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February 7, 2019

Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 <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: Kei Nakano, Senior Vice President, Communications
Telephone: +81-3-3582-3111
Scheduled date of Annual General Meeting of Shareholders: March 20, 2019
Scheduled date to file Securities Report: March 20, 2019
Scheduled starting date of the dividend payments: March 22, 2019
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, 2018 (from January 1, 2018 to December 31, 2018)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

Year ended	Revenue		Operating profit		Profit before income taxes		Profit for the year	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2018	2,215,962	3.6	564,984	0.7	531,486	(1.3)	387,431	(2.3)
December 31, 2017	2,139,653	(0.2)	561,101	(5.4)	538,532	(6.9)	396,749	(6.8)

Year ended	Profit attributable to owners of the parent company		Comprehensive income for the year		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
December 31, 2018	385,677	(1.7)	129,302	(76.7)	215.31	215.20
December 31, 2017	392,409	(6.9)	554,198	135.6	219.10	218.97

Year ended	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
	%	%	%	%	%
December 31, 2018	14.3	10.0	25.5		
December 31, 2017	15.0	10.8	26.2		

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

Fiscal year ended December 31, 2018: ¥3,931 million; Fiscal year ended December 31, 2017: ¥6,194 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, 2018	5,461,400	2,700,445	2,630,594	48.2	1,468.44
December 31, 2017	5,221,484	2,842,027	2,761,687	52.9	1,541.94

(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, 2018	461,389	(383,307)	(62,360)	282,063
December 31, 2017	419,212	(352,632)	(77,032)	285,486

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			
Year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
December 31, 2017	-	70.00	-	70.00	140.00	250,742	63.9	9.6
December 31, 2018	-	75.00	-	75.00	150.00	268,708	69.7	10.0
December 31, 2019 (Forecast)	-	77.00	-	77.00	154.00		74.6	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company		Basic earnings per share
Year ending	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
December 31, 2019	2,200,000	(0.7)	540,000	(4.4)	370,000	(4.1)	206.54

[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, 2018	637,205	8.9
Year ending December 31, 2019 (Forecast)	610,000	2.4

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.jti.co.jp/investors/index.html>), 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): 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 "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, 2018	2,000,000,000 shares
As of December 31, 2017	2,000,000,000 shares
 - b. Number of treasury shares at the end of the period

As of December 31, 2018	208,576,641 shares
As of December 31, 2017	208,956,589 shares
 - c. Average number of shares during the period

Fiscal year ended December 31, 2018	1,791,296,331 shares
Fiscal year ended December 31, 2017	1,790,995,180 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, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	285,486	282,063
Trade and other receivables	431,199	456,591
Inventories	612,954	649,238
Other financial assets	14,016	35,633
Other current assets	361,715	385,872
Subtotal	1,705,370	1,809,396
Non-current assets held-for-sale	2,396	10
Total current assets	1,707,767	1,809,406
Non-current assets		
Property, plant and equipment	745,607	758,841
Goodwill	1,891,210	2,008,416
Intangible assets	479,175	503,076
Investment property	16,700	17,558
Retirement benefit assets	51,377	57,140
Investments accounted for using the equity method	81,253	66,807
Other financial assets	114,970	115,046
Deferred tax assets	133,425	125,109
Total non-current assets	3,513,717	3,651,993
Total assets	5,221,484	5,461,400

	(Millions of yen)	
	As of December 31, 2017	As of December 31, 2018
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	395,733	380,516
Bonds and borrowings	398,182	250,466
Income tax payables	46,452	72,449
Other financial liabilities	6,906	4,486
Provisions	13,028	6,078
Other current liabilities	618,322	716,190
Total current liabilities	1,478,623	1,430,185
Non-current liabilities		
Bonds and borrowings	346,955	727,314
Other financial liabilities	11,013	10,067
Retirement benefit liabilities	330,762	321,838
Provisions	4,005	3,780
Other non-current liabilities	120,779	179,274
Deferred tax liabilities	87,319	88,497
Total non-current liabilities	900,833	1,330,770
Total liabilities	2,379,456	2,760,955
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(443,636)	(442,829)
Other components of equity	(167,338)	(423,357)
Retained earnings	2,536,262	2,660,381
Equity attributable to owners of the parent company	2,761,687	2,630,594
Non-controlling interests	80,340	69,851
Total equity	2,842,027	2,700,445
Total liabilities and equity	5,221,484	5,461,400

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Revenue	2,139,653	2,215,962
Cost of sales	(843,558)	(933,034)
Gross profit	1,296,094	1,282,928
Other operating income	45,724	48,532
Share of profit in investments accounted for using the equity method	6,194	3,931
Selling, general and administrative expenses	(786,911)	(770,407)
Operating profit	561,101	564,984
Financial income	4,780	5,754
Financial costs	(27,349)	(39,252)
Profit before income taxes	538,532	531,486
Income taxes	(141,783)	(144,055)
Profit for the period	396,749	387,431
Attributable to:		
Owners of the parent company	392,409	385,677
Non-controlling interests	4,340	1,755
Profit for the period	396,749	387,431
Earnings per share		
Basic (Yen)	219.10	215.31
Diluted (Yen)	218.97	215.20

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

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Operating profit	561,101	564,984
Amortization cost of acquired intangibles arising from business acquisitions	50,414	61,772
Adjustment items (income)	(37,569)	(40,447)
Adjustment items (costs)	11,354	9,154
Adjusted operating profit	585,300	595,463

Consolidated statement of comprehensive income

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Profit for the period	396,749	387,431
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	9,402	(8,215)
Remeasurements of defined benefit plans	20,028	(3,195)
Total of items that will not be reclassified to profit or loss	29,430	(11,410)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	128,073	(247,731)
Net gain (loss) on derivatives designated as cash flow hedges	(54)	1,012
Total of items that may be reclassified subsequently to profit or loss	128,019	(246,719)
Other comprehensive income (loss), net of taxes	157,449	(258,129)
Comprehensive income (loss) for the period	554,198	129,302
Attributable to:		
Owners of the parent company	549,309	128,340
Non-controlling interests	4,889	962
Comprehensive income (loss) for the period	554,198	129,302

(3) Consolidated statement of changes in equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Equity attributable to owners of the parent company			Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2017	100,000	736,400	(443,822)	1,794	(335,642)	440	29,854
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	127,758	(54)	9,276
Comprehensive income (loss) for the period	—	—	—	—	127,758	(54)	9,276
Acquisition of treasury shares	—	—	(1)	—	—	—	—
Disposal of treasury shares	—	—	187	(166)	—	—	—
Share-based payments	—	—	—	336	—	—	—
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	—	—	—	—	—	—	(461)
Other increase (decrease)	—	—	—	—	—	(475)	—
Total transactions with the owners	—	—	186	170	—	(475)	(461)
As of December 31, 2017	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

(Millions of yen)

	Equity attributable to owners of the parent company		Other components of equity			
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2017	—	(303,554)	2,367,067	2,456,091	71,950	2,528,041
Profit for the period	—	—	392,409	392,409	4,340	396,749
Other comprehensive income (loss)	19,919	156,900	—	156,900	550	157,449
Comprehensive income (loss) for the period	19,919	156,900	392,409	549,309	4,889	554,198
Acquisition of treasury shares	—	—	—	(1)	—	(1)
Disposal of treasury shares	—	(166)	(21)	0	—	0
Share-based payments	—	336	—	336	5	341
Dividends	—	—	(243,572)	(243,572)	(1,547)	(245,119)
Changes in the scope of consolidation	—	—	—	—	4,884	4,884
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(1)	(1)	159	158
Transfer from other components of equity to retained earnings	(19,919)	(20,380)	20,380	—	—	—
Other increase (decrease)	—	(475)	—	(475)	—	(475)
Total transactions with the owners	(19,919)	(20,684)	(223,214)	(243,713)	3,501	(240,212)
As of December 31, 2017	—	(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

(4) Consolidated statement of cash flows

(Millions of yen)

	Year ended December 31, 2017	Year ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	538,532	531,486
Depreciation and amortization	145,407	158,671
Impairment losses	3,427	8,454
Reversal of impairment losses on investments in associates	(8,848)	—
Interest and dividend income	(4,381)	(5,751)
Interest expense	11,604	16,343
Share of profit in investments accounted for using the equity method	(6,194)	(3,931)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(21,221)	(34,905)
(Increase) decrease in trade and other receivables	(28,810)	(30,818)
(Increase) decrease in inventories	(41,102)	(53,058)
Increase (decrease) in trade and other payables	15,655	(4,618)
Increase (decrease) in retirement benefit liabilities	(15,296)	(8,864)
(Increase) decrease in prepaid tobacco excise taxes	(10,281)	(36,662)
Increase (decrease) in tobacco excise tax payables	(60,250)	53,408
Increase (decrease) in consumption tax payables	1,117	(11,026)
Other	12,228	8,969
Subtotal	531,587	587,697
Interest and dividends received	11,250	11,743
Interest paid	(11,035)	(13,685)
Income taxes paid	(112,591)	(124,366)
Net cash flows from operating activities	419,212	461,389
Cash flows from investing activities		
Purchase of securities	(11,479)	(36,705)
Proceeds from sale and redemption of securities	4,893	10,159
Purchase of property, plant and equipment	(123,726)	(138,605)
Proceeds from sale of investment property	21,195	46,868
Purchase of intangible assets	(16,412)	(20,205)
Payments into time deposits	(84)	(878)
Proceeds from withdrawal of time deposits	101	812
Payments for business combinations	(212,707)	(247,632)
Purchase of investments in associates	(5,253)	—
Other	(9,160)	2,878
Net cash flows from investing activities	(352,632)	(383,307)

	Year ended December 31, 2017	(Millions of yen) Year ended December 31, 2018
Cash flows from financing activities		
Dividends paid to owners of the parent company	(243,552)	(259,671)
Dividends paid to non-controlling interests	(1,502)	(1,747)
Capital contribution from non-controlling interests	15	109
Increase (decrease) in short-term borrowings and commercial paper	116,371	(133,849)
Proceeds from long-term borrowings	70,861	59,135
Repayments of long-term borrowings	(669)	(2,710)
Proceeds from issuance of bonds	—	341,516
Redemption of bonds	(20,000)	(54,086)
Proceeds from sale and leaseback transactions	2,819	—
Repayments of finance lease obligations	(1,373)	(1,637)
Acquisition of treasury shares	(1)	(0)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(9,421)
Other	0	0
Net cash flows from financing activities	(77,032)	(62,360)
Net increase (decrease) in cash and cash equivalents	(10,452)	15,721
Cash and cash equivalents at the beginning of the period	294,157	285,486
Effect of exchange rate changes on cash and cash equivalents	1,782	(19,145)
Cash and cash equivalents at the end of the period	285,486	282,063

(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, 2018.

	IFRS	Description of new standards and amendments
IFRS 9	Financial Instruments	Limited changes to classification and measurement of financial assets, and introduction of an expected credit loss impairment model
IFRS 15	Revenue from Contracts with Customers	Amendments to accounting treatment for recognizing revenue

The effect of adopting IFRS 9 on the consolidated financial statements is immaterial.

In adopting IFRS 15, the Group used a transition method by which the cumulative effect of initially applying this Standard was recognized at the date of initial application.

In accordance with IFRS 15, revenue is recognized based on the following five-step approach.

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group mainly engages in the sale of tobacco products, prescription drugs, and processed foods. Revenue is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group evaluates that the performance obligation is satisfied. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax.

The tobacco excise taxes and other transactions in which the Group is involved as an agency are excluded from revenue. The amount after deducting the tobacco excise taxes and other transactions is presented as “Revenue” in the consolidated statement of income.

As a result of identification of performance obligations under contracts with customers based on the above five-step approach, the sales promotion and other expenses paid by the Group to customers, which have been previously accounted for as selling, general and administrative expenses, are partially deducted from revenue from the fiscal year ended December 31, 2018. In addition, shipping and warehousing expenses and other expenses necessary for satisfying performance obligations that have been previously accounted for as selling, general and administrative expenses are accounted for as cost of sales from the fiscal year ended December 31, 2018.

As a result, compared to the application of the former accounting standard, “Revenue” and “Selling, general and administrative expenses” decreased by ¥10,944 million and ¥70,905 million respectively, and “Cost of sales” increased by ¥59,962 million on the consolidated statement of income for the fiscal year ended December 31, 2018. The above effects include promotion expenses (¥9,028 million) accounted for as reductions of revenue, as well as shipping and warehousing expenses (¥28,000 million) accounted for as cost of sales.

These changes have no effect on operating profit and profit for the period.

(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, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue (Note 3)	626,758	1,237,577	104,714	163,138	2,132,187	7,466	—	2,139,653
Intersegment revenue	8,558	31,465	—	22	40,045	7,543	(47,588)	—
Total revenue	<u>635,315</u>	<u>1,269,042</u>	<u>104,714</u>	<u>163,159</u>	<u>2,172,232</u>	<u>15,008</u>	<u>(47,588)</u>	<u>2,139,653</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>232,275</u>	<u>351,302</u>	<u>24,094</u>	<u>5,397</u>	<u>613,069</u>	<u>(28,156)</u>	<u>388</u>	<u>585,300</u>
Other items								
Depreciation and amortization	56,001	76,098	5,120	6,137	143,355	2,288	(237)	145,407
Impairment losses on other than financial assets	53	2,599	—	286	2,938	489	—	3,427
Reversal of impairment losses on other than financial assets	—	455	—	—	455	—	—	455
Share of profit (loss) in investments accounted for using the equity method	22	6,102	—	17	6,140	53	—	6,194
Capital expenditures	51,549	68,427	6,230	10,424	136,631	4,838	(564)	140,905

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 (Note 3)	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

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

Year ended December 31, 2017

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	232,275	351,302	24,094	5,397	613,069	(28,156)	388	585,300
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(34,170)	—	—	(50,414)	—	—	(50,414)
Adjustment items (income) (Note 4)	6	16,723	—	—	16,729	20,840	—	37,569
Adjustment items (costs) (Note 5)	(197)	(8,272)	—	(20)	(8,489)	(2,865)	—	(11,354)
Operating profit (loss)	215,839	325,584	24,094	5,377	570,894	(10,181)	388	561,101
Financial income								4,780
Financial costs								(27,349)
Profit before income taxes								538,532

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 4)	9	1,711	—	37	1,757	38,691	—	40,447
Adjustment items (costs) (Note 5)	(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

- (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) Core revenue as part of the “Domestic Tobacco Business” and the “International Tobacco Business” is as follows:

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Domestic Tobacco	590,605	582,379
International Tobacco	1,176,956	1,250,719

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

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Restructuring incomes	21,645	39,284
Reversal of impairment losses on investments in associates	8,848	—
Gains on remeasurement related to the business combination	5,042	—
Other	2,034	1,163
Adjustment items (income)	<u>37,569</u>	<u>40,447</u>

Restructuring incomes for the year ended December 31, 2017 and 2018 mainly relate to gains on sale of real estate.

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

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Restructuring costs	8,398	7,934
Other	2,956	1,220
Adjustment items (costs)	<u>11,354</u>	<u>9,154</u>

Restructuring costs for the year ended December 31, 2017 mainly relate to rationalization of the production and distribution system in some markets in the “International Tobacco Business.”

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.” Other for the year ended December 31, 2018 mainly relates to settlement of the litigation in September 2018.

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, 2017	As of December 31, 2018
Japan	830,838	835,386
Overseas	2,301,854	2,452,505
Consolidated	3,132,692	3,287,891

(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, 2017	Year ended December 31, 2018
Japan	831,216	822,070
Overseas	1,308,437	1,393,892
Consolidated	2,139,653	2,215,962

(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 ¥248,881 million (11.6% of consolidated revenue) for the year ended December 31, 2017 and ¥249,797 million (11.3% of consolidated revenue) for the year ended December 31, 2018.

(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, 2017	Year ended December 31, 2018
Profit for the period attributable to owners of the parent company	392,409	385,677
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	392,409	385,677

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

	(Thousands of shares)	
	Year ended December 31, 2017	Year ended December 31, 2018
Weighted-average number of shares during the period	1,790,995	1,791,296

(2) Basis of Calculating Diluted Earnings per Share

a. Profit attributable to diluted ordinary shareholders

	(Millions of yen)	
	Year ended December 31, 2017	Year ended December 31, 2018
Profit for the period used for calculation of basic earnings per share	392,409	385,677
Adjustment	(0)	—
Profit for the period used for calculation of diluted earnings per share	392,409	385,677

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

	(Thousands of shares)	
	Year ended December 31, 2017	Year ended December 31, 2018
Weighted-average number of ordinary shares during the period	1,790,995	1,791,296
Increased number of ordinary shares under subscription rights to shares	1,042	863
Weighted-average number of diluted ordinary shares during the period	1,792,037	1,792,159

(Significant subsequent events)

As part of the shareholder return based on our shareholder return policy, the Company's Board of Directors made a resolution on February 7, 2019 for the Company to acquire its own shares according to the particulars stated below pursuant to the provision of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the Act's provision of Article 165, paragraph 3.

- a. Class of shares to be acquired
Common stock
- b. Number of shares to be acquired
Up to 23,000,000 shares
- c. Total payment amount to acquire shares
Up to ¥50,000 million
- d. Period of share acquisition
From February 8, 2019 to April 22, 2019
- e. Method of acquisition
Purchase on the stock exchange via a trust bank

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

(1) Non-consolidated balance sheet

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	89,775	106,089
Accounts receivable - trade	47,335	54,296
Securities	50,000	39,800
Merchandise and finished goods	33,448	33,304
Semi-finished goods	47,731	61,625
Work in process	2,480	2,294
Raw materials and supplies	46,057	43,226
Advance payments - trade	1,988	2,667
Prepaid expenses	9,293	9,742
Deferred tax assets	8,991	13,657
Short-term loans receivable from subsidiaries and affiliates	201,555	46,357
Other	17,856	19,931
Allowance for doubtful accounts	(26)	(26)
Total current assets	556,483	432,963
Noncurrent assets		
Property, plant and equipment		
Buildings	86,955	86,012
Structures	2,981	2,740
Machinery and equipment	54,829	69,652
Vehicles	1,416	1,387
Tools, furniture and fixtures	18,262	17,412
Land	73,177	71,394
Construction in progress	10,047	13,869
Total property, plant and equipment	247,668	262,466
Intangible assets		
Patent right	301	243
Right of trademark	132,508	115,732
Software	11,965	20,231
Goodwill	286,168	250,397
Other	7,447	2,082
Total intangible assets	438,389	388,684
Investments and other assets		
Investment securities	65,693	54,855
Shares of subsidiaries and affiliates	1,546,411	1,504,796
Long-term loans receivable from subsidiaries and affiliates	16,552	19,215
Long-term prepaid expenses	7,483	9,888
Other	7,337	9,708
Allowance for doubtful accounts	(255)	(232)
Total investments and other assets	1,643,220	1,598,230
Total noncurrent assets	2,329,277	2,249,380
Total assets	2,885,760	2,682,344

	(Millions of yen)	
	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	7,957	9,806
Short-term loans payable	159,330	-
Current portion of bonds	54,158	-
Lease obligations	3,059	3,085
Accounts payable - other	47,608	62,403
National tobacco excise taxes payable	77,523	74,403
National tobacco special excise taxes payable	11,989	10,562
Local tobacco excise taxes payable	89,814	85,145
Income taxes payable	21,336	39,364
Accrued consumption taxes	24,677	23,790
Cash management system deposits received	283,490	250,231
Provision for bonuses	4,646	5,675
Other	8,048	28,976
Total current liabilities	793,635	593,441
Noncurrent liabilities		
Bonds payable	276,180	373,692
Long-term loans payable	70,000	70,000
Lease obligations	5,773	4,874
Provision for retirement benefits	131,472	131,041
Deferred tax liabilities	12,686	11,460
Other	3,047	4,274
Total noncurrent liabilities	499,159	595,341
Total liabilities	1,292,794	1,188,782

	(Millions of yen)	
	As of December 31, 2017	As of December 31, 2018
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Total capital surpluses	<u>736,400</u>	<u>736,400</u>
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	169	287
Reserve for reduction entry	42,987	41,753
Special account for reduction entry	8,356	10,179
Retained earnings brought forward	1,092,709	996,757
Total retained earnings	<u>1,162,996</u>	<u>1,067,752</u>
Treasury shares	(443,636)	(442,829)
Total shareholders' equity	<u>1,555,760</u>	<u>1,461,323</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	33,579	25,815
Deferred gains or losses on hedges	1,662	4,877
Total valuation and translation adjustments	<u>35,242</u>	<u>30,693</u>
Subscription rights to shares	1,964	1,547
Total net assets	<u>1,592,966</u>	<u>1,493,562</u>
Total liabilities and net assets	<u>2,885,760</u>	<u>2,682,344</u>

(2) Non-consolidated statement of income

(Millions of yen)

	Year ended December 31, 2017	Year ended December 31, 2018
Net sales	681,840	696,250
Cost of sales	182,446	192,604
Gross profit	499,394	503,646
Selling, general and administrative expenses	330,951	348,375
Operating income	168,443	155,271
Non-operating income		
Interest income	529	502
Dividends income	30,386	36,387
Other	6,564	6,478
Total non-operating income	37,479	43,366
Non-operating expenses		
Interest expenses	784	846
Interest on bonds	4,827	4,344
Other	975	3,103
Total non-operating expenses	6,586	8,294
Ordinary income	199,336	190,343
Extraordinary income		
Gain on sales of noncurrent assets	20,826	38,607
Other	672	1,106
Total extraordinary income	21,499	39,714
Extraordinary losses		
Loss on sales of noncurrent assets	352	247
Loss on retirement of noncurrent assets	3,274	6,750
Impairment loss	518	746
Other	1,695	1,215
Total extraordinary losses	5,839	8,958
Income before income taxes	214,996	221,098
Income taxes - current	46,309	59,263
Income taxes - deferred	8,567	(2,760)
Total income taxes	54,875	56,503
Net income	160,120	164,595

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

Year ended December 31, 2017

(Millions of yen)

	Shareholders' equity									
	Capital Stock	Capital surplus		Retained earnings						Total retained earnings
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings					
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	General reserve	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	736,400	18,776	28	43,687	3,057	955,300	225,620	1,246,469
Changes of items during the period										
Provision of reserve for investment loss on developing new business					169				(169)	—
Reversal of reserve for investment loss on developing new business					(28)				28	—
Provision of reserve for reduction entry						4,440			(4,440)	—
Reversal of reserve for reduction entry						(5,141)			5,141	—
Provision of special account for reduction entry							8,356		(8,356)	—
Reversal of special account for reduction entry							(3,057)		3,057	—
Reversal of general reserve								(955,300)	955,300	—
Dividends from surplus									(243,572)	(243,572)
Net income									160,120	160,120
Purchase of treasury shares										
Disposal of treasury shares									(21)	(21)
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	—	—	140	(700)	5,299	(955,300)	867,088	(83,473)
Balance at the end of current period	100,000	736,400	736,400	18,776	169	42,987	8,356	—	1,092,709	1,162,996

	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	(443,822)	1,639,047	26,207	(3,373)	22,833	1,794	1,663,675
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		—					—
Reversal of general reserve		—					—
Dividends from surplus		(243,572)					(243,572)
Net income		160,120					160,120
Purchase of treasury shares	(1)	(1)					(1)
Disposal of treasury shares	187	166					166
Net changes of items other than shareholders' equity			7,373	5,036	12,409	170	12,579
Total changes of items during the period	186	(83,287)	7,373	5,036	12,409	170	(70,708)
Balance at the end of current period	(443,636)	1,555,760	33,579	1,662	35,242	1,964	1,592,966

	Shareholders' equity									
	Capital stock	Capital surplus		Retained earnings						Total retained earnings
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Retained earnings brought forward	
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	General reserve		
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	—
Reversal of general reserve										
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		—					—
Reversal of general reserve		—					—
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

(4) Notes on premise of going concern

No items to report.

(5) Notes to nonconsolidated financial statements

(Significant subsequent events)

As part of the shareholder return based on our shareholder return policy, the Company's Board of Directors made a resolution on February 7, 2019 for the Company to acquire its own shares according to the particulars stated below pursuant to the provision of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the Act's provision of Article 165, paragraph 3.

- a. Class of shares to be acquired
Common stock
- b. Number of shares to be acquired
Up to 23,000,000 shares
- c. Total payment amount to acquire shares
Up to ¥50,000 million
- d. Period of share acquisition
From February 8, 2019 to April 22, 2019
- e. Method of acquisition
Purchase on the stock exchange via a trust bank