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MEMBERSHIP
April 26, 2019

Consolidated Financial Results for the Three Months Ended March 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: Kei Nakano, Senior Vice President, Communications
Telephone: +81-3-3582-3111
Scheduled date to file Quarterly Securities Report: April 26, 2019
Scheduled starting date of the dividend payments: –
Drawing up supplementary documents on quarterly financial results: Yes
Holding quarterly investors' meeting: Yes (for analysts and institutional investors)

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

1. Consolidated financial results for the three months of the fiscal year ending December 31, 2019 (from January 1, 2019 to March 31, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
March 31, 2019	505,422	(1.9)	182,593	24.4	172,727	23.5	133,685	27.9
March 31, 2018	515,050	1.8	146,775	(1.5)	139,891	(1.8)	104,494	(1.4)

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
Three months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
March 31, 2019	120,840	16.2	157,079	-	67.66	67.63
March 31, 2018	104,011	(1.4)	(11,779)	-	58.07	58.04

(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
March 31, 2019	5,465,896	2,672,565	2,590,364	47.4	1,460.40
December 31, 2018	5,461,400	2,700,445	2,630,594	48.2	1,468.44

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	-	75.00	-	75.00	150.00
Year ending December 31, 2019	-				
Year ending December 31, 2019 (Forecast)		77.00	-	77.00	154.00

Note: Revisions to the cash dividends forecasts most recently announced: None

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
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending December 31, 2019	2,200,000	(0.7)	540,000	(4.4)	370,000	(4.1)	206.54

Note: Revisions to the consolidated earnings forecasts most recently announced: None

[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	%
Three months ended March 31, 2019 (Cumulative)	158,650	7.2
Year ending December 31, 2019 (Forecast)	610,000	2.4

Note: Revisions to the consolidated earnings forecasts most recently announced: None

The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group's target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group's performance. For details of these financial measures, please refer to "Proper use of earnings forecasts, and other special matters, (2)."

For detailed information on the consolidated financial results, please visit the Company's website (<https://www.jt.com/investors/>), where materials for investors' meeting have been released today, and refer to the quarterly securities report scheduled to be submitted today.

Notes

- (1) Changes in significant subsidiaries during the current 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
- Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
 - Changes in accounting policies due to other reasons: None
 - Changes in accounting estimates: None
- For details, please refer to “1. Matters regarding summary information, (1) Changes in accounting policies and changes in accounting estimates.”
- (3) Number of shares issued (ordinary shares)
- Total number of shares issued at the end of the period (including treasury shares)

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

As of March 31, 2019	226,269,051 shares
As of December 31, 2018	208,576,641 shares
 - Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended March 31, 2019	1,785,979,096 shares
Three months ended March 31, 2018	1,791,073,451 shares

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

* Proper use of earnings forecasts, and other special matters

- (1) The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions and suppositions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future. Please refer to “FORWARD-LOOKING STATEMENTS” for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.
- (2) The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group’s target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group’s performance.

Adjusted operating profit

Adjusted operating profit presented is operating profit (loss) less amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items. Furthermore, adjusted operating profit at constant rates of exchange is also presented as additional information. This is a financial measurement that excludes foreign exchange effects by translating and calculating adjusted operating profit for the current period in the International Tobacco Business using the foreign exchange rates of the same period of the previous year. 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.

Attached Materials

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1. Matters regarding summary information

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

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those for the consolidated financial statements for the year ended December 31, 2018 except the following item.

The Group computes income taxes for the interim period based on the estimated average annual effective tax rate.

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from January 1, 2019.

IFRS	Description of new standards and amendments
IFRS 16 Leases	Amendments to accounting treatment for lease arrangements

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 interim 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 lives or lease terms, whichever is shorter. The lease liability is initially measured at the present value of the lease payment that are 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 interim 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 weighted average lessee's incremental borrowing rate which applied to lease liabilities on the condensed interim 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 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 interim 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 non-cancellable period.

The Group has adopted this standard to 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 to 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 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” of the consolidated statement of cash flows for the year ended December 31, 2018, has been presented as “Repayments of lease liabilities” from the first quarter ended March 31, 2019.

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

No items to report.

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.

2. Condensed Interim Consolidated Financial Statements
(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and cash equivalents	282,063	261,463
Trade and other receivables	456,591	430,556
Inventories	649,238	655,575
Other financial assets	35,633	29,337
Other current assets	385,872	394,670
Subtotal	1,809,396	1,771,601
Non-current assets held-for-sale	10	25
Total current assets	1,809,406	1,771,626
Non-current assets		
Property, plant and equipment	758,841	801,296
Goodwill	2,008,416	2,010,999
Intangible assets	503,076	491,639
Investment property	17,558	17,095
Retirement benefit assets	57,140	59,220
Investments accounted for using the equity method	66,807	67,034
Other financial assets	115,046	123,634
Deferred tax assets	125,109	123,353
Total non-current assets	3,651,993	3,694,270
Total assets	5,461,400	5,465,896

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	380,516	371,583
Bonds and borrowings	250,466	337,423
Income tax payables	72,449	55,024
Other financial liabilities	4,486	22,205
Provisions	6,078	5,085
Other current liabilities	716,190	676,664
Total current liabilities	1,430,185	1,467,985
Non-current liabilities		
Bonds and borrowings	727,314	726,444
Other financial liabilities	10,067	39,042
Retirement benefit liabilities	321,838	309,374
Provisions	3,780	3,789
Other non-current liabilities	179,274	162,268
Deferred tax liabilities	88,497	84,429
Total non-current liabilities	1,330,770	1,325,346
Total liabilities	2,760,955	2,793,331
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(442,829)	(492,627)
Other components of equity	(423,357)	(400,271)
Retained earnings	2,660,381	2,646,862
Equity attributable to owners of the parent company	2,630,594	2,590,364
Non-controlling interests	69,851	82,201
Total equity	2,700,445	2,672,565
Total liabilities and equity	5,461,400	5,465,896

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

Condensed Interim Consolidated Statement of Income

Three months ended March 31, 2018 and 2019

(Millions of yen)

	2018	2019
Revenue	515,050	505,422
Cost of sales	(216,783)	(212,555)
Gross profit	298,267	292,867
Other operating income	17,645	63,206
Share of profit in investments accounted for using the equity method	506	744
Selling, general and administrative expenses	(169,643)	(174,224)
Operating profit	146,775	182,593
Financial income	1,764	2,283
Financial costs	(8,648)	(12,148)
Profit before income taxes	139,891	172,727
Income taxes	(35,397)	(39,043)
Profit for the period	104,494	133,685
Attributable to:		
Owners of the parent company	104,011	120,840
Non-controlling interests	482	12,845
Profit for the period	104,494	133,685
Interim earnings per share		
Basic (Yen)	58.07	67.66
Diluted (Yen)	58.04	67.63

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

	2018	2019
Operating profit	146,775	182,593
Amortization cost of acquired intangibles arising from business acquisitions	14,534	17,788
Adjustment items (income)	(16,505)	(61,809)
Adjustment items (costs)	3,253	202
Adjusted operating profit	148,057	138,774

Condensed Interim Consolidated Statement of Comprehensive Income

Three months ended March 31, 2018 and 2019

(Millions of yen)

	2018	2019
Profit for the period	104,494	133,685
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	(6,478)	987
Remeasurements of defined benefit plans	(23)	—
Total of items that will not be reclassified to profit or loss	(6,501)	987
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(109,870)	22,736
Net gain (loss) on derivatives designated as cash flow hedges	98	(328)
Total of items that may be reclassified subsequently to profit or loss	(109,772)	22,408
Other comprehensive income (loss), net of taxes	(116,273)	23,394
Comprehensive income (loss) for the period	(11,779)	157,079
Attributable to:		
Owners of the parent company	(11,470)	144,226
Non-controlling interests	(310)	12,853
Comprehensive income (loss) for the period	(11,779)	157,079

(3) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share Capital	Capital surplus	Treasury shares	Other components of equity			Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
				Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	
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)	—	—	—	—	(109,112)	98	(6,444)
Comprehensive income (loss) for the period	—	—	—	—	(109,112)	98	(6,444)
Acquisition of treasury shares	—	—	—	—	—	—	—
Disposal of treasury shares	—	—	96	(66)	—	—	—
Share-based payments	—	—	—	32	—	—	—
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	—	—	—	—	—	—	(428)
Other increase (decrease)	—	—	—	—	—	77	—
Total transactions with the owners	—	—	96	(34)	—	77	(428)
As of March 31, 2018	<u>100,000</u>	<u>736,400</u>	<u>(443,540)</u>	<u>1,930</u>	<u>(316,996)</u>	<u>87</u>	<u>31,797</u>
As of January 31, 2019	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	22,846	(328)	868
Comprehensive income (loss) for the period	—	—	—	—	22,846	(328)	868
Acquisition of treasury shares	—	—	(50,000)	—	—	—	—
Disposal of treasury shares	—	—	202	(176)	—	—	—
Share-based payments	—	—	—	26	—	—	—
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	—	—	—	—	—	—	(24)
Other increase (decrease)	—	—	—	—	—	(124)	—
Total transactions with the owners	—	—	(49,798)	(151)	—	(124)	(24)
As of March 31, 2019	<u>100,000</u>	<u>736,400</u>	<u>(492,627)</u>	<u>1,396</u>	<u>(432,072)</u>	<u>(9)</u>	<u>30,414</u>

(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, 2018	—	(167,338)	2,536,262	2,761,687	80,340	2,842,027
Profit for the period	—	—	104,011	104,011	482	104,494
Other comprehensive income (loss)	(23)	(115,481)	—	(115,481)	(792)	(116,273)
Comprehensive income (loss) for the period	(23)	(115,481)	104,011	(11,470)	(310)	(11,779)
Acquisition of treasury shares	—	—	—	—	—	—
Disposal of treasury shares	—	(66)	(30)	0	—	0
Share-based payments	—	32	—	32	1	33
Dividends	—	—	(125,373)	(125,373)	(910)	(126,283)
Changes in the scope of consolidation	—	—	—	—	59	59
Changes in the ownership interest in a subsidiary without a loss of control	—	—	20	20	(91)	(71)
Transfer from other components of equity to retained earnings	23	(406)	406	—	—	—
Other increase (decrease)	—	77	—	77	—	77
Total transactions with the owners	23	(363)	(124,977)	(125,244)	(940)	(126,184)
As of March 31, 2018	—	(283,182)	2,515,296	2,624,974	79,090	2,704,064
As of January 1, 2019	—	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	—	—	120,840	120,840	12,845	133,685
Other comprehensive income (loss)	—	23,386	—	23,386	9	23,394
Comprehensive income (loss) for the period	—	23,386	120,840	144,226	12,853	157,079
Acquisition of treasury shares	—	—	—	(50,000)	—	(50,000)
Disposal of treasury shares	—	(176)	(26)	0	—	0
Share-based payments	—	26	—	26	—	26
Dividends	—	—	(134,357)	(134,357)	(618)	(134,975)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(0)	(0)	115	115
Transfer from other components of equity to retained earnings	—	(24)	24	—	—	—
Other increase (decrease)	—	(124)	—	(124)	—	(124)
Total transactions with the owners	—	(299)	(134,359)	(184,456)	(503)	(184,959)
As of March 31, 2019	—	(400,271)	2,646,862	2,590,364	82,201	2,672,565

(4) Condensed Interim Consolidated Statement of Cash Flows

Three months ended March 31, 2018 and 2019

(Millions of yen)

	2018	2019
Cash flows from operating activities		
Profit before income taxes	139,891	172,727
Depreciation and amortization	38,451	45,824
Impairment losses	476	200
Interest and dividend income	(1,760)	(2,209)
Interest expense	3,352	6,650
Share of profit in investments accounted for using the equity method	(506)	(744)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(14,423)	34
(Increase) decrease in trade and other receivables	5,381	25,271
(Increase) decrease in inventories	(11,454)	(7,183)
Increase (decrease) in trade and other payables	(29,920)	(8,019)
Increase (decrease) in retirement benefit liabilities	(14,132)	(9,383)
(Increase) decrease in prepaid tobacco excise taxes	2,472	(11,870)
Increase (decrease) in tobacco excise tax payables	28,640	(2,729)
Increase (decrease) in consumption tax payables	(5,698)	140
Other	(23,182)	(25,793)
Subtotal	117,588	182,916
Interest and dividends received	1,907	4,065
Interest paid	(2,464)	(5,368)
Income taxes paid	(36,830)	(60,444)
Net cash flows from operating activities	80,201	121,168
Cash flows from investing activities		
Purchase of securities	(6,382)	(16,253)
Proceeds from sale and redemption of securities	906	13,246
Purchase of property, plant and equipment	(27,319)	(27,208)
Proceeds from sale of investment property	16,687	2,014
Purchase of intangible assets	(4,630)	(4,352)
Payments into time deposits	(31)	(196)
Proceeds from withdrawal of time deposits	37	187
Other	(522)	(6,865)
Net cash flows from investing activities	(21,256)	(39,427)

(Millions of yen)

	2018	2019
Cash flows from financing activities		
Dividends paid to owners of the parent company	(123,484)	(132,416)
Dividends paid to non-controlling interests	(672)	(721)
Capital contribution from non-controlling interests	—	82
Increase (decrease) in short-term borrowings and commercial paper	(27,862)	85,620
Proceeds from long-term borrowings	343	—
Repayments of long-term borrowings	(121)	(280)
Repayments of lease liabilities	(447)	(3,700)
Acquisition of treasury shares	—	(50,000)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(70)	(0)
Other	0	0
Net cash flows from financing activities	(152,313)	(101,415)
Net increase (decrease) in cash and cash equivalents	(93,368)	(19,674)
Cash and cash equivalents at the beginning of the period	285,486	282,063
Effect of exchange rate changes on cash and cash equivalents	(9,486)	(925)
Cash and cash equivalents at the end of the period	182,632	261,463

(5) Segment Information

A. Outline of Reportable Segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. 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.

Three months ended March 31, 2018

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	138,800	310,111	26,686	37,693	513,289	1,760	—	515,050
Intersegment revenue	1,811	6,206	—	0	8,016	1,461	(9,477)	—
Total revenue	140,611	316,316	26,686	37,693	521,306	3,221	(9,477)	515,050
Segment profit (loss)								
Adjusted operating profit (Note 1)	48,942	96,286	7,697	705	153,630	(6,020)	447	148,057

Three months ended March 31, 2019

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food	Total			
Revenue								
External revenue	144,666	300,364	22,787	35,980	503,797	1,625	—	505,422
Intersegment revenue	1,872	8,094	—	0	9,966	1,504	(11,470)	—
Total revenue	146,538	308,458	22,787	35,980	513,763	3,129	(11,470)	505,422
Segment profit (loss)								
Adjusted operating profit (Note 1)	51,016	89,186	4,471	285	144,958	(5,627)	(557)	138,774

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

Three months ended March 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)	48,942	96,286	7,697	705	153,630	(6,020)	447	148,057
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(10,473)	—	—	(14,534)	—	—	(14,534)
Adjustment items (income) (Note 3)	1	1,183	—	19	1,202	15,303	—	16,505
Adjustment items (costs) (Note 4)	(278)	19	—	—	(259)	(2,994)	—	(3,253)
Operating profit (loss)	44,604	87,014	7,697	724	140,038	6,290	447	146,775
Financial income								1,764
Financial costs								(8,648)
Profit before income taxes								<u>139,891</u>

Three months ended March 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)	51,016	89,186	4,471	285	144,958	(5,627)	(557)	138,774
Amortization cost of acquired intangibles arising from business acquisitions	(4,061)	(13,727)	—	—	(17,788)	—	—	(17,788)
Adjustment items (income) (Note 3)	24	—	60,518	—	60,542	1,267	—	61,809
Adjustment items (costs) (Note 4)	—	29	(10)	(162)	(142)	(60)	—	(202)
Operating profit (loss)	46,979	75,488	64,979	123	187,570	(4,420)	(557)	182,593
Financial income								2,283
Financial costs								(12,148)
Profit before income taxes								<u>172,727</u>

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

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

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

Three months ended March 31, 2018 and 2019	(Millions of yen)	
	2018	2019
Gain on transfer of pharmaceutical licenses	—	60,518
Restructuring incomes	15,515	1,291
Other	990	—
Adjustment items (income)	<u>16,505</u>	<u>61,809</u>

Restructuring incomes for three months ended March 31, 2018 and 2019 mainly relate to gains on sale of real estate.

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

Three months ended March 31, 2018 and 2019	(Millions of yen)	
	2018	2019
Restructuring costs	3,253	52
Other	—	150
Adjustment items (costs)	<u>3,253</u>	<u>202</u>

(6) Note on Premise of Going Concern

No items to report