings	2,783,718	2,772,650
Equity attributable to owners of the parent company	2,522,834	2,628,611
Non-controlling interests	76,660	76,664
Total equity	2,599,495	2,705,275
Total liabilities and equity	5,381,382	5,398,190

(2) Condensed Interim Consolidated Statement of Income
Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Revenue (Notes 5, 9)	519,620	547,366
Cost of sales	(221,131)	(216,602)
Gross profit	298,489	330,764
Other operating income (Note 10)	3,032	2,409
Share of profit in investments accounted for using the equity method	620	558
Selling, general and administrative expenses (Note 11)	(173,187)	(173,603)
Operating profit (Note 5)	128,953	160,129
Financial income (Note 12)	1,600	3,538
Financial costs (Note 12)	(15,452)	(7,325)
Profit before income taxes	115,102	156,342
Income taxes	(28,221)	(42,303)
Profit for the period	86,882	114,039
Attributable to		
Owners of the parent company	86,373	113,786
Non-controlling interests	508	252
Profit for the period	86,882	114,039
Interim earnings per share		
Basic (Yen) (Note 14)	48.69	64.13
Diluted (Yen) (Note 14)	48.67	64.10

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

		(Millions of yen)
	2020	2021
Operating profit	128,953	160,129
Amortization cost of acquired intangibles arising from business acquisitions	17,059	16,270
Adjustment items (income)	(1,321)	(1,329)
Adjustment items (costs)	2,175	3,021
Adjusted operating profit (Note 5)	146,866	178,091

(3) Condensed Interim Consolidated Statement of Comprehensive Income
Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Profit for the period	86,882	114,039
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(3,968)	999
Remeasurements of defined benefit plans (Note 13)	-	11,793
Total of items that will not be reclassified to profit or loss	(3,968)	12,791
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(186,392)	116,617
Net gain (loss) on derivatives designated as cash flow hedges	(11)	(320)
Total of items that may be reclassified subsequently to profit or loss	(186,403)	116,297
Other comprehensive income (loss), net of taxes	(190,371)	129,088
Comprehensive income (loss) for the period	(103,489)	243,127
Attributable to		
Owners of the parent company	(103,727)	242,441
Non-controlling interests	237	686
Comprehensive income (loss) for the period	(103,489)	243,127

(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	Subscription rights to shares	Other components of equity		
					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, 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 8)	-	-	-	-	-	-	-
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>
As of January 1, 2021	100,000	736,400	(491,507)	1,252	(614,374)	122	7,224
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	116,195	(320)	996
Comprehensive income (loss) for the period	-	-	-	-	116,195	(320)	996
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	45	(26)	-	-	-
Share-based payments	-	-	-	-	-	-	-
Dividends (Note 8)	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	-
Other increase (decrease)	-	-	-	-	-	(46)	-
Total transactions with the owners	-	-	45	(26)	-	(46)	-
As of March 31, 2021	<u>100,000</u>	<u>736,400</u>	<u>(491,462)</u>	<u>1,226</u>	<u>(498,180)</u>	<u>(244)</u>	<u>8,221</u>

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity				Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total	Retained earnings	Total		
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 8)	-	-	(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
As of January 1, 2021	-	(605,776)	2,783,718	2,522,834	76,660	2,599,495
Profit for the period	-	-	113,786	113,786	252	114,039
Other comprehensive income (loss)	11,783	128,654	-	128,654	434	129,088
Comprehensive income (loss) for the period	11,783	128,654	113,786	242,441	686	243,127
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(26)	(19)	0	-	0
Share-based payments	-	-	-	-	-	-
Dividends (Note 8)	-	-	(136,617)	(136,617)	(682)	(137,299)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(1)	(1)	-	(1)
Transfer from other components of equity to retained earnings	(11,783)	(11,783)	11,783	-	-	-
Other increase (decrease)	-	(46)	-	(46)	-	(46)
Total transactions with the owners	(11,783)	(11,855)	(124,854)	(136,664)	(682)	(137,347)
As of March 31, 2021	-	(488,977)	2,772,650	2,628,611	76,664	2,705,275

(5) Condensed Interim Consolidated Statement of Cash Flows
Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Cash flows from operating activities		
Profit before income taxes	115,102	156,342
Depreciation and amortization	46,470	44,809
Impairment losses	989	1,303
Interest and dividend income	(1,599)	(1,800)
Interest expense	5,631	5,761
Share of profit in investments accounted for using the equity method	(620)	(558)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(1,166)	31
(Increase) decrease in trade and other receivables	11,589	(7,090)
(Increase) decrease in inventories	12,355	8,994
Increase (decrease) in trade and other payables	(41,529)	(61,006)
Increase (decrease) in retirement benefit liabilities	(12,755)	(9,332)
(Increase) decrease in prepaid tobacco excise taxes	(22,012)	(17,270)
Increase (decrease) in tobacco excise tax payables	(71,056)	(36,513)
Increase (decrease) in consumption tax payables	(8,049)	(9,165)
Other	1,599	(9,621)
Subtotal	34,949	64,885
Interest and dividends received	2,966	1,807
Interest paid	(4,473)	(4,362)
Income taxes paid	(35,385)	(49,975)
Net cash flows from operating activities	(1,943)	12,354
Cash flows from investing activities		
Purchase of securities	(14,345)	(5,640)
Proceeds from sale and redemption of securities	16,398	3,162
Purchase of property, plant and equipment	(18,798)	(18,977)
Proceeds from sale of investment property	1,500	697
Purchase of intangible assets	(10,493)	(3,140)
Proceeds from withdrawal of time deposits	25	50
Proceeds from sale of investments in associates	17,402	1,114
Other	793	286
Net cash flows from investing activities	(7,518)	(22,449)

		(Millions of yen)
	2020	2021
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(134,781)	(131,819)
Dividends paid to non-controlling interests	(552)	(756)
Capital contribution from non-controlling interests	22	8
Increase (decrease) in short-term borrowings and commercial paper	10,906	10,212
Proceeds from long-term borrowings	98,888	-
Repayments of long-term borrowings	(239)	(204)
Repayments of lease liabilities	(4,223)	(4,889)
Acquisition of treasury shares	(0)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1,120)	(1)
Other	0	0
Net cash flows from financing activities	(31,099)	(127,449)
Net increase (decrease) in cash and cash equivalents	(40,561)	(137,544)
Cash and cash equivalents at the beginning of the period	357,158	538,844
Effect of exchange rate changes on cash and cash equivalents	(15,538)	23,006
Cash and cash equivalents at the end of the period (Note 6)	301,059	424,306

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, 2021 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on April 30, 2021 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, 2020.

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, 2020 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, 2021.

IFRS		Description of new standards and amendments
IFRS 16	Leases	Amendments to accounting treatment for Covid-19-Related Rent Concessions beyond 30 June 2021

IFRS 16 mentioned above has been early adopted.

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

Part of the condensed interim consolidated financial statements for the three months ended March 31, 2020 has been reclassified to conform with the presentation for the three months ended March 31, 2021.

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, 2020.

Due to the spread of COVID-19, the tobacco business experienced a decrease in duty-free sales due to a lag in the recovery in the number of travelers, and the Processed Food Business experienced a decrease in sales of food-service products of the frozen and ambient food business due to people voluntarily staying at home, etc., while the International Tobacco Business experienced an increase in total demand in some high-unit markets because of travel restrictions. The Group anticipates that although the impact of the spread of COVID-19 will continue to a certain extent from 2021 onward, the economies of countries around the world will gradually recover. At present, there is no material impact on the 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.

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>

Three months ended March 31, 2021

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	133,348	360,233	19,659	33,793	547,033	333	-	547,366
Intersegment revenue	2,077	4,314	-	0	6,391	1,282	(7,673)	-
Total revenue	<u>135,424</u>	<u>364,547</u>	<u>19,659</u>	<u>33,793</u>	<u>553,424</u>	<u>1,615</u>	<u>(7,673)</u>	<u>547,366</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>48,021</u>	<u>133,646</u>	<u>4,228</u>	<u>326</u>	<u>186,221</u>	<u>(8,390)</u>	<u>260</u>	<u>178,091</u>

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

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			
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>

Three months ended March 31, 2021

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	48,021	133,646	4,228	326	186,221	(8,390)	260	178,091
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(12,209)	-	-	(16,270)	-	-	(16,270)
Adjustment items (income) (Note 3)	-	1,327	-	-	1,327	1	-	1,329
Adjustment items (costs) (Note 4)	(7)	(1,747)	0	(1,069)	(2,823)	(198)	-	(3,021)
Operating profit (loss)	43,953	121,018	4,228	(744)	168,456	(8,587)	260	160,129
Financial income								3,538
Financial costs								(7,325)
Profit before income taxes								<u>156,342</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, 2020 and 2021

		(Millions of yen)
	2020	2021
Restructuring incomes	1,287	4
Other	33	1,325
Adjustment items (income)	1,321	1,329

Restructuring incomes for the three months ended March 31, 2020 mainly related to gains on sale of real estate. The breakdown of restructuring incomes is described in “10. Other Operating Income.” Other (income) for the three months ended March 31, 2021 mainly related to gains on sale of an investment in an associate during the past fiscal years.

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

Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Restructuring costs	1,430	2,932
Other	745	89
Adjustment items (costs)	2,175	3,021

Restructuring costs included in "Cost of sales" were ¥4 million for the three months ended March 31, 2021. Restructuring costs included in "Selling, general and administrative expenses" were ¥1,430 million and ¥2,928 million for the three months ended March 31, 2020 and 2021, respectively. The breakdown of restructuring costs is described in “11. Selling, general and administrative expenses.”

6. Cash and Cash Equivalents

The Group’s Iranian subsidiaries’ ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. The Group’s Canadian subsidiary, JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”) is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the “Companies’ Creditors Arrangement Act (CCAA).” “Cash and cash equivalents” as of March 31, 2021 includes cash and cash equivalents of ¥54,935 million and ¥47,507 million held by the Group’s Iranian subsidiaries and JTI-Mac, respectively.

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

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

			(Millions of yen)
Carrying Amount	Property, plant and equipment	Goodwill	Intangible assets
As of January 1, 2021	759,290	1,909,392	363,604
Individual acquisition	16,232	-	3,998
Transfer to investment property	(19)	-	-
Transfer to non-current assets held-for-sale	(474)	-	-
Depreciation or amortization	(25,004)	-	(19,790)
Impairment losses	(1,293)	-	(0)
Reversal of impairment losses	13	-	-
Sale or disposal	(535)	-	(36)
Exchange differences on translation of foreign operations	19,469	78,487	15,354
Other	(500)	-	245
As of March 31, 2021	767,178	1,987,879	363,375

8. Dividends

Dividends paid for each interim period are as follows:

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

Three months ended March 31, 2021

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2021)	Ordinary shares	136,617	77	December 31, 2020	March 25, 2021

9. Revenue

(1) Disaggregation of Revenue

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

Three months ended March 31, 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>

Three months ended March 31, 2021

(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)	124,109	349,015	-	-	-	473,125
Other	9,239	11,218	19,659	33,793	333	74,241
Total	<u>133,348</u>	<u>360,233</u>	<u>19,659</u>	<u>33,793</u>	<u>333</u>	<u>547,366</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 ¥12,968 million and ¥14,733 million for the three months ended March 31, 2020 and 2021, 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, 2020 and 2021

(Millions of yen)

	2020	2021
South and West Europe	59,432	62,913
North and Central Europe	59,595	71,196
CIS+	69,325	76,073
Rest-of-the-World	123,694	138,833
Total	<u>312,047</u>	<u>349,015</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, 2020 and 2021

		(Millions of yen)
	2020	2021
Gross turnover	1,799,662	1,921,632
Tobacco excise taxes and agency transaction amount	(1,280,041)	(1,374,266)
Revenue	519,620	547,366

10. Other Operating Income

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

Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	1,414	338
Other (Note)	1,617	2,072
Total	3,032	2,409

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

Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Gain on sale of property, plant and equipment, intangible assets and investment property	1,266	-
Other	21	4
Total	1,287	4

11. Selling, General and Administrative Expenses

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

Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Advertising expenses	5,441	4,540
Promotion expenses	15,238	13,148
Commission	12,545	12,996
Employee benefit expenses (Note)	71,026	76,251
Research and development expenses	15,011	14,697
Depreciation and amortization	26,747	26,164
Impairment losses on other than financial assets (Note)	989	1,303
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	642	828
Other (Note)	25,549	23,676
Total	173,187	173,603

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

Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Employee benefit expenses	1,295	1,676
Impairment losses on other than financial assets	72	952
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	16	167
Other	46	133
Total	1,430	2,928

12. Financial Income and Financial Costs

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

Three months ended March 31, 2020 and 2021

		(Millions of yen)
Financial Income	2020	2021
Dividend income	7	2
Interest income	1,592	1,798
Foreign exchange gains (Note 1)	-	1,697
Other	1	41
Total	1,600	3,538

Three months ended March 31, 2020 and 2021

		(Millions of yen)
Financial Costs	2020	2021
Interest expenses	5,631	5,761
Foreign exchange losses (Note 1)	8,054	-
Employee benefit expenses (Note 2)	559	576
Loss on net monetary position	-	522
Other	1,208	465
Total	15,452	7,325

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

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

13. Other Comprehensive Income

“Remeasurements of defined benefit plans” for the three months ended March 31, 2021 include remeasurements arising from the effects of significant market fluctuations in relation to retirement benefit assets or liabilities.

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, 2020 and 2021

		(Millions of yen)
	2020	2021
Profit for the period attributable to owners of the parent company	86,373	113,786
Profit for the period not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic interim earnings per share	86,373	113,786

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

Three months ended March 31, 2020 and 2021

		(Thousands of shares)
	2020	2021
Weighted-average number of shares during the period	1,773,938	1,774,255

(2) Basis of Calculating Diluted Interim Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

Three months ended March 31, 2020 and 2021

		(Millions of yen)
	2020	2021
Profit for the period used for calculation of basic interim earnings per share	86,373	113,786
Adjustment	(0)	(0)
Profit for the period used for calculation of diluted interim earnings per share	86,373	113,786

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

Three months ended March 31, 2020 and 2021

		(Thousands of shares)
	2020	2021
Weighted-average number of ordinary shares during the period	1,773,938	1,774,255
Increased number of ordinary shares under subscription rights to shares	840	762
Weighted-average number of diluted ordinary shares during the period	1,774,778	1,775,016

15. Financial Instruments

(Fair Value of Financial Instruments)

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

	As of December 31, 2020		As of March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	204,955	206,953	205,798	207,540
Bonds	702,292	750,417	730,774	768,789

(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, 2020

				(Millions of yen)
	Level 1	Level 2	Level 3	Total
Derivative assets	-	8,608	-	8,608
Equity securities	19,604	-	7,100	26,704
Other	451	8,650	5,357	14,457
Total	20,055	17,257	12,457	49,769
Derivative liabilities	-	10,334	-	10,334
Total	-	10,334	-	10,334

As of March 31, 2021

				(Millions of yen)
	Level 1	Level 2	Level 3	Total
Derivative assets	-	9,223	-	9,223
Equity securities	21,403	-	7,265	28,668
Other	518	8,368	5,575	14,461
Total	21,921	17,592	12,841	52,353
Derivative liabilities	-	9,168	-	9,168
Total	-	9,168	-	9,168

16. Commitments

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

	As of December 31, 2020	(Millions of yen) As of March 31, 2021
Acquisition of property, plant and equipment	33,768	39,848

17. Contingencies

As of March 31, 2021, there are no significant changes to the matters described in the consolidated financial statements for the year ended December 31, 2020.

18. Subsequent Events

No items to report

2. Others

No items to report

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

No items to report

(TRANSLATION)

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

April 30, 2021

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC
Tokyo office

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

Designated Engagement Partner,
Certified Public Accountant: Koji Ishikawa (Seal)

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

Accountant's Conclusion

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 of Japan Tobacco Inc. and its consolidated subsidiaries (the "Group") included in the Accounting Section, namely, the condensed interim consolidated statement of financial position as of March 31, 2021, and the condensed interim consolidated statement of income, condensed interim consolidated statement of comprehensive income, condensed interim consolidated statement of changes in equity and condensed interim consolidated statement of cash flows for the three-month period then ended, and the related notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the three-month period then ended 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.

Basis for Accountant's Conclusion

We conducted our review in accordance with quarterly review standards generally accepted in Japan. Our responsibility under those standards is further described in the Accountant's Responsibility for the Review of the Condensed Interim Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as accountants. We believe that we have obtained the evidence to provide a basis for our review conclusion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Condensed Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the condensed interim consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting," 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.

In preparing the condensed interim consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with Paragraph 4 of International Accounting Standard 1 "Presentation of Financial Statements."

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Accountant's Responsibility for the Review of the Condensed Interim Consolidated Financial Statements

Our objective is to issue an accountant's report that includes our conclusion.

As part of a review in accordance with quarterly review standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the review. We also:

- Make inquiries, primarily of management and persons responsible for financial and accounting matters, and apply analytical 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.
- Conclude whether nothing has come to our attention, based on the evidence obtained, related to going concern that causes us to believe that the condensed interim consolidated financial statements are not fairly presented, in all material respects, in accordance with Paragraph 4 of International Accounting Standard 1 "Presentation of Financial Statements," if we conclude that a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our accountant's report to the related disclosures in the condensed interim consolidated financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our accountant's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether nothing has come to our attention that causes us to believe that the overall presentation and disclosures of the condensed interim consolidated financial statements are not in accordance with International Accounting Standard 34 "Interim Financial Reporting," as well as the overall presentation, structure and content of the condensed interim consolidated financial statements, including the disclosures, and whether nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain evidence regarding the financial information of the entities or business activities within the Group to express a conclusion on the condensed interim consolidated financial statements. We are responsible for the direction, supervision and performance of the review of the condensed interim consolidated financial statements. We remain solely responsible for our conclusion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding the planned scope and timing of the review and significant findings that we identify during our review.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Accountant's Review Report

This is an English translation of the independent accountant's review report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.