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October 31, 2022

Consolidated Financial Results for the Nine Months Ended September 30, 2022 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)
Listed Stock Exchange: Tokyo Stock Exchange
URL: <https://www.jti.co.jp/>
Representative: Masamichi Terabatake, Representative Director and President,
Chief Executive Officer
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Scheduled date to file Quarterly Securities Report: October 31, 2022
Scheduled starting date of the dividend payments: –
Drawing up supplementary documents on quarterly financial results: Yes
Holding quarterly investors' meeting: Yes (for analysts and institutional investors)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

1. Consolidated Financial Results for the Nine Months of the Fiscal Year Ending December 31, 2022 (from January 1, 2022 to September 30, 2022)

(1) Consolidated Operating Results (Cumulative) (Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the period	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2022	2,008,548	13.7	579,341	20.5	535,596	15.5	403,930	18.7
September 30, 2021	1,766,075	10.9	480,696	23.2	463,821	34.2	340,285	31.1

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
Nine months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
September 30, 2022	403,807	19.2	1,247,747	139.6	227.53	227.45
September 30, 2021	338,813	31.3	520,781	–	190.95	190.87

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity attributable to owners of the parent company per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
September 30, 2022	6,728,182	3,865,913	3,789,389	56.3	2,135.05
December 31, 2021	5,774,209	2,886,081	2,809,258	48.7	1,583.10

2. Cash Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2021	-	65.00	-	75.00	140.00
Year ending December 31, 2022	-	75.00	-		
Year ending December 31, 2022 (Forecast)				113.00	188.00

Note: Revisions to the cash dividends forecasts most recently announced: Yes

The company has revised upward its guidance of the year-end dividend per share by 38 yen to 113 yen. For more details, please refer to “Notice concerning revised dividends guidance” which has been released on October 31, 2022.

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company	Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	Yen
Year ending December 31, 2022	2,668,000	14.8	649,000	30.1	445,000	250.74

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

[Additional Information] Growth rate in adjusted operating profit at constant rates of exchange:

The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant rates of exchange, at mid to high single-digit over the mid- to long-term, and will continue to pursue this goal. The Group expects an annual average of mid-single digit growth during the period of the “Business Plan 2022” (fiscal year ending December 31, 2022 to fiscal year ending December 31, 2024.) which was announced on February 14, 2022.

(Percentages indicate year-on-year changes.)

	Adjusted operating profit at constant rates of exchange	
	Millions of yen	%
Nine months ended September 30, 2022 (Cumulative)	578,426	6.5
Year ending December 31, 2022 (Forecast)	660,000	8.1

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes

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. For details of these financial measures, please refer to “Proper use of earnings forecasts, and other special matters, (2).”

For detailed information on the consolidated financial results, please refer to the materials for investors’ meeting that were released on the Company’s website (<https://www.jt.com/investors/>) on October 31, 2022.

Notes

(1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

- a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
- b. Changes in accounting policies due to other reasons: None
- c. Changes in accounting estimates: None

For details, please refer to “1. Matters Regarding Summary Information, (1) Changes in Accounting Policies and Changes in Accounting Estimates.”

(3) Number of shares issued (ordinary shares)

- a. Total number of shares issued at the end of the period (including treasury shares)

As of September 30, 2022	2,000,000,000 shares
As of December 31, 2021	2,000,000,000 shares
- b. Number of treasury shares at the end of the period

As of September 30, 2022	225,148,524 shares
As of December 31, 2021	225,475,301 shares
- c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended September 30, 2022	1,774,714,367 shares
Nine months ended September 30, 2021	1,774,384,501 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

- (1) The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions and suppositions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future. Please refer to “FORWARD-LOOKING STATEMENTS” for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.
- (2) 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, adjusted operating profit at constant rates of exchange 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 rates of exchange, at mid to high single-digit over the mid- to long-term, and will continue to pursue this goal. Adjusted operating profit at constant rates of exchange 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 increase in profit due to inflation in some markets calculated using certain methods 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 adjusted operating profit at constant rates of exchange.

Attached Materials

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1. Matters Regarding Summary Information

(1) Changes in Accounting Policies and Changes in Accounting Estimates

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 percent 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.

(2) Revisions to the consolidated earnings forecasts most recently announced

The Group has revised the earnings forecasts in light of circumstances up until now.

However, since the most recently announced earnings forecasts were formulated, there are no material changes in the assumptions regarding COVID-19 for earnings forecasts.

(Billions of yen)

	Earnings forecasts	Changes from the consolidated earnings forecasts most recently announced		Year-on-year changes [%]
		Amount	%	
Revenue	2,668.0	182.0	7.3	14.8
Adjusted operating profit	728.0	103.0	16.5	19.3
Operating profit	649.0	100.0	18.2	30.1
Profit attributable to owners of the parent company	445.0	83.0	22.9	31.5
Adjusted operating profit at constant rates of exchange	660.0	56.0	9.3	8.1

Notes on the Russia-Ukraine War

The Group is fully committed to complying with all applicable sanctions while continuing business operations. In parallel, given the continued challenging and complex environment, we continue to evaluate various options, including the potential transfer of ownership of our Russian tobacco business.

As this moment, the Company is unable to reasonably estimate the outlook and the impact on its financial results. The Company will promptly make announcements regarding this matter if anything occurs that should be disclosed.

Notes on the Spread of COVID-19

Concerning the spread of 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. If the need for a revision to the Group's earnings forecasts arises, the Company will swiftly announce such a revision.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties.

Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) increase in awareness of health concerns related to smoking;
- (2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
- (3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (4) our ability to further diversify our business beyond the traditional tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition, changing consumer preferences and behavior;
- (7) our ability to manage impacts derived from business diversification or business expansion;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

2. Condensed Interim Consolidated Financial Statements

(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2021	As of September 30, 2022
Assets		
Current assets		
Cash and cash equivalents	721,731	778,464
Trade and other receivables	456,587	548,032
Inventories	563,182	685,228
Other financial assets	17,254	58,776
Other current assets	562,034	548,358
Subtotal	2,320,789	2,618,858
Assets held for sale	500	7,837
Total current assets	2,321,289	2,626,696
Non-current assets		
Property, plant and equipment	755,843	802,176
Goodwill	2,060,965	2,623,292
Intangible assets	307,152	276,198
Investment property	4,985	13,735
Retirement benefit assets	53,177	58,474
Investments accounted for using the equity method	41,721	70,410
Other financial assets	108,658	141,031
Deferred tax assets	120,419	116,171
Total non-current assets	3,452,920	4,101,487
Total assets	5,774,209	6,728,182

	(Millions of yen)	
	As of December 31, 2021	As of September 30, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	555,777	455,657
Bonds and borrowings	142,901	167,863
Income tax payables	30,794	75,693
Other financial liabilities	28,342	54,249
Provisions	24,858	25,425
Other current liabilities	717,653	696,519
Subtotal	1,500,326	1,475,406
Liabilities directly associated with assets held for sale	-	2,422
Total current liabilities	1,500,326	1,477,828
Non-current liabilities		
Bonds and borrowings	775,721	772,157
Other financial liabilities	43,885	48,274
Retirement benefit liabilities	296,176	256,484
Provisions	22,867	19,089
Other non-current liabilities	179,195	208,880
Deferred tax liabilities	69,959	79,559
Total non-current liabilities	1,387,803	1,384,441
Total liabilities	2,888,128	2,862,270
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(490,899)	(490,188)
Other components of equity	(400,086)	400,168
Retained earnings	2,863,843	3,043,008
Equity attributable to owners of the parent company	2,809,258	3,789,389
Non-controlling interests	76,823	76,524
Total equity	2,886,081	3,865,913
Total liabilities and equity	5,774,209	6,728,182

(2) Condensed Interim Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Condensed Interim Consolidated Statement of Income

Nine months ended September 30, 2021 and 2022

(Millions of yen)

	2021	2022
Revenue	1,766,075	2,008,548
Cost of sales	(708,648)	(806,482)
Gross profit	1,057,427	1,202,066
Other operating income	10,265	10,873
Share of profit in investments accounted for using the equity method	3,542	6,266
Selling, general and administrative expenses	(590,538)	(639,863)
Operating profit	480,696	579,341
Financial income	15,812	17,758
Financial costs	(32,687)	(61,503)
Profit before income taxes	463,821	535,596
Income taxes	(123,536)	(131,666)
Profit for the period	340,285	403,930

Attributable to:

Owners of the parent company	338,813	403,807
Non-controlling interests	1,472	123
Profit for the period	340,285	403,930

Interim earnings per share

Basic (Yen)	190.95	227.53
Diluted (Yen)	190.87	227.45

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

(Millions of yen)

	2021	2022
Operating profit	480,696	579,341
Amortization cost of acquired intangibles arising from business acquisitions	52,328	55,872
Adjustment items (income)	(6,795)	(8,326)
Adjustment items (costs)	16,659	10,936
Adjusted operating profit	542,888	637,823

Condensed Interim Consolidated Statement of Comprehensive Income

Nine months ended September 30, 2021 and 2022

(Millions of yen)

	2021	2022
Profit for the period	340,285	403,930
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	1,657	1,573
Remeasurements of defined benefit plans	11,774	41,665
Total of items that will not be reclassified to profit or loss	13,432	43,238
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	167,143	783,774
Net gain (loss) on derivatives designated as cash flow hedges	(79)	16,805
Total of items that may be reclassified subsequently to profit or loss	167,064	800,579
Other comprehensive income (loss), net of taxes	180,496	843,817
Comprehensive income (loss) for the period	520,781	1,247,747
Attributable to:		
Owners of the parent company	519,054	1,246,060
Non-controlling interests	1,727	1,687
Comprehensive income (loss) for the period	520,781	1,247,747

(3) 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, 2021	100,000	736,400	(491,507)	1,252	(614,374)	122	7,224
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	166,860	(79)	1,696
Comprehensive income (loss) for the period	-	-	-	-	166,860	(79)	1,696
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	600	(46)	-	-	-
Share-based payments	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	-
Other increase (decrease)	-	-	-	-	-	(220)	-
Total transactions with the owners	-	-	600	(46)	-	(220)	-
As of September 30, 2021	100,000	736,400	(490,907)	1,206	(447,514)	(177)	8,920
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)	-	-	-	-	782,156	16,805	1,646
Comprehensive income (loss) for the period	-	-	-	-	782,156	16,805	1,646
Acquisition of treasury shares	-	-	(1)	-	-	-	-
Disposal of treasury shares	-	-	712	(197)	-	-	-
Share-based payments	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(85)
Other increase (decrease)	-	-	-	-	-	(70)	-
Total transactions with the owners	-	-	711	(197)	-	(70)	(85)
As of September 30, 2022	100,000	736,400	(490,188)	1,004	373,981	16,461	8,722

(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	-	-	338,813	338,813	1,472	340,285
Other comprehensive income (loss)	11,764	180,241	-	180,241	254	180,496
Comprehensive income (loss) for the period	11,764	180,241	338,813	519,054	1,727	520,781
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(46)	(554)	0	-	0
Share-based payments	-	-	357	357	33	389
Dividends	-	-	(251,961)	(251,961)	(1,941)	(253,902)
Changes in the scope of consolidation	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(19)	(19)	18	(1)
Transfer from other components of equity to retained earnings	(11,764)	(11,764)	11,764	-	-	-
Other increase (decrease)	-	(220)	-	(220)	-	(220)
Total transactions with the owners	(11,764)	(12,030)	(240,413)	(251,844)	(1,890)	(253,733)
As of September 30, 2021	-	(437,565)	2,882,117	2,790,045	76,497	2,866,542
As of January 1, 2022	-	(400,086)	2,863,843	2,809,258	76,823	2,886,081
Profit for the period	-	-	403,807	403,807	123	403,930
Other comprehensive income (loss)	41,646	842,253	-	842,253	1,564	843,817
Comprehensive income (loss) for the period	41,646	842,253	403,807	1,246,060	1,687	1,247,747
Acquisition of treasury shares	-	-	-	(1)	-	(1)
Disposal of treasury shares	-	(197)	(514)	0	-	0
Share-based payments	-	-	345	345	21	366
Dividends	-	-	(266,203)	(266,203)	(1,576)	(267,779)
Changes in the scope of consolidation	-	-	-	-	(431)	(431)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(1)	(1)	(0)	(1)
Transfer from other components of equity to retained earnings	(41,646)	(41,731)	41,731	-	-	-
Other increase (decrease)	-	(70)	-	(70)	-	(70)
Total transactions with the owners	(41,646)	(41,998)	(224,642)	(265,929)	(1,985)	(267,915)
As of September 30, 2022	-	400,168	3,043,008	3,789,389	76,524	3,865,913

(4) Condensed Interim Consolidated Statement of Cash Flows

Nine months ended September 30, 2021 and 2022

		(Millions of yen)
	2021	2022
Cash flows from operating activities		
Profit before income taxes	463,821	535,596
Depreciation and amortization	139,743	151,695
Impairment losses	9,095	18,410
Interest and dividend income	(8,731)	(17,681)
Interest expense	17,535	19,977
Share of profit in investments accounted for using the equity method	(3,542)	(6,266)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(2,973)	(3,933)
(Increase) decrease in trade and other receivables	(57,867)	(16,126)
(Increase) decrease in inventories	29,815	(37,200)
Increase (decrease) in trade and other payables	(16,982)	(131,714)
Increase (decrease) in retirement benefit liabilities	(16,601)	(2,244)
(Increase) decrease in prepaid tobacco excise taxes	(12,577)	96,038
Increase (decrease) in tobacco excise tax payables	(30,227)	(107,747)
Increase (decrease) in consumption tax payables	(2,648)	8,032
Other	30,875	(50,141)
Subtotal	538,736	456,696
Interest and dividends received	10,207	17,412
Interest paid	(15,914)	(21,406)
Income taxes paid	(104,096)	(109,080)
Net cash flows from operating activities	428,933	343,623
Cash flows from investing activities		
Purchase of securities	(19,587)	(28,081)
Proceeds from sale and redemption of securities	16,738	14,326
Purchase of property, plant and equipment	(60,995)	(52,482)
Proceeds from sale of investment property	4,722	4,717
Purchase of intangible assets	(11,520)	(12,240)
Payments into time deposits	(888)	(90)
Proceeds from withdrawal of time deposits	637	1,252
Proceeds from sale of investments in associates	2,512	43
Other	(1,718)	2,577
Net cash flows from investing activities	(70,101)	(69,978)

		(Millions of yen)
	2021	2022
Cash flows from financing activities		
Dividends paid to owners of the parent company	(251,617)	(265,876)
Dividends paid to non-controlling interests	(1,390)	(1,115)
Capital contribution from non-controlling interests	35	27
Increase (decrease) in short-term borrowings and commercial paper	12,201	(34,478)
Proceeds from long-term borrowings	3,295	1,509
Repayments of long-term borrowings	(12,234)	(12,441)
Proceeds from issuance of bonds	55,334	-
Redemption of bonds	(82,058)	(30,000)
Repayments of lease liabilities	(14,899)	(14,990)
Acquisition of treasury shares	(0)	(1)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	(0)
Other	0	0
Net cash flows from financing activities	(291,334)	(357,364)
Net increase (decrease) in cash and cash equivalents	67,498	(83,719)
Cash and cash equivalents at the beginning of the period	538,844	721,731
Effect of exchange rate changes on cash and cash equivalents	24,313	140,452
Cash and cash equivalents at the end of the period	630,655	778,464

(5) Segment Information

A. 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 this fiscal year.

Due to the change in the segment classification, the segment information for the nine months ended September 30, 2021 has been reclassified to conform with the presentation for the nine months ended September 30, 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.

B. 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.

Nine months ended September 30, 2021

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue							
External revenue	1,601,153	56,781	106,655	1,764,589	1,486	-	1,766,075
Intersegment revenue	232	-	0	232	3,842	(4,073)	-
Total revenue	<u>1,601,384</u>	<u>56,781</u>	<u>106,655</u>	<u>1,764,820</u>	<u>5,328</u>	<u>(4,073)</u>	<u>1,766,075</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>562,875</u>	<u>6,608</u>	<u>2,357</u>	<u>571,840</u>	<u>(28,873)</u>	<u>(79)</u>	<u>542,888</u>

¥1,532,103 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	610,668	389,938	531,497	1,532,103
Adjusted operating profit	233,932	180,406	148,537	562,875

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

Nine months ended September 30, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue							
External revenue	1,834,539	59,665	112,798	2,007,001	1,547	-	2,008,548
Intersegment revenue	215	-	0	215	6,852	(7,067)	-
Total revenue	<u>1,834,754</u>	<u>59,665</u>	<u>112,798</u>	<u>2,007,217</u>	<u>8,399</u>	<u>(7,067)</u>	<u>2,008,548</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>653,450</u>	<u>7,267</u>	<u>1,858</u>	<u>662,575</u>	<u>(24,704)</u>	<u>(48)</u>	<u>637,823</u>

¥1,760,667 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	609,306	413,417	737,945	1,760,667
Adjusted operating profit	230,763	193,244	229,443	653,450

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

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

Nine months ended September 30, 2021

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	562,875	6,608	2,357	571,840	(28,873)	(79)	542,888
Amortization cost of acquired intangibles arising from business acquisitions	(52,328)	-	-	(52,328)	-	-	(52,328)
Adjustment items (income) (Note 3)	2,975	200	129	3,304	3,491	-	6,795
Adjustment items (costs) (Note 4)	(15,091)	0	(1,170)	(16,261)	(398)	-	(16,659)
Operating profit (loss)	498,430	6,808	1,316	506,555	(25,780)	(79)	480,696
Financial income							15,812
Financial costs							(32,687)
Profit before income taxes							463,821

Nine months ended September 30, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	653,450	7,267	1,858	662,575	(24,704)	(48)	637,823
Amortization cost of acquired intangibles arising from business acquisitions	(55,872)	-	-	(55,872)	-	-	(55,872)
Adjustment items (income) (Note 3)	3,448	-	4	3,453	4,873	-	8,326
Adjustment items (costs) (Note 4)	(6,973)	-	(1,140)	(8,114)	(2,823)	-	(10,936)
Operating profit (loss)	594,053	7,267	722	602,043	(22,653)	(48)	579,341
Financial income							17,758
Financial costs							(61,503)
Profit before income taxes							535,596

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) “Other” includes business activities relating to real estate rental and corporate expenditure relating to corporate communication and operation of the head office.

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

Nine months ended September 30, 2021 and 2022

(Millions of yen)

	2021	2022
Restructuring incomes	1,815	548
Other	4,979	7,778
Adjustment items (income)	6,795	8,326

Restructuring incomes for the nine months ended September 30, 2021 and 2022 mainly related to gains on sale of real estate. Other (income) for the nine months ended September 30, 2021 mainly related to gains on sale of an investment in an associate during the past fiscal years and gains on sale of real estate. Other (income) for the nine months ended September 30, 2022 mainly related to gains on sale of real estate and reversal of liabilities recognized at the time of acquisition.

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

Nine months ended September 30, 2021 and 2022

(Millions of yen)

	2021	2022
Restructuring costs	10,001	5,385
Cooperation fee for terminating leaf tobacco farming	6,429	-
Other	229	5,552
Adjustment items (costs)	16,659	10,936

Restructuring costs for the nine months ended September 30, 2021 mainly related to cost of measures to strengthen the operations and rationalization in a market in the “Tobacco Business.” Restructuring costs for the nine months ended September 30, 2022 mainly related to loss on disposal of real estate and cost of measures to strengthen the operations in the “Tobacco Business.”

Other (costs) for the nine months ended September 30, 2022 mainly related to impairment loss on a trademark in the “Tobacco Business” and loss on sale of shares of a subsidiary.

(6) Note on Premise of Going Concern

No items to report

(7) Subsequent Events

The Group's subsidiary, JT International Financial Services B.V. issued senior notes with an aggregate principal amount of US\$ 500 million due 2032 on October 24, 2022 as follows.

	US dollar-dominated senior notes due 2032
1. Total amount of issue	US\$ 500 million
2. Interest rate	6.875% per annum
3. Offering price	98.626% of nominal amount
4. Redemption price	100% of nominal amount
5. Settlement date	October 24, 2022
6. Maturity date	October 24, 2032
7. Redemption	The senior notes will be redeemed in full upon maturity. JT International Financial Services B.V. may, at any time after the date of payment, purchase the senior notes and have such purchased senior notes cancelled.
8. Guarantor	Japan Tobacco Inc.
9. Use of proceeds	Proceeds are intended to be used for general corporate purposes.