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February 6, 2020

Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 <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
Contact: Hiroyuki Fukuda, Senior Vice President, Communications
Telephone: +81-3-3582-3111
Scheduled date of Annual General Meeting of Shareholders: March 19, 2020
Scheduled date to file Securities Report: March 19, 2020
Scheduled starting date of the dividend payments: March 23, 2020
Drawing up supplementary documents on financial results: Yes
Holding 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 fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the year	
Year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2019	2,175,626	(1.8)	502,355	(11.1)	465,232	(12.5)	361,622	(6.7)
December 31, 2018	2,215,962	3.6	564,984	0.7	531,486	(1.3)	387,431	(2.3)

	Profit attributable to owners of the parent company		Comprehensive income for the year		Basic earnings per share	Diluted earnings per share
Year ended	Millions of yen	%	Millions of yen	%	Yen	Yen
December 31, 2019	348,190	(9.7)	365,816	182.9	195.97	195.87
December 31, 2018	385,677	(1.7)	129,302	(76.7)	215.31	215.20

	Ratio of profit to equity attributable to owners of the parent company	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
Year ended	%	%	%
December 31, 2019	13.2	8.4	23.1
December 31, 2018	14.3	10.0	25.5

Reference: Share of profit (loss) in investments accounted for using the equity method:

Fiscal year ended December 31, 2019: ¥5,011 million; Fiscal year ended December 31, 2018: ¥3,931 million

(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
December 31, 2019	5,553,071	2,743,611	2,662,696	48.0	1,501.12
December 31, 2018	5,461,400	2,700,445	2,630,594	48.2	1,468.44

(3) Consolidated cash flows

	Net cash flows from (used in) operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at the end of the year
Year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2019	540,410	(123,571)	(333,832)	357,158
December 31, 2018	461,389	(383,307)	(62,360)	282,063

2. Cash dividends

	Annual dividends per share					Total amount of dividends (total)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the parent company (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended December 31, 2018	-	75.00	-	75.00	150.00	268,708	69.7	10.0
Year ended December 31, 2019	-	77.00	-	77.00	154.00	273,162	78.6	10.4
Year ending December 31, 2020 (Forecast)	-	77.00	-	77.00	154.00		89.6	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(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, 2020	2,180,000	0.2	471,000	(6.2)	305,000	(12.4)	171.95

[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.

(Percentages indicate year-on-year changes.)

	Adjusted operating profit at constant rates of exchange	
	Millions of yen	%
Year ended December 31, 2019	600,760	0.9
Year ending December 31, 2020 (Forecast)	516,000	0.0

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 detailed information on the consolidated financial results, please visit the Company's website (<https://www.jt.com/investors/>), where materials for investors' meeting have been released today.

Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
Excluded: One company (TableMark Holdings Co., Ltd.)
- (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 "Consolidated financial statements and major notes (IFRS), (6) Notes to consolidated financial statements (Changes in accounting policies)."
- (3) Number of shares issued (ordinary shares)
 - a. Total number of shares issued at the end of the period (including treasury shares)

As of December 31, 2019	2,000,000,000 shares
As of December 31, 2018	2,000,000,000 shares
 - b. Number of treasury shares at the end of the period

As of December 31, 2019	226,196,566 shares
As of December 31, 2018	208,576,641 shares
 - c. Average number of shares during the period

Fiscal year ended December 31, 2019	1,776,781,946 shares
Fiscal year ended December 31, 2018	1,791,296,331 shares

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

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.

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 and changing consumer preferences;
- (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.

Consolidated Financial Statements and Major Notes (IFRS)

(1) Consolidated Statement of Financial Position

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	282,063	357,158
Trade and other receivables	456,591	458,513
Inventories	649,238	677,586
Other financial assets	35,633	21,943
Other current assets	385,872	410,443
Subtotal	1,809,396	1,925,643
Non-current assets held-for-sale	10	30
Total current assets	1,809,406	1,925,673
Non-current assets		
Property, plant and equipment	758,841	803,239
Goodwill	2,008,416	2,002,595
Intangible assets	503,076	440,434
Investment property	17,558	16,588
Retirement benefit assets	57,140	67,377
Investments accounted for using the equity method	66,807	52,903
Other financial assets	115,046	109,568
Deferred tax assets	125,109	134,696
Total non-current assets	3,651,993	3,627,397
Total assets	5,461,400	5,553,071

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	380,516	408,597
Bonds and borrowings	250,466	284,135
Income tax payables	72,449	69,543
Other financial liabilities	4,486	21,862
Provisions	6,078	16,570
Other current liabilities	716,190	701,050
Total current liabilities	1,430,185	1,501,757
Non-current liabilities		
Bonds and borrowings	727,314	690,367
Other financial liabilities	10,067	41,062
Retirement benefit liabilities	321,838	320,614
Provisions	3,780	19,463
Other non-current liabilities	179,274	155,768
Deferred tax liabilities	88,497	80,430
Total non-current liabilities	1,330,770	1,307,702
Total liabilities	2,760,955	2,809,459
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(442,829)	(492,469)
Other components of equity	(423,357)	(431,741)
Retained earnings	2,660,381	2,750,506
Equity attributable to owners of the parent company	2,630,594	2,662,696
Non-controlling interests	69,851	80,916
Total equity	2,700,445	2,743,611
Total liabilities and equity	5,461,400	5,553,071

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

Consolidated Statement of Income

	(Millions of yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Revenue	2,215,962	2,175,626
Cost of sales	(933,034)	(942,299)
Gross profit	1,282,928	1,233,326
Other operating income	48,532	95,725
Share of profit in investments accounted for using the equity method	3,931	5,011
Selling, general and administrative expenses	(770,407)	(831,707)
Operating profit	564,984	502,355
Financial income	5,754	8,402
Financial costs	(39,252)	(45,526)
Profit before income taxes	531,486	465,232
Income taxes	(144,055)	(103,609)
Profit for the period	387,431	361,622
Attributable to:		
Owners of the parent company	385,677	348,190
Non-controlling interests	1,755	13,432
Profit for the period	387,431	361,622
Earnings per share		
Basic (Yen)	215.31	195.97
Diluted (Yen)	215.20	195.87

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

	(Millions of yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Operating profit	564,984	502,355
Amortization cost of acquired intangibles arising from business acquisitions	61,772	69,623
Adjustment items (income)	(40,447)	(84,467)
Adjustment items (costs)	9,154	28,415
Adjusted operating profit	595,463	515,927

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Profit for the period	387,431	361,622
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	(8,215)	(2,484)
Remeasurements of defined benefit plans	(3,195)	(2,811)
Total of items that will not be reclassified to profit or loss	(11,410)	(5,295)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(247,731)	9,879
Net gain (loss) on derivatives designated as cash flow hedges	1,012	(391)
Total of items that may be reclassified subsequently to profit or loss	(246,719)	9,489
Other comprehensive income (loss), net of taxes	(258,129)	4,194
Comprehensive income (loss) for the period	129,302	365,816
Attributable to:		
Owners of the parent company	128,340	352,953
Non-controlling interests	962	12,863
Comprehensive income (loss) for the period	129,302	365,816

(3) 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, 2018	100,000	736,400	(443,636)	1,964	(207,884)	(88)	38,670
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(247,034)	1,012	(8,239)
Comprehensive income (loss) for the period	-	-	-	-	(247,034)	1,012	(8,239)
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	807	(691)	-	-	-
Share-based payments	-	-	-	274	-	-	-
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	-	-	-	-	-	-	(860)
Other increase (decrease)	-	-	-	-	-	(480)	-
Total transactions with the owners	-	-	807	(417)	-	(480)	(860)
As of December 31, 2018	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	10,553	(391)	(2,486)
Comprehensive income (loss) for the period	-	-	-	-	10,553	(391)	(2,486)
Acquisition of treasury shares	-	-	(50,001)	-	-	-	-
Disposal of treasury shares	-	-	361	(281)	-	-	-
Share-based payments	-	-	-	290	-	-	-
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	-	-	-	-	-	-	(15,883)
Other increase (decrease)	-	-	-	-	-	(185)	-
Total transactions with the owners	-	-	(49,640)	10	-	(185)	(15,883)
As of December 31, 2019	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity		Retained earnings	Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total				
As of January 1, 2018	-	(167,338)	2,536,262	2,761,687	80,340	2,842,027
Profit for the period	-	-	385,677	385,677	1,755	387,431
Other comprehensive income (loss)	(3,075)	(257,337)	-	(257,337)	(792)	(258,129)
Comprehensive income (loss) for the period	(3,075)	(257,337)	385,677	128,340	962	129,302
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(691)	(116)	0	-	0
Share-based payments	-	274	2	275	36	311
Dividends	-	-	(259,724)	(259,724)	(1,914)	(261,638)
Changes in the scope of consolidation	-	-	-	-	139	139
Changes in the ownership interest in a subsidiary without a loss of control	-	-	495	495	(9,713)	(9,218)
Transfer from other components of equity to retained earnings	3,075	2,215	(2,215)	-	-	-
Other increase (decrease)	-	(480)	-	(480)	-	(480)
Total transactions with the owners	3,075	1,318	(261,558)	(259,433)	(11,452)	(270,885)
As of December 31, 2018	-	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	-	-	348,190	348,190	13,432	361,622
Other comprehensive income (loss)	(2,913)	4,763	-	4,763	(569)	4,194
Comprehensive income (loss) for the period	(2,913)	4,763	348,190	352,953	12,863	365,816
Acquisition of treasury shares	-	-	-	(50,001)	-	(50,001)
Disposal of treasury shares	-	(281)	(80)	0	-	0
Share-based payments	-	290	(19)	271	47	319
Dividends	-	-	(270,936)	(270,936)	(2,051)	(272,987)
Changes in the scope of consolidation	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(1)	(1)	206	205
Transfer from other components of equity to retained earnings	2,913	(12,971)	12,971	-	-	-
Other increase (decrease)	-	(185)	-	(185)	-	(185)
Total transactions with the owners	2,913	(13,146)	(258,065)	(320,851)	(1,798)	(322,650)
As of December 31, 2019	-	(431,741)	2,750,506	2,662,696	80,916	2,743,611

(4) Consolidated Statement of Cash Flows

	(Millions of yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	531,486	465,232
Depreciation and amortization	158,671	183,852
Impairment losses	8,454	16,124
Interest and dividend income	(5,751)	(7,944)
Interest expense	16,343	27,557
Share of profit in investments accounted for using the equity method	(3,931)	(5,011)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(34,905)	(8,299)
(Increase) decrease in trade and other receivables	(30,818)	10,673
(Increase) decrease in inventories	(53,058)	(32,817)
Increase (decrease) in trade and other payables	(4,618)	28,294
Increase (decrease) in retirement benefit liabilities	(8,864)	(9,526)
(Increase) decrease in prepaid tobacco excise taxes	(36,662)	(21,864)
Increase (decrease) in tobacco excise tax payables	53,408	3,891
Increase (decrease) in consumption tax payables	(11,026)	29,592
Other	8,969	16,766
Subtotal	587,697	696,521
Interest and dividends received	11,743	15,340
Interest paid	(13,685)	(24,346)
Income taxes paid	(124,366)	(147,105)
Net cash flows from operating activities	461,389	540,410
Cash flows from investing activities		
Purchase of securities	(36,705)	(45,401)
Proceeds from sale and redemption of securities	10,159	77,200
Purchase of property, plant and equipment	(138,605)	(111,366)
Proceeds from sale of investment property	46,868	15,863
Purchase of intangible assets	(20,205)	(22,004)
Payments into time deposits	(878)	(218)
Proceeds from withdrawal of time deposits	812	409
Payments for business combinations	(247,632)	-
Subsequent payments for past fiscal years' business combinations	(4,589)	(40,127)
Other	7,467	2,073
Net cash flows from investing activities	(383,307)	(123,571)

	(Millions of yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Cash flows from financing activities		
Dividends paid to owners of the parent company	(259,671)	(270,871)
Dividends paid to non-controlling interests	(1,747)	(1,913)
Capital contribution from non-controlling interests	109	358
Increase (decrease) in short-term borrowings and commercial paper	(133,849)	(44,976)
Proceeds from long-term borrowings	59,135	-
Repayments of long-term borrowings	(2,710)	(11,568)
Proceeds from issuance of bonds	341,516	59,435
Redemption of bonds	(54,086)	-
Repayments of lease liabilities	(1,637)	(14,294)
Acquisition of treasury shares	(0)	(50,001)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(9,421)	(1)
Other	0	0
Net cash flows from financing activities	(62,360)	(333,832)
Net increase (decrease) in cash and cash equivalents	15,721	83,008
Cash and cash equivalents at the beginning of the period	285,486	282,063
Effect of exchange rate changes on cash and cash equivalents	(19,145)	(7,913)
Cash and cash equivalents at the end of the period	282,063	357,158

(5) Notes on Premise of Going Concern

No items to report.

(6) Notes to consolidated financial statements

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 2019.

IFRS		Description of new standards and amendments
IFRS 16	Leases	Amendments to accounting treatment for lease arrangements
IAS 19	Employee Benefits	Clarifying treatment on a defined benefit plan curtailment or settlement

At inception of a contract, the Group assesses whether the contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group elects not to recognize right-of-use assets and lease liabilities for short-term leases within 12 months and leases of low-value assets.

If a contract is, or contains, a lease, except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets and lease liabilities on the condensed consolidated statement of financial position at the commencement date. The Group recognizes the lease payments associated with short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term.

Right-of-use asset is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

An acquisition cost of a right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, and any initial direct costs. The right-of-use asset is depreciated using the straight-line method over its estimated useful life or lease term, whichever is shorter. The lease liability is initially measured at the present value of the lease payment that is not paid at the commencement date. The lease payments are apportioned between the financial cost and the reduction in the lease liability based on the effective interest method. The financial costs are recognized in the condensed consolidated statement of income.

In adopting IFRS 16, the Group used a transition method by which the cumulative effect of initially adopting this standard was recognized at the date of initial application.

The lessee's weighted average incremental borrowing rate which applied to lease liabilities on the condensed consolidated statement of financial position at the date of initial application is 4.1%.

The difference between the total amount of future minimum lease payments under non-cancellable operating leases (discounted by the lessee's incremental borrowing rate above) which were disclosed upon adopting IAS 17, "Leases" (hereinafter referred to as "IAS 17"), at the end of the consolidated fiscal year immediately before the initial application and the lease liabilities on the condensed consolidated statement of financial position at the date of initial application is mainly due to the estimation difference of the lease term of lands and buildings for the period which exceeds the non-cancellable period.

The Group has adopted this standard for contracts that were previously identified as leases adopting IAS 17 and IFRIC 4, "Determining whether an Arrangement Contains a Lease" (hereinafter referred to as "IFRIC 4"), without reassessing whether a contract is, or contains, a lease at the date of initial application. The Group has not adopted this standard for contracts that were not previously identified as containing a lease adopting IAS 17 and IFRIC 4.

For leases previously classified as operating leases adopting IAS 17, the following practical expedients permitted as transition methods are adopted:

- A single discount rate is applied to a portfolio of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

As a result of the adoption of IFRS 16, "Assets" and "Liabilities" increased by ¥39,033 million at the date of initial application. There is an immaterial impact on operating profit and profit for the period.

In order to reflect the change in accounting method in accordance with the adoption of IFRS 16, “Repayments of finance lease obligations,” which was presented in “Cash flows from financing activities” on the consolidated statement of cash flows for the year ended December 31, 2018, has been presented as “Repayments of lease liabilities” from the fiscal year ended December 31, 2019.

The effect of adopting IAS 19 on the consolidated financial statements is immaterial.

(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. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.” They are determined by types of products, characteristics, and markets.

The “Domestic Tobacco Business” manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company’s China Division operates). The “International Tobacco Business” manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The “Pharmaceutical Business” consists of research and development, and the manufacture and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods, bakery products and seasonings.

b. Revenues and performances of reportable segments

Revenues and performances of reportable segments are as follows. The Board of Directors assesses the segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expenses are excluded from segment performance.

Transactions within the segments are based mainly on prevailing market prices.

Year ended December 31, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	621,426	1,312,342	113,992	161,387	2,209,147	6,815	-	2,215,962
Intersegment revenue	7,976	27,637	-	1	35,615	5,737	(41,353)	-
Total revenue	<u>629,403</u>	<u>1,339,979</u>	<u>113,992</u>	<u>161,388</u>	<u>2,244,762</u>	<u>12,553</u>	<u>(41,353)</u>	<u>2,215,962</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>208,977</u>	<u>384,524</u>	<u>28,438</u>	<u>4,123</u>	<u>626,062</u>	<u>(30,440)</u>	<u>(159)</u>	<u>595,463</u>
Other items								
Depreciation and amortization	55,044	89,887	5,071	6,708	156,710	2,193	(233)	158,671
Impairment losses on other than financial assets	-	5,336	2,141	146	7,623	831	-	8,454
Reversal of impairment losses on other than financial assets	-	692	-	-	692	-	-	692
Share of profit (loss) in investments accounted for using the equity method	35	3,849	-	11	3,895	36	-	3,931
Capital expenditures	55,444	75,727	11,333	12,749	155,253	4,844	(289)	159,808

Year ended December 31, 2019

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	611,494	1,310,877	88,528	158,586	2,169,485	6,140	-	2,175,626
Intersegment revenue	7,270	27,626	-	1	34,897	7,333	(42,229)	-
Total revenue	<u>618,764</u>	<u>1,338,503</u>	<u>88,528</u>	<u>158,587</u>	<u>2,204,382</u>	<u>13,473</u>	<u>(42,229)</u>	<u>2,175,626</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>187,180</u>	<u>340,752</u>	<u>15,943</u>	<u>5,432</u>	<u>549,308</u>	<u>(33,478)</u>	<u>97</u>	<u>515,927</u>
Other items								
Depreciation and amortization (Note 3)	59,276	108,378	5,936	7,586	181,176	2,909	(233)	183,852
Impairment losses on other than financial assets	7,751	5,765	1,471	220	15,207	917	-	16,124
Reversal of impairment losses on other than financial assets	-	91	-	-	91	-	-	91
Share of profit (loss) in investments accounted for using the equity method	16	4,863	-	10	4,889	122	-	5,011
Capital expenditures (Note 4)	34,793	78,295	6,979	6,142	126,209	5,609	(383)	131,434

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

Year ended December 31, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	208,977	384,524	28,438	4,123	626,062	(30,440)	(159)	595,463
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(45,527)	-	-	(61,772)	-	-	(61,772)
Adjustment items (income) (Note 5)	9	1,711	-	37	1,757	38,691	-	40,447
Adjustment items (costs) (Note 6)	(288)	(1,195)	(2,141)	(1,240)	(4,864)	(4,290)	-	(9,154)
Operating profit (loss)	192,453	339,514	26,297	2,919	561,183	3,960	(159)	564,984
Financial income								5,754
Financial costs								(39,252)
Profit before income taxes								531,486

Year ended December 31, 2019

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	187,180	340,752	15,943	5,432	549,308	(33,478)	97	515,927
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(53,378)	-	-	(69,623)	-	-	(69,623)
Adjustment items (income) (Note 5)	24	8,776	61,018	461	70,278	14,189	-	84,467
Adjustment items (costs) (Note 6)	-	(22,141)	(4,264)	(365)	(26,770)	(1,646)	-	(28,415)
Operating profit (loss)	170,960	274,008	72,697	5,528	523,193	(20,935)	97	502,355
Financial income								8,402
Financial costs								(45,526)
Profit before income taxes								465,232

(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 rent of real estate and corporate expenses relating to corporate communication and operation of the head office.

(Note 3) Depreciation and amortization of right-of-use assets included in "Depreciation and amortization" is as follows:
(Millions of yen)

	2019
Domestic Tobacco	3,649
International Tobacco	10,314
Pharmaceuticals	456
Processed Food	741
Other	616
Depreciation and amortization of right-of-use assets	15,778

(Note 4) Starting from this year, increase of right-of-use assets has been excluded.

(Note 5) The breakdown of “Adjustment items (income)” is as follows:

(Millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Gain on transfer of pharmaceutical licenses	-	60,518
Restructuring incomes	39,284	15,197
Other	1,163	8,752
Adjustment items (income)	40,447	84,467

Restructuring incomes for the year ended December 31, 2018 and 2019 mainly relate to gains on sale of real estate. Other for the year ended December 31, 2019 mainly relates to gains on fair value adjustment after the measurement period for assets and liabilities transferred in a business combination in the “International Tobacco Business.”

(Note 6) The breakdown of “Adjustment items (costs)” is as follows:

	(Millions of yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Restructuring costs	7,934	26,182
Other	1,220	2,233
Adjustment items (costs)	9,154	28,415

Restructuring costs for the year ended December 31, 2018 mainly relate to disposal of real estate, business structure reform in the “Pharmaceutical Business” and rationalization of the production and distribution system in some markets in the “International Tobacco Business.” Restructuring costs for the year ended December 31, 2019 mainly relate to business operation transformation in the “International Tobacco Business” and business structure reform in the “Pharmaceutical Business.” Other for the year ended December 31, 2018 mainly relates to settlement of the litigation in September 2018. Other for the year ended December 31, 2019 mainly relates to disposal of real estate.

c. Geographic information

The regional breakdown of non-current assets and external revenue as of each fiscal year end is as follows:

Non-current Assets

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
Japan	835,386	812,083
Overseas	2,452,505	2,450,772
Consolidated	3,287,891	3,262,855

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue

	(Millions of yen)	
	Year ended December 31, 2018	Year ended December 31, 2019
Japan	822,070	789,279
Overseas	1,393,892	1,386,347
Consolidated	2,215,962	2,175,626

(Note) Revenue is segmented by the sales destination.

d. Major customers information

The “International Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥249,797 million (11.3% of consolidated revenue) for the year ended December 31, 2018 and ¥235,093 million (10.8% of consolidated revenue) for the year ended December 31, 2019.

(Per share information)**(1) Basis of Calculating Basic Earnings per Share****a. Profit attributable to ordinary shareholders of the parent company**

(Millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Profit for the period attributable to owners of the parent company	385,677	348,190
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic earnings per share	385,677	348,190

b. Weighted-average number of ordinary shares outstanding during the period

(Thousands of shares)

	Year ended December 31, 2018	Year ended December 31, 2019
Weighted-average number of shares during the period	1,791,296	1,776,782

(2) Basis of Calculating Diluted Earnings per Share**a. Profit attributable to diluted ordinary shareholders**

(Millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Profit for the period used for calculation of basic earnings per share	385,677	348,190
Adjustment	-	-
Profit for the period used for calculation of diluted earnings per share	385,677	348,190

b. Weighted-average number of diluted ordinary shares outstanding during the period

(Thousands of shares)

	Year ended December 31, 2018	Year ended December 31, 2019
Weighted-average number of ordinary shares during the period	1,791,296	1,776,782
Increased number of ordinary shares under subscription rights to shares	863	857
Weighted-average number of diluted ordinary shares during the period	1,792,159	1,777,639

(Significant subsequent events)

The Company entered into loan agreements with banks as follows:

- (1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited
- (2) Aggregate amount of borrowings : ¥100 billion
- (3) Interest rates : Floating rates (TIBOR plus spread)
- (4) Drawdown date : January 31, 2020
- (5) Repayment date : January 31, 2080

The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2025.

- (6) Collateral/Guarantee : None
- (7) Use of proceeds: Repayment of existing debts and working capital
- (8) Other borrowing terms :

- a. Interest deferral clause

The Company may, at its option, defer the payment of interest.

- b. Subordination clause

The lenders shall have subordinated claim rights subordinated to senior debts in liquidation proceedings, bankruptcy proceedings, reorganization proceedings, civil rehabilitation proceedings or any other equivalent proceedings other than those under the laws of Japan.

No terms and conditions of the Subordinated Loan Agreement may be amended in a manner detrimental in any way to any creditors of the Company other than the creditors of the subordinated receivables.

- c. Replacement restrictions

There is no contractual provision on replacement restrictions.

Provided, when making a prepayment of the Subordinated Loan, the Company intends to replace it with the funds raised by common stock or financial instruments that have equity credit attributes approved by rating agencies to be equal to or higher than the Subordinated Loan within twelve months prior to the prepayment date. However, the Company may decide not to replace the Subordinated Loan with the approved funds that have equal or higher equity credit attributes, if predefined financial requirements are met.

Non-consolidated financial statements and major notes (Japanese GAAP)

(1) Non-consolidated balance sheet

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	106,089	80,282
Accounts receivable - trade	54,296	43,174
Securities	39,800	40,000
Merchandise and finished goods	33,304	32,756
Semi-finished goods	61,625	68,416
Work in process	2,294	2,262
Raw materials and supplies	43,226	40,120
Advance payments - trade	2,667	2,093
Prepaid expenses	9,742	9,893
Short-term loans receivable from subsidiaries and affiliates	46,357	99,536
Other	19,931	59,091
Allowance for doubtful accounts	(26)	(26)
Total current assets	419,306	477,597
Noncurrent assets		
Property, plant and equipment		
Buildings	86,012	92,396
Structures	2,740	2,686
Machinery and equipment	69,652	59,262
Vehicles	1,387	1,827
Tools, furniture and fixtures	17,412	16,586
Land	71,394	71,279
Construction in progress	13,869	2,503
Total property, plant and equipment	262,466	246,540
Intangible assets		
Patent right	243	224
Right of trademark	115,732	98,896
Software	20,231	19,581
Goodwill	250,397	214,626
Other	2,082	2,705
Total intangible assets	388,684	336,031
Investments and other assets		
Investment securities	54,855	22,566
Shares of subsidiaries and affiliates	1,504,796	1,482,083
Long-term loans receivable from subsidiaries and affiliates	19,215	17,040
Long-term prepaid expenses	9,888	9,268
Deferred tax assets	2,197	13,053
Other	9,708	11,841
Allowance for doubtful accounts	(232)	(1,663)
Total investments and other assets	1,600,427	1,554,189
Total noncurrent assets	2,251,577	2,136,759
Total assets	2,670,883	2,614,357

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	9,806	10,304
Current portion of bonds	-	80,000
Lease obligations	3,085	2,769
Accounts payable - other	62,403	60,869
National tobacco excise taxes payable	74,403	71,178
National tobacco special excise taxes payable	10,562	10,060
Local tobacco excise taxes payable	85,145	81,718
Income taxes payable	39,364	10,555
Accrued consumption taxes	23,790	32,758
Cash management system deposits received	250,231	323,313
Provision for bonuses	5,675	4,726
Other	28,976	7,806
Total current liabilities	593,441	696,054
Noncurrent liabilities		
Bonds payable	373,692	291,904
Long-term loans payable	70,000	70,000
Lease obligations	4,874	6,113
Provision for retirement benefits	131,041	129,322
Other	4,274	3,598
Total noncurrent liabilities	583,881	500,937
Total liabilities	1,177,321	1,196,991

	(Millions of yen)	
	As of December 31, 2018	As of December 31, 2019
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Total capital surpluses	736,400	736,400
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	287	378
Reserve for reduction entry	41,753	45,373
Special account for reduction entry	10,179	1,747
Retained earnings brought forward	996,757	992,930
Total retained earnings	1,067,752	1,059,205
Treasury shares	(442,829)	(492,469)
Total shareholders' equity	1,461,323	1,403,136
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	25,815	7,283
Deferred gains or losses on hedges	4,877	5,390
Total valuation and translation adjustments	30,693	12,673
Subscription rights to shares	1,547	1,556
Total net assets	1,493,562	1,417,365
Total liabilities and net assets	2,670,883	2,614,357

(2) Non-consolidated statement of income

(Millions of yen)

	Year ended December 31, 2018	Year ended December 31, 2019
Net sales	696,250	660,805
Cost of sales	192,604	195,933
Gross profit	503,646	464,872
Selling, general and administrative expenses	348,375	335,858
Operating income	155,271	129,014
Non-operating income		
Interest income	502	210
Dividends income	36,387	148,354
Other	6,478	7,812
Total non-operating income	43,366	156,376
Non-operating expenses		
Interest expenses	846	519
Interest on bonds	4,344	4,084
Other	3,103	1,819
Total non-operating expenses	8,294	6,422
Ordinary income	190,343	278,968
Extraordinary income		
Gain on sales of noncurrent assets	38,607	14,202
Gain on sales of investment securities	803	22,912
Gain on transfer of licenses	-	18,381
Other	304	1,000
Total extraordinary income	39,714	56,495
Extraordinary losses		
Loss on sales of noncurrent assets	247	52
Loss on retirement of noncurrent assets	6,750	7,025
Impairment loss	746	8,521
Loss on liquidation of subsidiaries	-	20,524
Other	1,215	3,461
Total extraordinary losses	8,958	39,584
Income before income taxes	221,098	295,879
Income taxes - current	59,263	37,329
Income taxes - deferred	(2,760)	(3,920)
Total income taxes	56,503	33,409
Net income	164,595	262,469

(3) Non-consolidated statement of changes in net assets

Year ended December 31, 2018

(Millions of yen)

(Millions of yen)

	Shareholders' equity								
	Capital Stock	Capital surplus		Retained earnings					
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	736,400	18,776	169	42,987	8,356	1,092,709	1,162,996
Changes of items during the period									
Provision of reserve for investment loss on developing new business					287			(287)	-
Reversal of reserve for investment loss on developing new business					(169)			169	-
Provision of reserve for reduction entry						3,893		(3,893)	-
Reversal of reserve for reduction entry						(5,127)		5,127	-
Provision of special account for reduction entry							10,179	(10,179)	-
Reversal of special account for reduction entry							(8,356)	8,356	-
Dividends from surplus								(259,724)	(259,724)
Net income								164,595	164,595
Purchase of treasury shares									
Disposal of treasury shares								(116)	(116)
Net changes of items other than shareholders' equity									
Total changes of items during the period	-	-	-	-	118	(1,234)	1,823	(95,952)	(95,244)
Balance at the end of current period	100,000	736,400	736,400	18,776	287	41,753	10,179	996,757	1,067,752

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(443,636)	1,555,760	33,579	1,662	35,242	1,964	1,592,966
Changes of items during the period							
Provision of reserve for investment loss on developing new business		-					-
Reversal of reserve for investment loss on developing new business		-					-
Provision of reserve for reduction entry		-					-
Reversal of reserve for reduction entry		-					-
Provision of special account for reduction entry		-					-
Reversal of special account for reduction entry		-					-
Dividends from surplus		(259,724)					(259,724)
Net income		164,595					164,595
Purchase of treasury shares	(0)	(0)					(0)
Disposal of treasury shares	807	691					691
Net changes of items other than shareholders' equity			(7,764)	3,215	(4,549)	(417)	(4,967)
Total changes of items during the period	807	(94,438)	(7,764)	3,215	(4,549)	(417)	(99,404)
Balance at the end of current period	(442,829)	1,461,323	25,815	4,877	30,693	1,547	1,493,562

Year ended December 31, 2019

(Millions of yen)

(millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings					
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	736,400	18,776	287	41,753	10,179	996,757	1,067,752
Changes of items during the period									
Provision of reserve for investment loss on developing new business					378			(378)	-
Reversal of reserve for investment loss on developing new business					(287)			287	-
Provision of reserve for reduction entry						8,395		(8,395)	-
Reversal of reserve for reduction entry						(4,775)		4,775	-
Provision of special account for reduction entry							1,747	(1,747)	-
Reversal of special account for reduction entry							(10,179)	10,179	-
Dividends from surplus								(270,936)	(270,936)
Net income								262,469	262,469
Purchase of treasury shares									
Disposal of treasury shares								(80)	(80)
Net changes of items other than shareholders' equity									
Total changes of items during the period	-	-	-	-	91	3,620	(8,432)	(3,826)	(8,547)
Balance at the end of current period	100,000	736,400	736,400	18,776	378	45,373	1,747	992,930	1,059,205

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(442,829)	1,461,323	25,815	4,877	30,693	1,547	1,493,562
Changes of items during the period							
Provision of reserve for investment loss on developing new business		-					-
Reversal of reserve for investment loss on developing new business		-					-
Provision of reserve for reduction entry		-					-
Reversal of reserve for reduction entry		-					-
Provision of special account for reduction entry		-					-
Reversal of special account for reduction entry		-					-
Dividends from surplus		(270,936)					(270,936)
Net income		262,469					262,469
Purchase of treasury shares	(50,001)	(50,001)					(50,001)
Disposal of treasury shares	361	281					281
Net changes of items other than shareholders' equity			(18,533)	513	(18,020)	10	(18,010)
Total changes of items during the period	(49,640)	(58,187)	(18,533)	513	(18,020)	10	(76,197)
Balance at the end of current period	(492,469)	1,403,136	7,283	5,390	12,673	1,556	1,417,365

(4) Notes on premise of going concern

No items to report.

(5) Notes to nonconsolidated financial statements

(Significant subsequent events)

The Company entered into loan agreements with banks as follows:

- (1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited
- (2) Aggregate amount of borrowings : ¥100 billion
- (3) Interest rates : Floating rates (TIBOR plus spread)
- (4) Drawdown date : January 31, 2020
- (5) Repayment date : January 31, 2080

The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2025.

- (6) Collateral/Guarantee : None
- (7) Use of proceeds: Repayment of existing debts and working capital
- (8) Other borrowing terms :

- a. Interest deferral clause

The Company may, at its option, defer the payment of interest.

- b. Subordination clause

The lenders shall have subordinated claim rights subordinated to senior debts in liquidation proceedings, bankruptcy proceedings, reorganization proceedings, civil rehabilitation proceedings or any other equivalent proceedings other than those under the laws of Japan.

No terms and conditions of the Subordinated Loan Agreement may be amended in a manner detrimental in any way to any creditors of the Company other than the creditors of the subordinated receivables.

- c. Replacement restrictions

There is no contractual provision on replacement restrictions.

Provided, when making a prepayment of the Subordinated Loan, the Company intends to replace it with the funds raised by common stock or financial instruments that have equity credit attributes approved by rating agencies to be equal to or higher than the Subordinated Loan within twelve months prior to the prepayment date. However, the Company may decide not to replace the Subordinated Loan with the approved funds that have equal or higher equity credit attributes, if predefined financial requirements are met.