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Provisions to base upon:	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
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Quarterly accounting period:	First quarter of the 38th term (from January 1, 2022 to March 31, 2022)
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, 2021	Three months ended March 31, 2022	37th term
Accounting period	From January 1, 2021 to March 31, 2021	From January 1, 2022 to March 31, 2022	From January 1, 2021 to December 31, 2021
Revenue (Millions of yen)	547,366	581,505	2,324,838
Profit before income taxes (Millions of yen)	156,342	174,699	472,390
Profit for the period (Millions of yen)	114,039	124,602	340,181
Profit attributable to owners of the parent company (Millions of yen)	113,786	124,110	338,490
Comprehensive income (loss) for the period (Millions of yen)	243,127	230,570	540,258
Total equity (Millions of yen)	2,705,275	2,983,147	2,886,081
Total assets (Millions of yen)	5,398,190	5,747,354	5,774,209
Basic earnings per share (Yen)	64.13	69.94	190.76
Diluted earnings per share (Yen)	64.10	69.91	190.68
Ratio of equity attributable to owners of the parent company to total assets (%)	48.69	50.56	48.65
Net cash flows from operating activities (Millions of yen)	12,354	38,983	598,909
Net cash flows from investing activities (Millions of yen)	(22,449)	(22,726)	(97,499)
Net cash flows from financing activities (Millions of yen)	(127,449)	(116,767)	(353,138)
Cash and cash equivalents at the end of the period (Millions of yen)	424,306	655,260	721,731

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.

2. Business Description

During the three months ended March 31, 2022, there were neither material changes in the business of the Group (the Company, 228 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.

The Group has changed the previous four reportable segments of "Domestic Tobacco Business," "International Tobacco Business," "Pharmaceutical Business," and "Processed Food Business" to the three reportable segments of "Tobacco Business," "Pharmaceutical Business," and "Processed Food Business" as a result of unifying the business management structure of the tobacco business from the three months ended March 31, 2022.

For details, please refer to "IV. Accounting, 1. Condensed Interim Consolidated Financial Statements, Notes to Condensed Consolidated Financial Statements, 5. Operating Segments, (1) Outline of Reportable Segments."

II. Review of Operations

1. Business and Other Risks

During the three months ended March 31, 2022, 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. With regard to the impacts of the spread of COVID-19, it is necessary to carefully monitor and examine foreign exchange rate trends and the responses of the governments and relevant authorities of each country going forward. 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 depending on future situation.

Additionally, based on the recent Russia-Ukraine war, the Company suspended all new investments and marketing activities in the Russian market. Given the challenging and unpredictable environment, the Company has continued to evaluate various options for the Russia business, including the potential transfer of ownership. As this moment, the Company is unable to reasonably estimate the outlook and the impact on financial results.

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, 2022.

(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 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 the 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. Core revenue excludes revenue related to the distribution business and contract manufactured products, among others.

(RRP)

Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as heated tobacco products and E-Vapor products.

Heated tobacco 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 Company's portfolio includes heated tobacco sticks (HTS) that use high temperature heating, and infused tobacco capsules (Infused) that use low temperature heating.

Conversely, 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.

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, 2021	Three months ended March 31, 2022	Change
Revenue	547.4	581.5	6.2%
Adjusted operating profit	178.1	194.9	9.4%
Operating profit	160.1	178.4	11.4%
Profit attributable to owners of the parent company	113.8	124.1	9.1%

<Revenue>

Revenue increased by 6.2% from the same period of the previous year to ¥581.5 billion due to increases in sales in all businesses. Core revenue (Note 1) at constant FX increased by 3.8% from the same period of the previous year.

<Adjusted operating profit>

Adjusted operating profit at constant FX increased by 4.5% from the same period of the previous year due to increases in all businesses. Adjusted operating profit including foreign exchange effects increased by 9.4% from the same period of the previous year to ¥194.9 billion, due mainly to favorable impacts of depreciation of Japanese yen against many local currencies in the tobacco business.

<Operating profit>

Operating profit increased by 11.4% from the same period of the previous year to ¥178.4 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 company increased by 9.1% from the previous fiscal year to ¥124.1 billion, due mainly to an increase in operating profit despite an increase in income taxes.

(Note: 1) Core revenue at constant FX is the sum of core revenue at constant FX from tobacco business and revenue from the pharmaceutical business, processed food business and other.

b. Operating segments

The Group has changed the previous four reportable segments of "Domestic Tobacco Business," "International Tobacco Business," "Pharmaceutical Business," and "Processed Food Business" to the three reportable segments of "Tobacco Business," "Pharmaceutical Business," and "Processed Food Business" as a result of unifying the business management structure of the tobacco business from the three months ended

March 31, 2022.

Due to the change in the segment classification, the segment information for the three months ended March 31, 2021 has been reclassified to conform with the presentation for the three months ended March 31, 2022.

[Tobacco Business]

(Billions of cigarettes, Billions of yen)

Tobacco Business	Three months ended March 31, 2021	Three months ended March 31, 2022	Change
Total volume	127.0	128.5	1.2%
Combustibles volume ^(Note 1)	125.3	126.6	1.0%
RRP volume ^(Note 2)	1.7	2.0	16.0%
Core revenue	473.1	502.0	6.1%
Adjusted operating profit	182.3	197.3	8.3%

<Total volume>^(Note 3)

Total volume increased by 1.2% from the same period of the previous year to 128.5 billion cigarettes due to an increase in sales volume in Global Travel Retail (duty-free markets) and emerging market despite a decrease in industry volume in some markets. Combustibles volume and RRP volume increased by 1.0% and 16.0%, respectively, from the same period of the previous year. RRP volume continues to grow in terms of volume and share in Japan. Market share grew in various markets, including the key markets of Italy, Spain, Taiwan, Turkey, Philippines and Romania.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit increased by 6.1% and 8.3%, respectively, from the same period of the previous year due mainly to favorable pricing, foreign exchange effects. RRP-related revenue^(Note 2) increased by 2.4% from the same period of the previous year to ¥19.1 billion due mainly to an increase in RRP volume in Japan.

Core revenue from the tobacco business at constant FX and adjusted operating profit increased by 3.4%, from the same period of the previous year.

(Note: 1) Combustibles include all tobacco products excluding contract manufactured products, waterpipe, heated tobacco products, oral tobacco and E-Vapor.

(Note: 2) RRP volume does not include volume from devices and associated accessories, etc., while RRP-related revenue includes revenue from devices and associated accessories, etc.

(Note: 3) Industry volume and market share were estimated by the Company.

[The Breakdown of Tobacco Business Performance by Cluster]^(Note 4)

Results of Tobacco Business in each cluster are as follows.

(Billions of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2022	Change
Asia			
Core revenue	194.1	192.9	(0.6)%
Adjusted operating profit	76.7	75.7	(1.3)%
Western Europe			
Core revenue	122.4	125.2	2.3%
Adjusted operating profit	57.8	61.2	6.0%
EMA			
Core revenue	156.6	183.9	17.5%
Adjusted operating profit	47.8	60.4	26.3%

(Note: 4) To make the Group's Tobacco Business more deeply understood, this segment has been divided into three clusters (Asia, Western Europe and EMA). Asia includes the entire Asian region, Western Europe includes the Western European region, EMA includes Eastern Europe, the Middle East, Africa, Turkey, Americas, and all duty-free markets. Asia includes Taiwan, Japan, Philippines, etc., Western Europe includes the U.K., Italy, Spain, etc., and EMA includes Turkey, Romania, Russia, etc.

* The exchange rates of currencies against yen were as follows.

Foreign exchange rate	Three months ended March 31, 2021	Three months ended March 31, 2022	Change	
100YEN/USD	0.94	0.86	(0.08)	9.7% appreciation
100YEN/RUB	70.08	73.74	3.67	5.0% depreciation
100YEN/GBP	0.68	0.64	(0.04)	6.7% appreciation
100YEN/EUR	0.78	0.77	(0.02)	2.1% appreciation
100YEN/CHF	0.85	0.79	(0.06)	7.4% appreciation
100YEN/TWD	26.46	24.05	(2.41)	10.0% appreciation
100YEN/TRY	6.95	11.95	5.00	41.9% depreciation
100YEN/PHP	45.53	44.29	(1.24)	2.8% appreciation

[Pharmaceutical Business]

(Billions of yen)

Pharmaceutical Business	Three months ended March 31, 2021	Three months ended March 31, 2022	Change
Revenue	19.7	21.3	8.3%
Adjusted operating profit	4.2	4.6	8.0%

<Revenue and adjusted operating profit>

Revenue increased by 8.3% from the same period of the previous year due to an increase in revenue at Torii Pharmaceutical Co., Ltd., which is a consolidated subsidiary of the Company.

Adjusted operating profit increased by 8.0% from the same period of the previous year due to an increase in revenue despite an increase in research and development expenses.

[Processed Food Business]

(Billions of yen)

Processed Food Business	Three months ended March 31, 2021	Three months ended March 31, 2022	Change
Revenue	33.8	35.7	5.5%
Adjusted operating profit	0.3	0.4	26.4%

<Revenue and adjusted operating profit>

Revenue increased by 5.5% from the same period of the previous year due mainly to growth in product sales in the frozen and ambient foods business.

Adjusted operating profit increased by 26.4% from the same period of the previous year as a result of top-line growth along with the normalized costs this year, in comparison to the losses related to the fire at a subsidiary factory recorded in the previous year, despite rising costs of raw materials and unfavorable foreign exchange effects.

(2) Financial Position and Cash Flow Position

a. Financial position

[Assets]

Total assets at the end of the three months ended March 31, 2022 decreased by ¥26.9 billion from the end of the previous fiscal year to ¥5,747.4 billion. This was mainly due to a decrease in cash and cash equivalents arising from the payment of cash dividends and tobacco excise tax.

[Liabilities]

Total liabilities at the end of the three months ended March 31, 2022 decreased by ¥123.9 billion from the end of the previous fiscal year to ¥2,764.2 billion. This was mainly due to a decrease in trade and other payables and a decrease in local tobacco excise tax payables, despite an increase in short-term borrowings.

[Equity]

Total equity at the end of the three months ended March 31, 2022 increased by ¥97.1 billion from the end of the previous fiscal year to ¥2,983.1 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, 2022 decreased by ¥66.5 billion from the end of the previous fiscal year to ¥655.3 billion. Cash and cash equivalents at the end of the same period of the previous year was ¥424.3 billion.

[Net cash flows from operating activities]

Net cash flows from operating activities during the three months ended March 31, 2022 were ¥39.0 billion, compared with ¥12.4 billion provided in the same period of the previous year. This was mainly due to the generation of a stable cash inflow from the tobacco business, despite payments of national and international tobacco excise taxes and income taxes as well as payments of trade and other payables.

[Net cash flows from investing activities]

Net cash flows used in investing activities during the three months ended March 31, 2022 were ¥22.7 billion, compared with ¥22.4 billion used in the same period of the previous year. This was mainly due to the purchase of property, plant and equipment, and intangible assets.

[Net cash flows from financing activities]

Net cash flows used in financing activities during the three months ended March 31, 2022 were ¥116.8 billion, compared with ¥127.4 billion used in the same period of the previous year. This was mainly due to the payment of cash dividends, despite the proceeds from short-term borrowings.

(3) Management Policy, Management Strategy, Etc.

During the three months ended March 31, 2022, 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, 2022, 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, 2022, were ¥15.5 billion.

During the three months ended March 31, 2022, 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, 2021 and as of March 31, 2022 accounted for ¥651.0 billion and ¥674.6 billion respectively and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥197.0 billion and ¥198.0 billion respectively.

(Short-term debt)

Short-term borrowings from financial institutions totaled ¥70.6 billion as of December 31, 2021 and ¥89.9 billion as of March 31, 2022. 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, 2022, 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, 2022.

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, 2022)	Number of shares issued (Share; as of the date of filing: April 28, 2022)	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 (at the end of the three months ended March 31, 2022) Prime Market (as of the date of filing)	(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, 2022 to March 31, 2022	—	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. Number of shares issued

(As of March 31, 2022)

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 225,432,300	—	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,791,300	17,737,913	(Note 2)
Shares less than one unit	Ordinary shares 776,400	—	(Note 3)
Total number of shares issued	2,000,000,000	—	—
Total number of voting rights	—	17,737,913	—

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 76 share of treasury shares.

b. Treasury shares

(As of March 31, 2022)

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	225,432,300	—	225,432,300	11.27
Total	—	225,432,300	—	225,432,300	11.27

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, 2022.

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, 2022 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, 2021	(Millions of yen) As of March 31, 2022
Assets		
Current assets		
Cash and cash equivalents (Note 6)	721,731	655,260
Trade and other receivables	456,587	445,368
Inventories	563,182	583,431
Other financial assets	17,254	35,228
Other current assets	562,034	524,756
Subtotal	2,320,789	2,244,043
Non-current assets held for sale	500	1,496
Total current assets	2,321,289	2,245,540
Non-current assets		
Property, plant and equipment (Note 7)	755,843	760,139
Goodwill (Note 7)	2,060,965	2,102,765
Intangible assets (Note 7)	307,152	297,001
Investment property	4,985	4,931
Retirement benefit assets	53,177	58,843
Investments accounted for using the equity method	41,721	40,116
Other financial assets	108,658	112,425
Deferred tax assets	120,419	125,595
Total non-current assets	3,452,920	3,501,815
Total assets	5,774,209	5,747,354

	As of December 31, 2021	(Millions of yen) As of March 31, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	555,777	483,795
Bonds and borrowings	142,901	162,515
Income tax payables	30,794	49,970
Other financial liabilities	28,342	39,660
Provisions	24,858	30,698
Other current liabilities	717,653	611,657
Total current liabilities	1,500,326	1,378,294
Non-current liabilities		
Bonds and borrowings	775,721	799,954
Other financial liabilities	43,885	44,824
Retirement benefit liabilities	296,176	276,074
Provisions	22,867	20,999
Other non-current liabilities	179,195	172,749
Deferred tax liabilities	69,959	71,313
Total non-current liabilities	1,387,803	1,385,913
Total liabilities	2,888,128	2,764,207
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(490,899)	(490,806)
Other components of equity	(400,086)	(314,668)
Retained earnings	2,863,843	2,874,902
Equity attributable to owners of the parent company	2,809,258	2,905,828
Non-controlling interests	76,823	77,319
Total equity	2,886,081	2,983,147
Total liabilities and equity	5,774,209	5,747,354

(2) Condensed Interim Consolidated Statement of Income
Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Revenue (Notes 5, 9)	547,366	581,505
Cost of sales	(216,602)	(231,280)
Gross profit	330,764	350,224
Other operating income (Note 10)	2,409	2,616
Share of profit in investments accounted for using the equity method	558	816
Selling, general and administrative expenses (Note 11)	(173,603)	(175,288)
Operating profit (Note 5)	160,129	178,368
Financial income (Note 12)	3,538	5,150
Financial costs (Note 12)	(7,325)	(8,819)
Profit before income taxes	156,342	174,699
Income taxes	(42,303)	(50,097)
Profit for the period	114,039	124,602
Attributable to		
Owners of the parent company	113,786	124,110
Non-controlling interests	252	492
Profit for the period	114,039	124,602
Interim earnings per share		
Basic (Yen) (Note 14)	64.13	69.94
Diluted (Yen) (Note 14)	64.10	69.91

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

		(Millions of yen)
	2021	2022
Operating profit	160,129	178,368
Amortization cost of acquired intangibles arising from business acquisitions	16,270	16,267
Adjustment items (income)	(1,329)	(1,142)
Adjustment items (costs)	3,021	1,388
Adjusted operating profit (Note 5)	178,091	194,881

(3) Condensed Interim Consolidated Statement of Comprehensive Income
Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Profit for the period	114,039	124,602
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	999	420
Remeasurements of defined benefit plans (Note 13)	11,793	20,055
Total of items that will not be reclassified to profit or loss	12,791	20,474
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	116,617	84,605
Net gain (loss) on derivatives designated as cash flow hedges	(320)	889
Total of items that may be reclassified subsequently to profit or loss	116,297	85,494
Other comprehensive income (loss), net of taxes	129,088	105,968
Comprehensive income (loss) for the period	243,127	230,570
Attributable to		
Owners of the parent company	242,441	229,669
Non-controlling interests	686	902
Comprehensive income (loss) for the period	243,127	230,570

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 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)	-	-	-
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>
As of January 1, 2022	100,000	736,400	(490,899)	1,202	(408,175)	(274)	7,161
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	84,176	889	444
Comprehensive income (loss) for the period	-	-	-	-	84,176	889	444
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	94	(52)	-	-	-
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	-	-	-	-	-	-	(31)
Other increase (decrease)	-	-	-	-	-	(9)	-
Total transactions with the owners	-	-	93	(52)	-	(9)	(31)
As of March 31, 2022	<u>100,000</u>	<u>736,400</u>	<u>(490,806)</u>	<u>1,149</u>	<u>(323,999)</u>	<u>607</u>	<u>7,575</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, 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
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
As of January 1, 2022	-	(400,086)	2,863,843	2,809,258	76,823	2,886,081
Profit for the period	-	-	124,110	124,110	492	124,602
Other comprehensive income (loss)	20,049	105,559	-	105,559	409	105,968
Comprehensive income (loss) for the period	20,049	105,559	124,110	229,669	902	230,570
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(52)	(41)	0	-	0
Dividends (Note 8)	-	-	(133,089)	(133,089)	(405)	(133,495)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	(20,049)	(20,080)	20,080	-	-	-
Other increase (decrease)	-	(9)	-	(9)	-	(9)
Total transactions with the owners	(20,049)	(20,141)	(113,051)	(133,098)	(405)	(133,504)
As of March 31, 2022	-	(314,668)	2,874,902	2,905,828	77,319	2,983,147

(5) Condensed Interim Consolidated Statement of Cash Flows
Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Cash flows from operating activities		
Profit before income taxes	156,342	174,699
Depreciation and amortization	44,809	46,372
Impairment losses	1,303	110
Interest and dividend income	(1,800)	(3,222)
Interest expense	5,761	6,092
Share of profit in investments accounted for using the equity method	(558)	(816)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	31	(741)
(Increase) decrease in trade and other receivables	(7,090)	22,904
(Increase) decrease in inventories	8,994	(2,262)
Increase (decrease) in trade and other payables	(61,006)	(77,420)
Increase (decrease) in retirement benefit liabilities	(9,332)	(5,369)
(Increase) decrease in prepaid tobacco excise taxes	(17,270)	24,134
Increase (decrease) in tobacco excise tax payables	(36,513)	(79,872)
Increase (decrease) in consumption tax payables	(9,165)	(5,667)
Other	(9,621)	(19,484)
Subtotal	64,885	79,458
Interest and dividends received	1,807	3,386
Interest paid	(4,362)	(7,005)
Income taxes paid	(49,975)	(36,856)
Net cash flows from operating activities	12,354	38,983
Cash flows from investing activities		
Purchase of securities	(5,640)	(11,965)
Proceeds from sale and redemption of securities	3,162	7,917
Purchase of property, plant and equipment	(18,977)	(16,386)
Proceeds from sale of investment property	697	352
Purchase of intangible assets	(3,140)	(3,236)
Payments into time deposits	-	(0)
Proceeds from withdrawal of time deposits	50	1,252
Proceeds from sale of investments in associates	1,114	-
Other	286	(659)
Net cash flows from investing activities	(22,449)	(22,726)

		(Millions of yen)
	2021	2022
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 8)	(131,819)	(129,249)
Dividends paid to non-controlling interests	(756)	(314)
Capital contribution from non-controlling interests	8	13
Increase (decrease) in short-term borrowings and commercial paper	10,212	17,849
Proceeds from long-term borrowings	-	34
Repayments of long-term borrowings	(204)	(208)
Repayments of lease liabilities	(4,889)	(4,892)
Acquisition of treasury shares	(0)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	-
Other	0	0
Net cash flows from financing activities	(127,449)	(116,767)
Net increase (decrease) in cash and cash equivalents	(137,544)	(100,510)
Cash and cash equivalents at the beginning of the period	538,844	721,731
Effect of exchange rate changes on cash and cash equivalents	23,006	34,039
Cash and cash equivalents at the end of the period (Note 6)	424,306	655,260

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, 2022 of the Company and its subsidiaries (hereinafter referred to as the "Group") were approved on April 28, 2022 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, 2021.

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, 2021 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, 2022.

	IFRS	Description of new standards and amendments
IFRS 3	Business Combinations	Amendments to update references to the conceptual framework
IFRS 9	Financial Instruments	Clarifying fees and costs to be included in the 10 per cent test for derecognition of financial liabilities

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

4. Significant Accounting Estimates and Judgements

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

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

In principle, estimates and assumptions that may have a material effect on the amounts recognized in the condensed interim consolidated financial statements of the Group are the same as those for the year ended December 31, 2021.

For the spread of COVID-19 and recent situation in Russia and Ukraine, there is no material impact on the accounting estimates and judgements at present.

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.

The reportable segments of the Group are composed of three segments: “Tobacco Business,” “Pharmaceutical Business” and “Processed Food Business.”

The Group has changed the previous four reportable segments of “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business” and “Processed Food Business” to the three reportable segments of “Tobacco Business,” “Pharmaceutical Business” and “Processed Food Business” as a result of unifying the business management structure of the tobacco business from the three months ended March 31, 2022.

Due to the change in the segment classification, the segment information for the three months ended March 31, 2021 has been reclassified to conform with the presentation for the three months ended March 31, 2022.

The “Tobacco Business” consists of the manufacture and sale of tobacco products in domestic areas and overseas.

The “Pharmaceutical Business” consists of the research and development, 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, 2021

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	493,581	19,659	33,793	547,033	333	-	547,366
Intersegment revenue	64	-	0	64	1,282	(1,346)	-
Total revenue	<u>493,644</u>	<u>19,659</u>	<u>33,793</u>	<u>547,096</u>	<u>1,615</u>	<u>(1,346)</u>	<u>547,366</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>182,302</u>	<u>4,228</u>	<u>326</u>	<u>186,856</u>	<u>(8,737)</u>	<u>(28)</u>	<u>178,091</u>

¥473,125 million of the external revenue from the tobacco business is core revenue.

Breakdown of core revenue and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue	194,144	122,395	156,585	473,125
Adjusted operating profit	76,729	57,752	47,821	182,302

Asia: All over Asia including Japan

Western Europe: Western Europe region

EMA: Eastern Europe, Middle East, Africa, Turkey, Americas and all duty-free markets

Asia includes Taiwan, Japan, the Philippines, etc.

Western Europe includes the United Kingdom, Italy, Spain, etc.

EMA includes Turkey, Romania, Russia, etc.

Three months ended March 31, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue							
External revenue	523,936	21,294	35,664	580,893	611	-	581,505
Intersegment revenue	59	-	0	59	1,226	(1,284)	-
Total revenue	<u>523,994</u>	<u>21,294</u>	<u>35,664</u>	<u>580,952</u>	<u>1,837</u>	<u>(1,284)</u>	<u>581,505</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>197,343</u>	<u>4,567</u>	<u>412</u>	<u>202,322</u>	<u>(7,403)</u>	<u>(38)</u>	<u>194,881</u>

¥502,037 million of the external revenue from the tobacco business is core revenue.

Breakdown of core revenue and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue	192,925	125,200	183,912	502,037
Adjusted operating profit	75,723	61,210	60,410	197,343

Asia: All over Asia including Japan

Western Europe: Western Europe region

EMA: Eastern Europe, Middle East, Africa, Turkey, Americas and all duty-free markets

Asia includes Taiwan, Japan, the Philippines, etc.

Western Europe includes the United Kingdom, Italy, Spain, etc.

EMA includes Turkey, Romania, Russia, etc.

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

Three months ended March 31, 2021

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	182,302	4,228	326	186,856	(8,737)	(28)	178,091
Amortization cost of acquired intangibles arising from business acquisitions	(16,270)	-	-	(16,270)	-	-	(16,270)
Adjustment items (income) (Note 3)	1,327	-	-	1,327	1	-	1,329
Adjustment items (costs) (Note 4)	(1,754)	0	(1,069)	(2,823)	(198)	-	(3,021)
Operating profit (loss)	165,606	4,228	(744)	169,091	(8,934)	(28)	160,129
Financial income							3,538
Financial costs							(7,325)
Profit before income taxes							<u>156,342</u>

Three months ended March 31, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	197,343	4,567	412	202,322	(7,403)	(38)	194,881
Amortization cost of acquired intangibles arising from business acquisitions	(16,267)	-	-	(16,267)	-	-	(16,267)
Adjustment items (income) (Note 3)	955	-	-	955	186	-	1,142
Adjustment items (costs) (Note 4)	(696)	-	(94)	(789)	(599)	-	(1,388)
Operating profit (loss)	181,337	4,567	318	186,221	(7,815)	(38)	178,368
Financial income							5,150
Financial costs							(8,819)
Profit before income taxes							<u>174,699</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, 2021 and 2022

		(Millions of yen)
	2021	2022
Restructuring incomes	4	79
Other	1,325	1,063
Adjustment items (income)	1,329	1,142

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, 2021 and 2022

		(Millions of yen)
	2021	2022
Restructuring costs	2,932	1,378
Other	89	10
Adjustment items (costs)	3,021	1,388

Restructuring costs included in "Cost of sales" were ¥4 million and ¥122 million for the three months ended March 31, 2021 and 2022 respectively. Restructuring costs included in "Selling, general and administrative expenses" were ¥2,928 million and ¥1,256 million for the three months ended March 31, 2021 and 2022, 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, 2022 includes cash and cash equivalents of ¥88,012 million and ¥83,182 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, 2022	755,843	2,060,965	307,152
Individual acquisition	16,192	-	3,714
Transfer to investment property	(32)	-	-
Transfer to non-current assets held for sale	(1,181)	-	-
Depreciation or amortization	(26,372)	-	(19,977)
Impairment losses	(98)	-	(12)
Reversal of impairment losses	32	-	-
Sale or disposal	(2,671)	-	(74)
Exchange differences on translation of foreign operations	18,337	41,800	6,091
Other	89	-	108
As of March 31, 2022	760,139	2,102,765	297,001

8. Dividends

Dividends paid for each interim period are as follows:

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

Three months ended March 31, 2022

	(Millions of yen)		(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 23, 2022)	Ordinary shares	133,089	75	December 31, 2021	March 24, 2022

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, 2021

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note 2)	Pharma- ceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	473,125	-	-	-	473,125
Other	20,456	19,659	33,793	333	74,241
Total	<u>493,581</u>	<u>19,659</u>	<u>33,793</u>	<u>333</u>	<u>547,366</u>

Three months ended March 31, 2022

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note 2)	Pharma- ceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	502,037	-	-	-	502,037
Other	21,899	21,294	35,664	611	79,468
Total	<u>523,936</u>	<u>21,294</u>	<u>35,664</u>	<u>611</u>	<u>581,505</u>

(Note 1) Core revenue from tobacco business does not include revenue related to the distribution business and contract manufacturing.

(Note 2) Revenues from RRP in core revenue from the “Tobacco Business” were ¥18,624 and ¥19,062 for the three months ended March 31, 2021 and 2022, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

(2) Gross Turnover

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

Three months ended March 31, 2021 and 2022

(Millions of yen)

	2021	2022
Gross turnover	1,921,632	2,030,261
Tobacco excise taxes and agency transaction amount	(1,374,266)	(1,448,757)
Revenue	<u>547,366</u>	<u>581,505</u>

10. Other Operating Income

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

Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	338	1,327
Other (Note)	2,072	1,289
Total	2,409	2,616

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

Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Gain on sale of property, plant and equipment, intangible assets and investment property	-	76
Other	4	2
Total	4	79

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, 2021 and 2022

		(Millions of yen)
	2021	2022
Advertising expenses	4,540	4,341
Promotion expenses	13,148	15,469
Commission (Note)	12,996	14,839
Employee benefit expenses (Note)	76,251	72,735
Research and development expenses	14,697	15,535
Depreciation and amortization	26,164	26,328
Impairment losses on other than financial assets (Note)	1,303	123
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note)	828	1,329
Other (Note)	23,676	24,588
Total	173,603	175,288

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

Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Employee benefit expenses	1,676	232
Impairment losses on other than financial assets	952	7
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	167	956
Other	133	61
Total	2,928	1,256

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, 2021 and 2022

		(Millions of yen)
Financial Income	2021	2022
Dividend income	2	62
Interest income	1,798	3,159
Foreign exchange gains (Note 1)	1,697	1,873
Other	41	56
Total	3,538	5,150

Three months ended March 31, 2021 and 2022

		(Millions of yen)
Financial Costs	2021	2022
Interest expenses	5,761	6,092
Employee benefit expenses (Note 2)	576	689
Loss on net monetary position	522	761
Other	465	1,277
Total	7,325	8,819

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

(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, 2022 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, 2021 and 2022

		(Millions of yen)
	2021	2022
Profit for the period attributable to owners of the parent company	113,786	124,110
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	113,786	124,110

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

Three months ended March 31, 2021 and 2022

		(Thousands of shares)
	2021	2022
Weighted-average number of shares during the period	1,774,255	1,774,563

(2) Basis of Calculating Diluted Interim Earnings per Share**A. Profit Attributable to Diluted Ordinary Shareholders**

Three months ended March 31, 2021 and 2022

		(Millions of yen)
	2021	2022
Profit for the period used for calculation of basic interim earnings per share	113,786	124,110
Adjustment	(0)	—
Profit for the period used for calculation of diluted interim earnings per share	113,786	124,110

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

Three months ended March 31, 2021 and 2022

		(Thousands of shares)
	2021	2022
Weighted-average number of ordinary shares during the period	1,774,255	1,774,563
Increased number of ordinary shares under subscription rights to shares	762	692
Weighted-average number of diluted ordinary shares during the period	1,775,016	1,775,255

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, 2021		As of March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note)	196,970	198,290	197,989	198,587
Bonds (Note)	651,016	682,984	674,619	656,475
(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, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	-	7,362	-	7,362
Equity securities	19,988	-	7,804	27,792
Other	562	6,518	7,725	14,805
Total	20,550	13,880	15,529	49,959
Derivative liabilities	-	10,926	-	10,926
Total	-	10,926	-	10,926

As of March 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Derivative assets	-	21,492	-	21,492
Equity securities	21,089	-	7,812	28,901
Other	599	7,618	8,317	16,535
Total	21,688	29,110	16,129	66,927
Derivative liabilities	-	21,442	-	21,442
Total	-	21,442	-	21,442

16. Commitments

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

	(Millions of yen)	
	As of December 31, 2021	As of March 31, 2022
Acquisition of property, plant and equipment	28,817	33,923

17. Contingencies

As of March 31, 2022, there are no significant changes to the matters described in the consolidated financial statements for the year ended December 31, 2021.

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 28, 2022

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi

Designated Engagement Partner,
Certified Public Accountant: Koji Ishikawa

Designated Engagement Partner,
Certified Public Accountant: Yoichi Matsushita

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, 2022, 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, 2022, 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.