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October 30, 2020

Consolidated Financial Results for the Nine Months Ended September 30, 2020 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code:2914)
Listed Stock Exchange: Tokyo Stock Exchange
URL: <https://www.jti.co.jp/>
Representative: Masamichi Terabatake, Representative Director and President,
Chief Executive Officer
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Scheduled date to file Quarterly Securities Report: October 30, 2020
Scheduled starting date of the dividend payments: –
Drawing up supplementary documents on quarterly financial results: Yes
Holding quarterly investors' meeting: Yes (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Nine Months of the Fiscal Year Ending December 31, 2020 (from January 1, 2020 to September 30, 2020)

(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	%
Nine months ended								
September 30, 2020	1,592,097	(2.5)	390,181	(11.4)	345,558	(16.0)	259,621	(21.0)
September 30, 2019	1,633,748	(2.5)	440,597	(7.6)	411,564	(8.4)	328,771	(1.8)

	Profit attributable to owners of the parent company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Nine months ended						
September 30, 2020	257,948	(18.4)	45,112	(82.3)	145.40	145.33
September 30, 2019	316,148	(5.0)	254,435	65.4	177.83	177.75

(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
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of					
September 30, 2020	5,243,734	2,513,637	2,434,273	46.4	1,372.01
December 31, 2019	5,553,071	2,743,611	2,662,696	48.0	1,501.12

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, 2019	-	77.00	-	77.00	154.00
Year ending December 31, 2020	-	77.00	-		
Year ending December 31, 2020 (Forecast)				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, 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	2,070,000	(4.9)	464,000	(7.6)	310,000	174.73

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

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

The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant rates of exchange, at mid to high single-digit over the mid- to long-term, and will continue to pursue this goal.

(Percentages indicate year-on-year changes.)

	Adjusted operating profit at constant rates of exchange	
	Millions of yen	%
Nine months ended September 30, 2020 (Cumulative)	479,828	6.3
Year ending December 31, 2020 (Forecast)	539,000	4.5

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

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

For detailed information on the consolidated financial results, please 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): 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: NoneFor details, please refer to “1. Matters regarding summary information, (1) Changes in accounting policies and changes in accounting estimates.”
- (3) Number of shares issued (ordinary shares)
 - a. Total number of shares issued at the end of the period (including treasury shares)

As of September 30, 2020	2,000,000,000 shares
As of December 31, 2019	2,000,000,000 shares
 - b. Number of treasury shares at the end of the period

As of September 30, 2020	225,757,377 shares
As of December 31, 2019	226,196,566 shares
 - c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended September 30, 2020	1,774,089,057 shares
Nine months ended September 30, 2019	1,777,787,005 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.

The Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29 “Financial Reporting in Hyperinflationary Economies” (hereinafter referred to as “IAS 29”). However, the impact of IAS 29 is not included in adjusted operating profit at constant rates of exchange.

Attached Materials

Index

1. Matters Regarding Summary Information	2
(1) Changes in Accounting Policies and Changes in Accounting Estimates.....	2
(2) Revisions to the Consolidated Earnings Forecasts Most Recently Announced.....	2
2. Condensed Interim Consolidated Financial Statements	5
(1) Condensed Interim Consolidated Statement of Financial Position.....	5
(2) Condensed Interim Consolidated Statement of Income and Consolidated Statement of Comprehensive Income.....	7
(3) Condensed Interim Consolidated Statement of Changes in Equity	9
(4) Condensed Interim Consolidated Statement of Cash Flows.....	11
(5) Segment Information	13
(6) Note on Premise of Going Concern	16
(7) Subsequent Events	17

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, 2019 except the following item.

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

(Hyperinflationary Accounting Adjustments)

The Group applies accounting adjustments to the underlying financial results and position of its subsidiaries in a hyperinflationary economy as required by IAS 29, "Financial Reporting in Hyperinflationary Economies" (hereinafter referred to as "IAS 29").

The details are stated in "17. Hyperinflationary accounting adjustments."

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the beginning of the first quarter ended March 31, 2020.

IFRS	Description of new standards and amendments
IFRS 3 Business Combinations	Amendments to definition of "business"
IFRS 16 Leases	Amendments to permit a practical expedient for COVID-19-related rent concessions

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

IFRS 16 amendment mentioned above has been early applied since May 2020. The change in accounting policy has been applied retrospectively from January 1, 2020, which has no impact on the condensed interim consolidated financial statements for the first quarter ended March 31, 2020.

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

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

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

(Billions of yen)

	Earnings forecasts	Changes from the consolidated earnings forecasts most recently announced		Year-on-year changes [%]
		Amount	%	
Revenue	2,070.0	60.0	3.0	(4.9)
Adjusted operating profit	483.0	26.0	5.7	(6.4)
Operating profit	464.0	42.0	10.0	(7.6)
Profit attributable to owners of the parent company	310.0	24.0	8.4	(11.0)
Adjusted operating profit at constant rates of exchange	539.0	30.0	5.9	4.5

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.

Risk Associated with the Spread of COVID-19

Concerning the spread of COVID-19, the Group is conducting business operations of the tobacco business, the Pharmaceutical Business and the Processed Food Business fully in compliance with the policies and directives of the governments and relevant authorities of each country. From the perspective of preventing the spread of COVID-19 inside and outside the Group and ensuring the safety of employees and their families, etc., the Group has actively used teleworking, enhanced workplace hygiene management and implemented various other infection-prevention measures.

For the nine months ended September 30, 2020, the spread of COVID-19 has affected the Group businesses, including a decrease in duty-free sales in the tobacco business and a change in consumer trends in the Domestic Tobacco Business and the Processed Food Business due to people voluntarily staying home following the declaration of a state of emergency, and the impact is expected to lower revenue group-wide by approximately ¥45.0 billion.

At present, nothing is obstructing business continuity. However, it is unclear what impact there will be on mid- to long-term consumer trends and demand trends in each business, and regarding the business and financial impacts, it is also necessary to carefully monitor and examine foreign exchange rate trends and the responses of the governments and relevant authorities of each country. Because it is difficult at this time to predict when the spread of COVID-19 will be brought under control and its future impact,

COVID-19 may negatively affect the Group's business performance going forward, resulting in a revision to the earnings forecasts. If the need for a revision to the Group's earnings forecasts arises, the Company will swiftly announce such a revision.

At present, there are no problems in procuring the necessary funds for business operations, and the amount of credit available through commitment lines is sufficient.

2. Condensed Interim Consolidated Financial Statements

(1) Condensed Interim Consolidated Statement of Financial Position

	As of December 31, 2019	(Millions of yen) As of September 30, 2020
Assets		
Current assets		
Cash and cash equivalents	357,158	458,133
Trade and other receivables	458,513	433,559
Inventories	677,586	600,122
Other financial assets	21,943	25,941
Other current assets	410,443	354,132
Subtotal	1,925,643	1,871,888
Non-current assets held for sale	30	40,202
Total current assets	1,925,673	1,912,090
Non-current assets		
Property, plant and equipment	803,239	753,248
Goodwill	2,002,595	1,871,909
Intangible assets	440,434	376,525
Investment property	16,588	4,748
Retirement benefit assets	67,377	65,249
Investments accounted for using the equity method	52,903	37,926
Other financial assets	109,568	99,484
Deferred tax assets	134,696	122,555
Total non-current assets	3,627,397	3,331,644
Total assets	5,553,071	5,243,734

	As of December 31, 2019	(Millions of yen) As of September 30, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	408,597	374,638
Bonds and borrowings	284,135	346,031
Income tax payables	69,543	48,522
Other financial liabilities	21,862	23,085
Provisions	16,570	14,412
Other current liabilities	701,050	617,418
Subtotal	1,501,757	1,424,105
Liabilities directly associated with non-current assets held for sale	-	441
Total current liabilities	1,501,757	1,424,546
Non-current liabilities		
Bonds and borrowings	690,367	689,439
Other financial liabilities	41,062	50,730
Retirement benefit liabilities	320,614	312,957
Provisions	19,463	14,591
Other non-current liabilities	155,768	165,235
Deferred tax liabilities	80,430	72,599
Total non-current liabilities	1,307,702	1,305,551
Total liabilities	2,809,459	2,730,097
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,400
Treasury shares	(492,469)	(491,513)
Other components of equity	(431,741)	(646,218)
Retained earnings	2,750,506	2,735,604
Equity attributable to owners of the parent company	2,662,696	2,434,273
Non-controlling interests	80,916	79,364
Total equity	2,743,611	2,513,637
Total liabilities and equity	5,553,071	5,243,734

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

**Condensed Interim Consolidated Statement of Income
Nine months ended September 30, 2019 and 2020**

(Millions of yen)

	2019	2020
Revenue	1,633,748	1,592,097
Cost of sales	(689,768)	(671,038)
Gross profit	943,979	921,058
Other operating income	72,228	5,250
Share of profit in investments accounted for using the equity method	3,837	3,038
Selling, general and administrative expenses	(579,447)	(539,166)
Operating profit	440,597	390,181
Financial income	5,929	5,832
Financial costs	(34,962)	(50,454)
Profit before income taxes	411,564	345,558
Income taxes	(82,792)	(85,937)
Profit for the period	328,771	259,621
Attributable to:		
Owners of the parent company	316,148	257,948
Non-controlling interests	12,623	1,673
Profit for the period	328,771	259,621
Interim earnings per share		
Basic (Yen)	177.83	145.40
Diluted (Yen)	177.75	145.33

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

(Millions of yen)

	2019	2020
Operating profit	440,597	390,181
Amortization cost of acquired intangibles arising from business acquisitions	51,137	47,975
Adjustment items (income)	(65,416)	(3,124)
Adjustment items (costs)	25,203	6,502
Adjusted operating profit	451,522	441,533

Condensed Interim Consolidated Statement of Comprehensive Income
Nine months ended September 30, 2019 and 2020

(Millions of yen)

	2019	2020
Profit for the period	328,771	259,621
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	(907)	(3,154)
Remeasurements of defined benefit plans	-	(48)
Total of items that will not be reclassified to profit or loss	(907)	(3,203)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(73,195)	(211,510)
Net gain (loss) on derivatives designated as cash flow hedges	(235)	203
Total of items that may be reclassified subsequently to profit or loss	(73,429)	(211,307)
Other comprehensive income (loss), net of taxes	(74,336)	(214,509)
Comprehensive income (loss) for the period	254,435	45,112
Attributable to:		
Owners of the parent company	242,439	44,113
Non-controlling interests	11,996	999
Comprehensive income (loss) for the period	254,435	45,112

(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			
				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, 2019	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(72,473)	(235)	(1,002)
Comprehensive income (loss) for the period	-	-	-	-	(72,473)	(235)	(1,002)
Acquisition of treasury shares	-	-	(50,000)	-	-	-	-
Disposal of treasury shares	-	-	343	(270)	-	-	-
Share-based payments	-	-	-	217	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(347)
Other increase (decrease)	-	-	-	-	-	(115)	-
Total transactions with the owners	-	-	(49,657)	(53)	-	(115)	(347)
As of September 30, 2019	<u>100,000</u>	<u>736,400</u>	<u>(492,487)</u>	<u>1,494</u>	<u>(527,391)</u>	<u>94</u>	<u>28,221</u>
As of January 1, 2020	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(210,936)	203	(3,076)
Comprehensive income (loss) for the period	-	-	-	-	(210,936)	203	(3,076)
Acquisition of treasury shares	-	-	(0)	-	-	-	-
Disposal of treasury shares	-	-	957	(328)	-	-	-
Share-based payments	-	-	-	30	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	(368)
Other increase (decrease)	-	-	-	-	-	(2)	-
Total transactions with the owners	-	-	956	(298)	-	(2)	(368)
As of September 30, 2020	<u>100,000</u>	<u>736,400</u>	<u>(491,513)</u>	<u>1,258</u>	<u>(655,301)</u>	<u>69</u>	<u>7,756</u>

(Millions of yen)

	Equity attributable to owners of the parent company					Total equity
	Other components of equity		Retained earnings	Total	Non-controlling interests	
	Remeasurements of defined benefit plans	Total				
As of January 1, 2019	-	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	-	-	316,148	316,148	12,623	328,771
Other comprehensive income (loss)	-	(73,709)	-	(73,709)	(627)	(74,336)
Comprehensive income (loss) for the period	-	(73,709)	316,148	242,439	11,996	254,435
Acquisition of treasury shares	-	-	-	(50,000)	-	(50,000)
Disposal of treasury shares	-	(270)	(73)	0	-	0
Share-based payments	-	217	(19)	198	47	245
Dividends	-	-	(270,936)	(270,936)	(1,569)	(272,505)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	(0)	(0)	(42)	(43)
Transfer from other components of equity to retained earnings	-	(347)	347	-	-	-
Other increase (decrease)	-	(115)	-	(115)	-	(115)
Total transactions with the owners	-	(516)	(270,681)	(320,854)	(1,565)	(322,419)
As of September 30, 2019	-	(497,582)	2,705,848	2,552,179	80,283	2,632,461
As of January 1, 2020	-	(431,741)	2,750,506	2,662,696	80,916	2,743,611
Profit for the period	-	-	257,948	257,948	1,673	259,621
Other comprehensive income (loss)	(27)	(213,835)	-	(213,835)	(674)	(214,509)
Comprehensive income (loss) for the period	(27)	(213,835)	257,948	44,113	999	45,112
Acquisition of treasury shares	-	-	-	(0)	-	(0)
Disposal of treasury shares	-	(328)	(628)	0	-	0
Share-based payments	-	30	349	378	35	414
Dividends	-	-	(273,200)	(273,200)	(1,204)	(274,403)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	288	288	(1,383)	(1,094)
Transfer from other components of equity to retained earnings	27	(342)	342	-	-	-
Other increase (decrease)	-	(2)	-	(2)	-	(2)
Total transactions with the owners	27	(642)	(272,849)	(272,535)	(2,551)	(275,086)
As of September 30, 2020	-	(646,218)	2,735,604	2,434,273	79,364	2,513,637

(4) Condensed Interim Consolidated Statement of Cash Flows
Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Cash flows from operating activities		
Profit before income taxes	411,564	345,558
Depreciation and amortization	135,871	135,151
Impairment losses	3,251	3,623
Interest and dividend income	(5,708)	(4,549)
Interest expense	21,198	16,718
Share of profit in investments accounted for using the equity method	(3,837)	(3,038)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(183)	(911)
(Increase) decrease in trade and other receivables	(30,840)	(8,110)
(Increase) decrease in inventories	(7,242)	35,055
Increase (decrease) in trade and other payables	(20,225)	(11,831)
Increase (decrease) in retirement benefit liabilities	(12,102)	(6,702)
(Increase) decrease in prepaid tobacco excise taxes	3,877	10,236
Increase (decrease) in tobacco excise tax payables	(119,922)	(51,241)
Increase (decrease) in consumption tax payables	12,704	2,946
Other	3,992	28,312
Subtotal	392,397	491,215
Interest and dividends received	10,917	9,372
Interest paid	(19,594)	(15,456)
Income taxes paid	(125,950)	(86,972)
Net cash flows from operating activities	257,770	398,159
Cash flows from investing activities		
Purchase of securities	(33,117)	(31,504)
Proceeds from sale and redemption of securities	28,085	41,639
Purchase of property, plant and equipment	(78,454)	(57,668)
Proceeds from sale of investment property	3,985	3,087
Purchase of intangible assets	(13,194)	(17,777)
Payments into time deposits	(209)	(338)
Proceeds from withdrawal of time deposits	204	209
Subsequent payments for past fiscal years' business combinations	(33,537)	(1,004)
Proceeds from sale of investments in associates	-	17,402
Other	1,451	2,373
Net cash flows from investing activities	(124,786)	(43,581)

	2019	(Millions of yen) 2020
Cash flows from financing activities		
Dividends paid to owners of the parent company	(270,650)	(272,753)
Dividends paid to non-controlling interests	(1,333)	(1,141)
Capital contribution from non-controlling interests	81	89
Increase (decrease) in short-term borrowings and commercial paper	120,259	51,012
Proceeds from long-term borrowings	-	100,101
Repayments of long-term borrowings	(11,327)	(11,744)
Redemption of bonds	-	(60,000)
Repayments of lease liabilities	(10,436)	(12,596)
Acquisition of treasury shares	(50,000)	(0)
Payments for acquisition of interests in subsidiaries	(1)	(1,121)
from non-controlling interests		
Other	0	0
Net cash flows from financing activities	(223,407)	(208,154)
Net increase (decrease) in cash and cash equivalents	(90,423)	146,424
Cash and cash equivalents at the beginning of the period	282,063	357,158
Effect of exchange rate changes on cash and cash equivalents	(9,965)	(45,448)
Cash and cash equivalents at the end of the period	181,675	458,133

(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 the types of products sold, their characteristics, and their 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 segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expense categories are excluded from segmental performance. Transactions within segments are primarily based upon prevailing market prices.

Nine months ended September 30, 2019

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Revenue								
External revenue	466,444	984,685	63,310	114,755	1,629,195	4,553	-	1,633,748
Intersegment revenue	5,484	21,600	-	1	27,085	5,306	(32,390)	-
Total revenue	<u>471,928</u>	<u>1,006,285</u>	<u>63,310</u>	<u>114,756</u>	<u>1,656,280</u>	<u>9,858</u>	<u>(32,390)</u>	<u>1,633,748</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>165,393</u>	<u>296,464</u>	<u>7,819</u>	<u>2,891</u>	<u>472,567</u>	<u>(21,002)</u>	<u>(44)</u>	<u>451,522</u>

Nine months ended September 30, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Revenue								
External revenue	425,157	998,733	57,533	108,556	1,589,979	2,118	-	1,592,097
Intersegment revenue	5,667	19,632	-	0	25,300	4,031	(29,330)	-
Total revenue	<u>430,824</u>	<u>1,018,365</u>	<u>57,533</u>	<u>108,556</u>	<u>1,615,278</u>	<u>6,149</u>	<u>(29,330)</u>	<u>1,592,097</u>
Segment profit (loss)								
Adjusted operating profit (Note 1)	<u>139,001</u>	<u>314,806</u>	<u>12,623</u>	<u>856</u>	<u>467,286</u>	<u>(25,384)</u>	<u>(369)</u>	<u>441,533</u>

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

Nine months ended September 30, 2019

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	165,393	296,464	7,819	2,891	472,567	(21,002)	(44)	451,522
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(38,954)	-	-	(51,137)	-	-	(51,137)
Adjustment items (income) (Note 3)	24	1,474	61,018	461	62,977	2,439	-	65,416
Adjustment items (costs) (Note 4)	-	(19,320)	(4,039)	(278)	(23,637)	(1,566)	-	(25,203)
Operating profit (loss)	153,234	239,664	64,798	3,074	460,769	(20,128)	(44)	440,597
Financial income								5,929
Financial costs								(34,962)
Profit before income taxes								<u>411,564</u>

Nine months ended September 30, 2020

(Millions of yen)

	Reportable Segments				Total	Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma- ceuticals	Processed Food				
Adjusted operating profit (Note 1)	139,001	314,806	12,623	856	467,286	(25,384)	(369)	441,533
Amortization cost of acquired intangibles arising from business acquisitions	(12,184)	(35,791)	-	-	(47,975)	-	-	(47,975)
Adjustment items (income) (Note 3)	-	320	150	0	471	2,654	-	3,124
Adjustment items (costs) (Note 4)	-	(3,189)	(841)	(0)	(4,031)	(2,471)	-	(6,502)
Operating profit (loss)	126,817	276,146	11,932	856	415,751	(25,202)	(369)	390,181
Financial income								5,832
Financial costs								(50,454)
Profit before income taxes								<u>345,558</u>

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

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

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

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Gain on transfer of pharmaceutical licenses	60,518	-
Restructuring incomes	3,448	2,667
Other	1,450	458
Adjustment items (income)	<u>65,416</u>	<u>3,124</u>

Restructuring incomes for nine months ended September 30, 2019 and 2020 mainly relate to gains on sale of real estate.

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

Nine months ended September 30, 2019 and 2020

	2019	(Millions of yen) 2020
Restructuring costs	23,759	3,483
Other	1,444	3,019
Adjustment items (costs)	<u>25,203</u>	<u>6,502</u>

Restructuring costs for nine months ended September 30, 2019 mainly relate to business operation transformation in the “International Tobacco Business” and business restructuring in the “Pharmaceutical Business.” Other for nine months ended September 30, 2019 mainly relates to disposal of real estate.

(6) Note on Premise of Going Concern

No items to report

(7) Subsequent Events

The Group's subsidiary, JT International Financial Services B.V. issued Euro-denominated Deeply Subordinated Guaranteed Fixed Rate Resetable Capital Securities (hereinafter referred to as the "Bonds") on October 7, 2020 as follows.

	Euro-denominated Deeply Subordinated Guaranteed Fixed Rate Resetable Capital Securities due 2081 (with interest deferral clause)	Euro-denominated Deeply Subordinated Guaranteed Fixed Rate Resetable Capital Securities due 2083 (with interest deferral clause)
(1) Total amount of issue	EUR 500 million	EUR 500 million
(2) Interest rate	2.375% per annum Interest rate is fixed until April 7, 2026 and such fixed interest rate will be reset every 5 years thereafter.	2.875% per annum Interest rate is fixed until January 7, 2029 and such fixed interest rate will be reset every 5 years thereafter.
(3) Issue price	EUR 100 per face value of EUR 100	EUR 100 per face value of EUR 100
(4) Redemption price	EUR 100 per face value of EUR 100	EUR 100 per face value of EUR 100
(5) Issue date	October 7, 2020	October 7, 2020
(6) Maturity date	April 7, 2081	October 7, 2083
(7) Early redemption	The Issuer may redeem the Bonds at its own discretion in the 3-month period ending on and including April 7, 2026 and on each interest payment date thereafter. There are some other provisions where the Bonds may be redeemed prior to maturity.	The Issuer may redeem the Bonds at its own discretion in the 3-month period ending on and including January 7, 2029 and on each interest payment date thereafter. There are some other provisions where the Bonds may be redeemed prior to maturity.
(8) Guarantee	Subordinated guarantee by the Company (the "Guarantee")	
(9) Use of proceeds	Repayment of short-term borrowings and others	
(10) Other terms	<p>a. Interest deferral clause The Issuer may defer the payment of interest at its own discretion.</p> <p>b. Subordination clause In the event of any liquidation of the Issuer, the rights and claims of the holders of the Bonds against the Issuer will rank (i) junior to the claims of all holders of senior obligations of the Issuer, (ii) pari passu among the Bonds concurrently issued and with the claims of holders of all parity obligations of the Issuer and preferred shares of the Issuer and (iii) senior to the claims of holders of ordinary shares of the Issuer. In the event of any liquidation of the Company, the rights and claims under the Guarantee will rank (i) junior to the claims of all holders of senior obligations of the Company, (ii) pari passu among the Guarantee for the Bonds concurrently issued and with the claims of holders of all parity obligations of the Company and preferred shares of the Company and (iii) senior to the claims of holders of ordinary shares of the Company.</p> <p>c. Replacement restriction There is no contractual provision on replacement restrictions. However, when the Bonds are redeemed prior to maturity, the Company and the Issuer intend to refinance through means which will be assigned credit ratings equivalent to or higher than that of the Bonds by rating agencies within the twelve months prior to such redemption prior to maturity. The Issuer may decide not to implement such refinance if predefined financial requirements are met.</p>	