

[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

[Cover]

Document to be filed:	Annual Securities Report
Provisions to base upon:	Article 24, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	March 22, 2024
Business year:	39th term (from January 1, 2023 to December 31, 2023)
Company name (Japanese):	日本たばこ産業株式会社 (Nihon Tabako Sangyo Kabushiki-Kaisha)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, Representative Director and President, Chief Executive Officer
Location of head office:	1-1, Toranomom 4-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-6636-2914 (Main)
Contact person:	Hiromasa Furukawa, Senior Vice President, Chief Financial Officer, Corporate Communications
Place of contact:	1-1, Toranomom 4-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-6636-2914 (Main)
Contact person:	Hiromasa Furukawa, Senior Vice President, Chief Financial Officer, Corporate Communications
Places where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

A. Company Information

I. Overview of the Group

1. Trends in Principal Management Benchmarks

(1) Management Benchmarks (Consolidated)

Term	International Financial Reporting Standards				
	35th term	36th term	37th term	38th term	39th term
Accounting period	From January 1, 2019 to December 31, 2019	From January 1, 2020 to December 31, 2020	From January 1, 2021 to December 31, 2021	From January 1, 2022 to December 31, 2022	From January 1, 2023 to December 31, 2023
Revenue (Millions of yen)	2,175,626	2,092,561	2,324,838	2,657,832	2,841,077
Profit before income taxes (Millions of yen)	465,232	420,063	472,390	593,450	621,601
Profit for the year (Millions of yen)	361,622	312,029	340,181	444,174	485,310
Profit attributable to owners of the parent company (Millions of yen)	348,190	310,253	338,490	442,716	482,288
Comprehensive income (loss) for the year (Millions of yen)	365,816	132,883	540,258	998,229	668,217
Total equity (Millions of yen)	2,743,611	2,599,495	2,886,081	3,616,761	3,912,491
Total assets (Millions of yen)	5,553,071	5,381,382	5,774,209	6,548,078	7,282,097
Equity attributable to owners of the parent company per share (Yen)	1,501.12	1,421.92	1,583.10	1,994.78	2,157.46
Basic earnings per share (Yen)	195.97	174.88	190.76	249.45	271.69
Diluted earnings per share (Yen)	195.87	174.80	190.68	249.36	271.63
Ratio of equity attributable to owners of the parent company to total assets (%)	47.95	46.88	48.65	54.07	52.60
Ratio of profit to equity attributable to owners of the parent company (%)	13.16	11.97	12.70	13.94	13.09
Price earnings ratio (PER) (Times)	12.41	12.02	12.17	10.67	13.42
Net cash flows from operating activities (Millions of yen)	540,410	519,833	598,909	483,799	567,014
Net cash flows from investing activities (Millions of yen)	(123,571)	5,354	(97,499)	(101,822)	(126,129)
Net cash flows from financing activities (Millions of yen)	(333,832)	(297,404)	(353,138)	(306,176)	(270,500)
Cash and cash equivalents at the end of the year (Millions of yen)	357,158	538,844	721,731	866,885	1,040,206
Number of employees [Separately, average number of temporary employees] (Person)	61,975 [7,116]	58,300 [6,681]	55,381 [6,942]	52,640 [6,726]	53,239 [8,193]

Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter, "IFRS").

2. The yen amounts are rounded to the nearest million.

(2) Filing Company's Management Benchmarks (Non-consolidated)

Term	35th term	36th term	37th term	38th term	39th term
Accounting period	From January 1, 2019 to December 31, 2019	From January 1, 2020 to December 31, 2020	From January 1, 2021 to December 31, 2021	From January 1, 2022 to December 31, 2022	From January 1, 2023 to December 31, 2023
Net sales (Millions of yen)	660,805	596,887	592,220	542,181	537,261
Ordinary income (Millions of yen)	278,968	240,491	278,809	273,734	185,665
Net income (Millions of yen)	262,469	241,752	216,896	283,461	184,788
Share capital (Millions of yen)	100,000	100,000	100,000	100,000	100,000
Total number of shares issued (Thousands of shares)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Net assets (Millions of yen)	1,417,365	1,390,011	1,344,696	1,368,643	1,179,577
Total assets (Millions of yen)	2,614,357	2,597,930	2,487,979	2,363,267	2,293,951
Net assets per share (Yen)	798.18	782.73	757.10	770.57	664.12
Cash dividends per share (Yen)	154	154	140	188	194
[Interim dividends per share] (Yen)	[77]	[77]	[65]	[75]	[94]
Net income per share (Yen)	147.72	136.27	122.23	159.72	104.10
Diluted net income per share (Yen)	147.65	136.21	122.18	159.66	104.07
Equity ratio (%)	54.2	53.5	54.0	57.9	51.4
Return on equity (ROE) (%)	18.05	17.24	15.88	20.91	14.51
Price earnings ratio (PER) (Times)	16.47	15.43	19.00	16.66	35.02
Dividend payout ratio (%)	104.3	113.0	114.5	117.7	186.4
Number of employees [Separately, average number of temporary employees] (Person)	7,464 [1,221]	7,366 [1,183]	7,154 [1,174]	5,819 [461]	5,940 [257]
Total shareholder return (%) [Comparative indicator: Dividend-included TOPIX] (%)	98.9 [118.1]	92.1 [126.8]	105.9 [143.0]	126.0 [139.5]	171.0 [178.9]
Highest share price (Yen)	2,899.0	2,437.5	2,417.0	2,871.5	3,858.0
Lowest share price (Yen)	2,179.0	1,796.5	1,898.0	2,000.0	2,537.5

Notes: 1. The financial statements of the filing company are prepared in accordance with Japanese GAAP.

2. The yen amounts are rounded to the nearest million.

3. The yearly highest share price and the yearly lowest share price on and after April 4, 2022 were those recorded on the Tokyo Stock Exchange (Prime Market) while those before that date were those recorded on the Tokyo Stock Exchange (First Section).

2. History

(1) Background of the Company's Transition to Stock Company

Before it became a stock company, Japan Tobacco Inc. (hereinafter, "the Company") was formerly Japan Tobacco and Salt Public Corporation, or JTS. JTS was established on June 1, 1949 with the "Aim to bring soundness and efficiency to the operation of the national government monopolies." JTS, serving as the main body for conducting operations of the tobacco monopoly system and other government monopolies, contributed to establishing stable supply of tobacco and securing tobacco-derived financial revenues.

However, the growth in demand for cigarettes in Japan began to slow in the mid-1970s as the result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the Japanese domestic tobacco market was virtually opened to foreign tobacco suppliers, triggering competition between domestic and foreign tobacco products in Japan, and foreign countries stepped up pressure on Japan to take further market-opening measures, which were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of government-run public corporations, Ad Hoc Commission on Administrative Reform was established in March 1981 to conduct research on the public corporation system. In its third report (July 30, 1982), the commission proposed drastic reform of the monopoly system and the public corporation system.

In response to this proposal, the government conducted a comprehensive review of these systems and drafted bills to:

- Abolish the tobacco monopoly law in order to liberalize tobacco imports and establish a tobacco business law in order to make necessary adjustments related to the tobacco business.
- Abolish the JTS law, reorganize JTS as stock company so as to enable it to pursue rational corporate management as much as possible and establish the Act on Japan Tobacco Inc., which provides for a necessary minimum level of regulation in light of the corporation's need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports.

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year.

(2) Status of the Company After Its Incorporation

The Company was incorporated on April 1, 1985, pursuant to the Act on Japan Tobacco Inc. (Act No. 69 of August 10, 1984; hereinafter, the "JT Act"), and all of the start-up capital was provided by the Japan Tobacco and Salt Public Corporation, or JTS. When incorporated, the Company succeeded all the rights and obligations of JTS.

The main changes since the incorporation of the Company are as follows:

Date	Details of change
April 1985	Japan Tobacco Inc. was incorporated.
April 1985	The Business Development Division was established to promote active development of new businesses.
March 1986	Subsequently until July 1990, in order to reinforce the promotion system for each business, this division was transformed into business departments such as pharmaceutical, food, etc. Fukuoka and Tosu Factories were closed and Kitakyushu Factory was built to modernize and streamline tobacco production. By June 1996, nine more tobacco factories were closed down to further streamline the tobacco production system.
October 1988	The communication name “JT” was introduced.
July 1991	The Head Office was relocated from 2-1, Toranomom 2-chome, Minato-ku, Tokyo, to 12-62, Higashi-Shinagawa 4-chome, Shinagawa-ku, Tokyo to make way for the construction of the new Head Office building (the former JT head office building)
September 1993	The Central Pharmaceutical Research Institute was established to reinforce the internal pharmaceutical research and development capabilities.
October 1994	The initial public offering of the Company shares held by the Japanese government. (394,276 shares) The Company shares were listed on the First Section of the Tokyo, Osaka and Nagoya Stock Exchanges.
November 1994	The Company shares were listed on the Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo Stock Exchanges.
May 1995	The Head Office was relocated from 12-62, Higashi-Shinagawa 4-chome, Shinagawa-ku, Tokyo to 2-1, Toranomom 2-chome, Minato-ku, Tokyo
June 1996	The second public offering of the Company shares held by the Japanese government. (272,390 shares)
April 1997	In accordance with the abolition of the salt monopoly, the Company ended its salt monopoly business.
April 1998	The Tobacco Mutual Aid Pension scheme was united with the Employees’ Pension scheme. The Company signed an agreement with Unimat Corporation to form a business alliance in the soft drinks business and acquired a majority stake in the company.
December 1998	The Company acquired a majority stake in Torii Pharmaceutical Co., Ltd. through a tender offer.
May 1999	The Company acquired the non-US tobacco business of RJR Nabisco Inc.
July 1999	The Company acquired the food business of Asahi Kasei Corporation, including eight subsidiaries such as Asahi Foods Corporation.
October 1999	Through the business alliance with Torii Pharmaceutical Co., Ltd., research and development functions in the prescription drug business were concentrated in the Company while promotion functions were united within Torii Pharmaceutical Co., Ltd.
March 2003	In order to establish a basis for future profit growth in the Domestic Tobacco Business, Sendai, Nagoya and Hashimoto Factories were closed down.
March 2004	In order to establish a basis for future profit growth in the Domestic Tobacco Business, Hiroshima, Fuchu, Matsuyama and Naha Factories were closed down.
June 2004	The third public offering of the Company shares held by the Japanese government. (289,334 shares)
March 2005	In order to establish a basis for future profit growth in the Domestic Tobacco Business, Ueda, Hakodate, Takasaki, Takamatsu, Tokushima, Usuki, Kagoshima and Miyakonojo Factories were closed down.
April 2005	The Company ceased to produce, sell and use Marlboro brand cigarette exclusively in Japan upon the expiration of the exclusive license agreement.
April 2007	The Company acquired shares issued of Gallaher Group Plc of the United Kingdom.
January 2008	The Company acquired the shares of Katokichi Co., Ltd. through a tender offer.
March 2009	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Kanazawa Factory was closed down.
March 2010	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Morioka and Yonago Factories were closed down.
March 2011	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Odawara Factory was closed down.
March 2012	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Hofu Factory was closed down.
February 2013	The Mild Seven brand was renewed as “MEVIUS” in Japan.
March 2013	The fourth public offering of the Company shares held by the Japanese government. (253,261,800 shares)
March 2015	In order to further strengthen the competitiveness of Domestic Tobacco Business, Koriyama, Hamamatsu and Okayama Printing Factories were closed down.

Date		Details of change
July	2015	The Company transferred shares the Company held in Japan Beverage Holdings Inc., JT A-Star Co., Ltd. and others, and JT beverage brands “Roots” and “Momono Tennensui.” Subsequently, the Company withdrew from manufacture and sale of JT beverage products in September 2015 and the Beverage Business Division was closed down in December 2015.
January	2016	The Company acquired the non-U.S. tobacco business of Natural American Spirit from the Reynolds American Inc. group.
March	2016	In order to further strengthen the competitiveness of Domestic Tobacco Business, Hiratsuka Factory was closed down.
June	2018	The Company began selling heated tobacco products (HTP) nationwide.
October	2020	The Head Office was relocated from 2-1, Toranomom 2-chome, Minato-ku, Tokyo to 1-1, Toranomom 4-chome, Minato-ku, Tokyo.
January	2022	In order to further strengthen the competitiveness and profitability of tobacco business, the two tobacco businesses, Domestic Tobacco Business and International Tobacco Business, were unified, and the tobacco business headquarter function was consolidated at the headquarters in Geneva.
March	2022	In order to further strengthen the competitiveness and profitability of tobacco business, Kyushu Factory was closed down.

Note: The stock split at a ratio of five to one was conducted as of April 1, 2006 and the stock split at a ratio of 200 to one was conducted as of July 1, 2012.

3. Business Description

The Group, consisting of the Company, its 221 consolidated subsidiaries and 18 companies accounted for by the equity method, is a global company operating the Tobacco Business, the Pharmaceutical Business and the Processed Food Business. The main business activities operated by the Group and the relationship of each subsidiary or affiliate to the Group's business activities are stated below.

The following three segments are the same as the segmentation of reportable segments in "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 6. Operating Segments, (1) Outline of Reportable Segments."

Tobacco Business

The Tobacco Business consists of the manufacture and sale of tobacco products in various countries around the world, with JT International S.A. as the core company.

Major subsidiaries and affiliates

JT International S.A., LLC JTI Russia, Gallaher Ltd., JTI Polska Sp. z o. o., LLC Petro, JTI Tütün Ürünleri Sanayi A.Ş., TS Network Co., Ltd., Japan Filter Technology, Co., Ltd.

Others: 166 consolidated subsidiaries and
14 companies accounted for by the equity method

Pharmaceutical Business

The Pharmaceutical Business consists of research and development, manufacture, sale and promotion of prescription drugs. The Company concentrates on research and development while Torii Pharmaceutical Co., Ltd. manufactures, sells and promotes drugs (including the Company's products).

Major subsidiaries and affiliates

Torii Pharmaceutical Co., Ltd., Akros Pharma Inc.

Processed Food Business

In the Processed Food Business, TableMark Co., Ltd. and certain other subsidiaries are engaged in manufacture and sale of frozen and ambient foods, and seasonings.

Major subsidiaries and affiliates

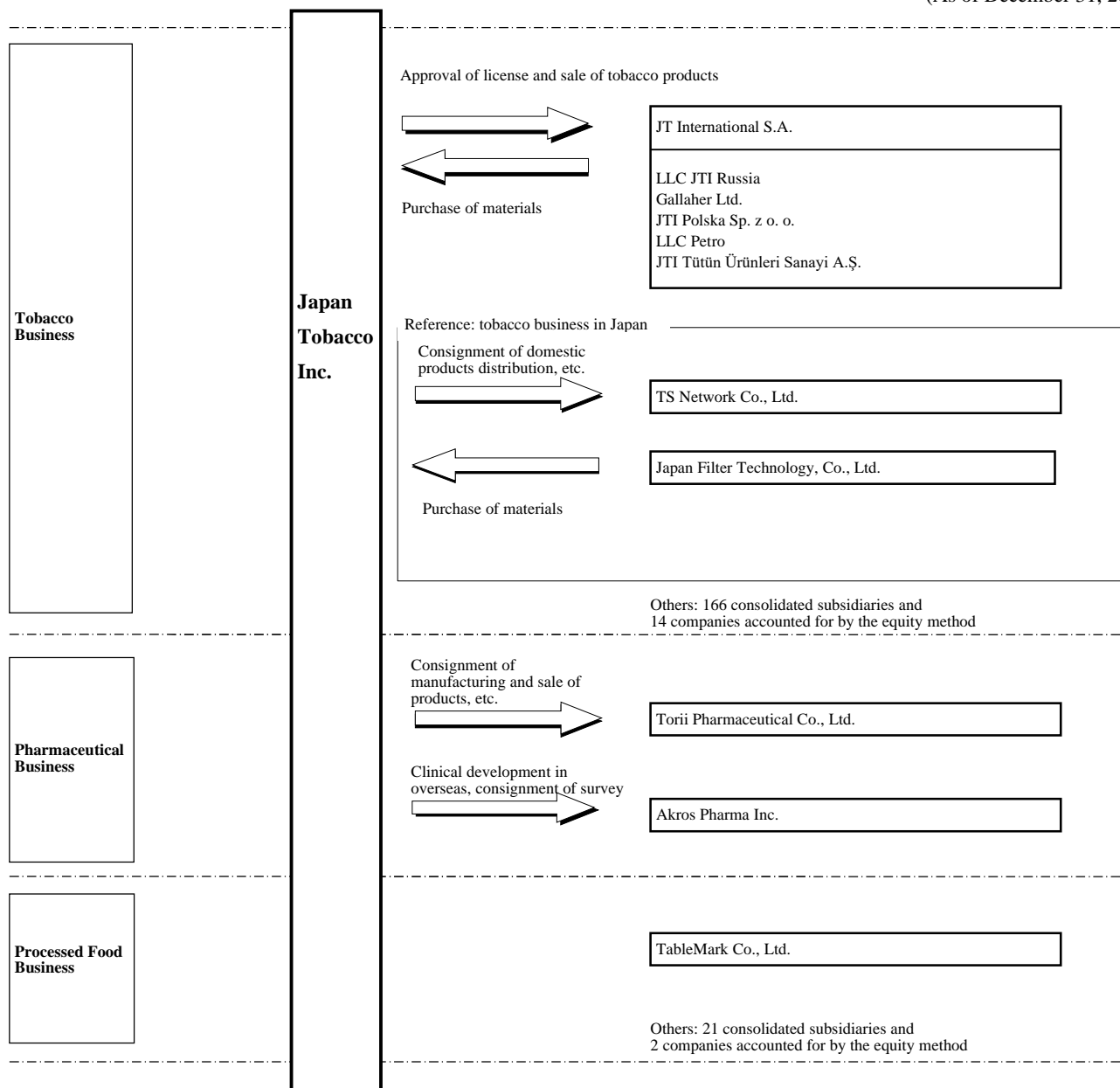
TableMark Co., Ltd.

Others: 21 consolidated subsidiaries and
2 companies accounted for by the equity method

In addition to the reportable segments mentioned above, the Group runs businesses including business relating to the rent of real estate. There are 23 consolidated subsidiaries and 2 companies accounted for by equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

The following business activities diagram shows the matters described above.

(As of December 31, 2023)



* In addition to the reportable segments mentioned above, the Group runs businesses including business relating to the rent of real estate. There are 23 consolidated subsidiaries and 2 companies accounted for by equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

An overview of each of the fields of research and development, procurement, manufacturing and sales in each business is as follows.

Tobacco Business

The Group's tobacco business has the third largest sales volume in the world (excluding China National Tobacco Corporation), sells products in at least 130 countries and territories. The Group's portfolio includes 3^(Note 1) of the top 10 selling global brands of combustibles^(Note 2).

- Notes: 1. According to fiscal 2022 data.
2. Combustibles include all tobacco products excluding contract manufactured products, waterpipe, HTP, oral and E-Vapor.

<Research and development>

The Group is committed to strengthening its R&D capabilities to ensure a long-term competitive advantage. The focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leaves and their processing, enhancement of aroma and taste, upgrading manufacturing technology, and continuous progress on RRP^(Note)-related technologies. The Group has been striving to add value to the products in these focus areas in a cost efficient manner. It has established a global research platform in Japan, which focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, the market teams are continuously engaged in the product development.

- Note: Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as HTP and E-Vapor products.

<Procurement of tobacco leaves>

The supply of tobacco leaves, raw materials used in manufacturing tobacco products is affected by a variety of factors, such as climate conditions, agricultural product prices, and energy costs. As a result of an increase in costs, the supply of tobacco leaves has been unstable, leading to the rise in tobacco leaf prices. Given these circumstances, the Group has been striving to secure a stable supply and ensure competitive leaf purchase prices. This will be achieved through further vertical integration and strengthening of the relationships with the leaf suppliers.

<Manufacturing>

The Group has a global manufacturing footprint in order to manufacture quality tobacco products that secure consumers' reliability trust. The Group operates 5 factories in Japan (3 tobacco manufacturing and 2 tobacco-related factories), and 33 factories in 27 other countries (including tobacco-related factories). In a limited number of cases, the Group also partners with competing manufacturers under contracts and/or license agreements to manufacture the Group's products.

<Marketing>

To enhance brand loyalty, the Group is conducting extensive and effective marketing activities in accordance to the various regulations and standards.

Globally, the marketing activities are focused on Global Flagship Brands (hereinafter, "GFB")^(Note), while complementing the brand portfolio by promoting local brands as well. In RRP, the Group is also developing the Ploom, Logic and other brands.

- Note: GFB consists of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS and LD.

- Retail prices

In setting a retail price for a product, the Group considers various factors, including positioning of the brand, perceived value of the product, retail prices of competing products, and the margin. In addition, there are regulations that influence the price-setting decisions. For example, some countries adopt a fixed retail price requirement, and forms of excise taxation on tobacco products (specific and/or ad valorem) differ among the countries. Retail price changes most often occur in case of tax increase. Globally, governments increase taxes to secure tax revenues and promote public health.

<Sales (distribution)>

To ensure that the products are delivered to consumers, the Group makes sure to use optimal distribution networks for each market complying with the restrictions and in accordance with established local business practices, and other factors. The distribution networks of the Group can be independent distribution networks or local agencies and distributors.

There are various sales channels for tobacco products; chain stores such as convenience stores, gas stations and supermarkets, small independent retailers, vending machines, and online stores. The contribution of each channel to the total industry sales varies from market to market. Accordingly, the Group develops different trade marketing initiatives for each market, depending on the focus channels as well as consumer trend and competitors' strategies.

Pharmaceutical Business

The Group commenced the Pharmaceutical Business in 1987. The Group's mission is to build world-class, unique R&D capabilities and reinforce its market presence through innovative drugs. The Pharmaceutical Business is currently focusing on the research and development, manufacture, and sales and promotion of prescription drugs.

In December 1998, the Company acquired a majority of the outstanding shares in Torii Pharmaceutical Co., Ltd. (hereinafter, "Torii Pharmaceutical"). After the acquisition, all manufacture, sales and promotion functions were integrated under Torii Pharmaceutical, while all R&D functions were grouped under the Company.

In April 2000, the Company established an R&D base outside Japan by adding a clinical development function to Akros Pharma Inc., a Group company based in the state of New Jersey, United States.

In order to make stable profit contribution, the Group is maximizing the value of each product, enhancing the R&D pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.

<Research and development>

R&D activities are the foundation of the Group's Pharmaceutical Business and are critical for its long-term growth and profitability. These R&D activities focus mainly on the fields of circulatory organs, kidneys and metabolism, immune disorders and inflammation, and brain centers. In the fiscal year ended December 31, 2023, the Group invested ¥32.2 billion in these fields.

- R&D process

The Central Pharmaceutical Research Institute is responsible for discovery research, drug development, and pre-clinical trial research. The Company's pharmaceutical development division and the Group company Akros Pharma Inc. undertake clinical trials and handle the application process to receive certification for any new drugs. Concerning compounds out-licensed for development and commercialization outside Japan, the licensees implement the subsequent processes.

<Manufacturing>

Because the manufacture of the Group's pharmaceutical products at the Group's factories was discontinued in 2020, all pharmaceutical product manufacturing processes are now outsourced.

<Sales and promotion>

- Sales and promotion outside Japan

At present, the Group does not have its own sales organization for pharmaceutical products outside Japan. The Group out-licenses the right to develop and commercialize outside Japan for certain compounds in the development stage and receives royalties from the partners linked to their sales performance.

- Sales and promotion in Japan

Torii Pharmaceutical is mainly responsible for sales of the Group's pharmaceutical products to pharmaceutical wholesalers and promotion to medical facilities. Promotional activities are conducted by 282 medical representatives (MRs) stationed at Torii Pharmaceutical's 7 regional sales headquarters across Japan.

CORECTIM® Ointment for treatment of atopic dermatitis, Riona® Tablets, a hyperphosphatemia treatment, REMITCH®, a drug for treating pruritus in dialysis patients, CEDARCURE® Japanese Cedar Pollen Sublingual Tablets, and MITICURE® House Dust Mite Sublingual Tablets are the main products.

Processed Food Business

The Group started its Processed Food Business in 1998. Since then, the Group has been expanding the business through organic growth as well as business investments in the form of M&As and strategic partnerships.

In 2008, the Group acquired Katokichi Co., Ltd., a major frozen food manufacturing company in Japan, through a tender offer. The Group's processed food business was transferred over to Katokichi Co., Ltd. as part of the integration. In 2010, Katokichi Co., Ltd. changed its corporate name to TableMark Co., Ltd. to pursue synergies and foster a sense of unity within the group.

At the end of the current fiscal year, this business is operated by TableMark Co., Ltd., Fuji Foods Corporation, and other Group companies. TableMark Co., Ltd., which operates mainly in Japan, handles the frozen and ambient foods, mainly frozen udon noodles, packaged cooked rice and frozen okonomiyaki (Japanese savory pancakes). Fuji Foods Corporation handles the seasonings business, which focuses on seasonings including yeast, kelp and bonito extracts, combination seasonings and processed seasonings for direct consumer consumption such as oyster sauce.

The Group's major products include "Reito-Sanuki-Udon" (frozen noodles), "Takitate-Gohan" (packaged cooked rice), and the "Vertex" (yeast extract seasonings) in particular.

<Research and development>

The Group devotes its efforts to the development of innovative products that meet consumers' needs and preferences. In order to meet the diversifying needs of consumers, the Group works to develop value-added products using its original techniques.

Specifically, the Group has used its original techniques for fermentation, baking, and freezing to recreate and preserve the taste and texture of fresh bread, and developed frozen bread products which allow consumers to simply enjoy the taste of freshly baked bread at home. In addition, in the area of frozen noodles the Group developed a new production method, the "Tannen-jikomi" weaving and maturing process. This enabled the Group to realize udon noodle products with higher quality and higher added value.

<Procurement>

The first step to produce safe foods is to procure safe and high-quality raw materials. For the procurement, the Group reviews quality assurance certificates submitted by its suppliers. The Group also carries out monitoring inspections to check agrochemical residues as well as conducts regular inspections at processing factories to ensure compliance with the Group's internal standards, in addition to the Food Sanitation Act and other relevant laws.

Furthermore, the Group examines the safety of production sites for raw materials which are procured from overseas. Concerning agricultural farms, the Group checks not only soil and water, but also how products are cultivated and how agrochemicals are handled. Breeding farms and fish farms are also inspected.

<Manufacturing>

The Group operates 16 factories in Japan and 8 outside Japan. The Group outsources manufacturing of some processed foods to domestic and international contract manufacturers. Excluding one factory^(Note) that began operations in fiscal 2020, all of the Group factories inside and outside Japan, as well as the factories of the Group's business partners, that produce frozen foods, have achieved ISO 22000 or FSSC 22000 certification. Under the ISO 22000 and FSSC 22000 standards, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are set based on the HACCP concept and their effectiveness is tested using scientific evidence.

Note: This factory is currently progressing toward ISO 22000 and FSSC 22000 certifications.

<Marketing>

The Group analyzes the market from consumers' point of view and, by its technology, it has been striving to provide products with new values to expand the market and increase its place there. The Group has been striving for effective marketing in order to improve consumer awareness of its products.

<Sales and distribution>

The Group has been striving to enhance profitability through sales division structure optimization and its initiatives to increase its presence in supermarkets and convenience stores, by offering a wider range of products while also seeking better shelf space.

<Food safety>

To ensure that consumers can continue to enjoy the products safely, the Group has established Quality Control Centers in Tokyo and Qingdao (China), and it not only inspects and monitors the raw materials it uses from the product planning and development stages, but also makes inspections at factories at the time of production and before shipment, and carries out safety management throughout the product manufacturing process. The Group seeks assessment and advice on its initiatives from external food safety experts. The Group reflects the experts' knowledge and viewpoints in its business by actively incorporating them into food safety controls. Details of the food safety activities, including the discussions described in the above "Procurement" and "Manufacturing" sections, are disclosed on the website, etc.

4. Status of Subsidiaries and Affiliates

(As of December 31, 2023)

Name	Location	Capital (Millions of yen)	Principal business	Holding rate of voting rights (%)	Relationship				
					Interlocking of officers		Financial assistance	Business relationship	Facility leasing
					Officer of the Company	Employee of the Company			
(Consolidated subsidiaries) 221 companies									
JT International Holding B.V. *1	Netherlands	Thousands of USD 1,800,372	Tobacco	100.0	Yes	Yes	No	No	No
JT International S.A. *1	Switzerland	Thousands of CHF 923,723	Tobacco	100.0 (100.0)	No	No	No	Approval of license and sale of tobacco products	No
LLC JTI Russia *2	Russia	Thousands of RUB 157,751	Tobacco	100.0 (100.0)	No	No	No	No	No
Gallaher Ltd.	U.K.	Thousands of GBP 50,374	Tobacco	100.0 (100.0)	No	No	No	No	No
JTI Polska Sp. z o. o.	Poland	Thousands of PLN 200,000	Tobacco	100.0 (100.0)	No	No	No	No	No
LLC Petro	Russia	Thousands of RUB 328,439	Tobacco	100.0 (100.0)	No	No	No	No	No
JTI Tütün Ürünleri Sanayi A.Ş.	Turkey	Thousands of TRY 148,825	Tobacco	100.0 (100.0)	No	No	No	No	No
TS Network Co., Ltd. *1	Taito-ku, Tokyo	460	Tobacco	85.3	No	Yes	No	Consignment of tobacco products distribution	Yes
Japan Filter Technology, Co., Ltd. *1	Sumida-ku, Tokyo	461	Tobacco	100.0	No	Yes	No	Purchase of filter for tobacco products	Yes
Torii Pharmaceutical Co., Ltd. *3	Chuo-ku, Tokyo	5,190	Pharmaceutical	54.8	No	No	No	Co-development and sale of products	Yes
Akros Pharma Inc.	U.S.A.	Thousands of USD 1	Pharmaceutical	100.0 (100.0)	No	Yes	No	Clinical development in overseas, consignment of survey	No
TableMark Co., Ltd. *1	Chuo-ku, Tokyo	22,500	Processed Food	100.0	No	Yes	Yes	No	Yes
Other 209 companies *1									
(Companies accounted for by the equity method) 18 companies									
Megapolis Distribution B.V.	Netherlands	EUR 15	Tobacco	23.0 (23.0)	No	No	No	No	No
Other 17 companies									

- Notes: 1. Descriptions in the “Principal business” column are names of segments.
2. The figures in parentheses in the “Holding rate of voting rights” column are indirect holding rates included in the figures outside the parentheses.
3. “Interlocking of officers” includes interlocking of officers of associated companies and secondment of officers of the Company.
4. *1: These companies are classified as specified subsidiaries. Companies that fall under the category of specified subsidiaries included in “Other 209 companies” are as follows.
- JTI-Macdonald Corp., JTI Tütün Ürünleri Pazarlama A.Ş., JT Canada LLC Inc., JT International (Philippines) Inc., JTI Processadora de Tabaco do Brasil Ltda., Japan Tobacco International Manufacturing Co., Ltd., JT International Distribuidora de Cigarros Ltda., PT Karyadibya Mahardhika, JT International Asia Manufacturing Corp., JTI (UK) Management Ltd., Al Nakhla Tobacco Company S.A.E., Logic Technology Development LLC., JTI Cigarette and Tobacco Factory Co. Ltd., JT International Bangladesh Limited
5. *2: Revenue (excluding revenue between consolidated companies) accounts for more than 10% of the Group’s consolidated revenue. Key operating results information for that company is as follows.

Name	Key operating results (Millions of yen)				
	Revenue	Profit before income taxes	Profit for the year	Total equity	Total assets
LLC JTI Russia	286,101	95,945	75,089	175,441	246,561

6. *3: This company files Annual Securities Report.
7. Consolidated subsidiary JT International Bangladesh Limited is insolvent, with liabilities exceeding assets by ¥155,890 million.

5. Status of Employees

(1) Consolidated Companies

(As of December 31, 2023)

Segment	Number of employees (Person)
Tobacco Business	46,698 [7,763]
Pharmaceutical Business	1,338 [59]
Processed Food Business	4,299 [253]
Common company-wide services within the filing company	904 [118]
Total	53,239 [8,193]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year ended December 31, 2023 is given in parentheses separately.

2. The number of employees in the "Common company-wide services within the filing company" row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

(2) Filing Company (the Company)

(As of December 31, 2023)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (Yen)
5,940 [257]	41.4	15.2	9,270,004

The numbers of employees by segment are as follows.

Segment	Number of employees (Person)
Tobacco Business	4,781 [236]
Pharmaceutical Business	715 [16]
Processed Food Business	24 [0]
Common company-wide services within the filing company	420 [5]
Total	5,940 [257]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year ended December 31, 2023 is given in parentheses separately.

2. The number of employees in the "Common company-wide services within the filing company" row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

3. The number of employees includes contract employees (32), employees on leave (200) and employees transferred to the Company (87), but excludes employees transferred from the Company (607).

4. Average years of service include years of service at Japan Tobacco and Salt Public Corporation.

5. Average annual salary (including taxes) includes bonuses and surplus wages.

(3) Status of Labor Union

In the Group, the labor-management relations are stable and there are no matters that should be reported.

(4) Metrics Related to Diversity

Metrics related to diversity in the fiscal year ended December 31, 2023 are as follows.

- a. Disclosure pursuant to the Act on the Promotion of Women's Active Engagement in Professional Life and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members.

	Ratio of female employees in managerial positions (%)	Ratio of male employees taking childcare leave (%)	Differences in wages between male and female employees (%)		
			All employees	Employees	Temporary employees
The Company	8.3	84.4	75.5	75.6	104.7
TS Network Co., Ltd.	1.7	100.0	34.4	77.6	66.0
JT Logistics Co., Ltd.	–	100.0	91.7	84.6	130.0
Japan Filter Technology, Co., Ltd.	5.1	60.0	65.8	75.2	87.3
JT Plant Service Co., Ltd.	4.1	100.0	77.3	81.3	104.9
Fuji Flavor Co., Ltd.	4.2	66.7	84.7	79.2	107.3
Torii Pharmaceutical Co., Ltd.	10.6	96.8	80.3	83.9	43.3
TableMark Co., Ltd.	6.8	84.6	60.7	63.2	74.2
Fuji Foods Corporation	11.0	100.0	62.5	67.4	100.6
KS FROZEN FOODS CO., LTD.	14.3	100.0	62.7	86.4	78.3
NIHON SHOKUZAI KAKO CO.,LTD.	–	100.0	50.4	66.2	84.7
Foodlec Co., Ltd.	–	–	66.9	82.1	49.4
Sunburg Co., Ltd.	–	100.0	71.4	72.2	89.3
KatokichiSuisan Co. Ltd	12.5	–	67.6	82.2	74.7
IIPINGSYANG FOODS CORPORATION	–	*	79.9	82.8	92.6
KOYO-FOODS, LTD.	–	100.0	73.3	70.5	80.1
JT CREATIVE SERVICE CO.,LTD.	21.4	100.0	72.6	89.6	48.4
JT BusinessCom Inc.	23.3	150.0	71.4	94.0	106.9

Notes: 1. The number of employees includes those who are regular employees and those who are non-regular employees in full-time indefinite-term employment.

2. Temporary employees include part-timers and employees on limited-term contracts, and exclude dispatched workers.

3. All employees include employees and temporary employees.

4. For the ratio of female employees in managerial positions, transferred employees are counted as employees at the company to which they are transferred.

5. The ratio of male employees taking childcare leave is determined by calculating the acquisition rate of childcare leave, etc. and time off for childcare purposes under Article 71-4, item (ii) of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991), in accordance with provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991). Transferred employees are counted as employees at the company to which they are transferred. In some cases, employees whose spouses gave birth in the prior fiscal years may take childcare leave in the current fiscal year, thereby conceivably resulting in an acquisition rate exceeding 100%.

6. An asterisk (*) indicates no male employees eligible for childcare leave.

7. A dash (-) indicates that there are no employees under the respective category.

8. Differences in wages between male and female employees indicate the proportion of women's wages to men's wages. It is attributable to differences in distribution of personnel by grade, not differences in wages for equivalent work. Transferred employees are counted as employees at the company to which they are transferred.

b. Consolidated Companies

	Ratio of female employees in managerial positions (%)	Ratio of male employees taking childcare leave (%)	Differences in wages between male and female employees (%)
The Company and the consolidated subsidiaries	23.5	87.7*	70.3*

Notes: 1. Calculated to include employees who are regular employees and those who are non-regular employees in full-time indefinite-term employment.

2. For the ratio of female employees in managerial positions, transferred employees are counted as employees at the company to which they are transferred.
3. The ratio of male employees taking childcare leave is determined by calculating the acquisition rate of childcare leave, etc. and time off for childcare purposes under Article 71-4, item (ii) of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991), in accordance with provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991). Transferred employees are counted as employees at the company to which they are transferred.
4. An asterisk (*) indicates the ratio derived solely from domestic consolidated subsidiaries that have performed such calculations, and accordingly such ratio does not include consolidated subsidiaries that have not performed such calculations.
5. Differences in wages between male and female employees indicate the proportion of women's wages to men's wages. It is attributable to differences in distribution of personnel by grade, not differences in wages for equivalent work. Wages include base salary and incentives such as bonuses. Transferred employees are counted as employees at the company to which they are transferred.

II. Review of Operations

1. Management Policy, Business Environment, Issues to Be Addressed, Etc.

The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

(1) Management Principle

The Group's management principle is based on the pursuit of the 4S model. The model requires the Group to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

The Group intends to attain sustainable profit growth over the mid- to long-term through the pursuit of the 4S model. Since attaining sustainable profit growth requires the Group to continue to provide new value and satisfaction to consumers, the Group believes it is essential to steadily make business investments for future profit growth from mid- to long-term perspective.

The Group believes that the pursuit of the 4S model will lead to a consistent increase in corporate value in the mid- to long-term and therefore that it is the best approach to serve the interests of all stakeholders.

(2) JT Group Purpose

The Group operates in a business environment that has ever increasing levels of uncertainty and complexity due to discontinuous changes occurring on a wide range of scales, be it the nature, society or the individual. In response to this, the Group has formulated the JT Group Purpose to clarify the direction for being a sustained entity. Specifically, we identified the area in which we will be needed by the society for the future and in which we should provide value over the long term as "human enrichment" and defined "Fulfilling Moments, Enriching Life" as the JT Group Purpose based on the idea that we want to continue to be entrusted with and contribute to the area. Moreover, so that we can realize the JT Group Purpose, we have formulated our Business Purposes for each business in line with this. The Group aims to realize the JT Group Purpose by producing results and making achievements through the implementation of business strategies and the practice of the behavioral guidelines.

The area of "human enrichment" undergoes changes in various ways with the times and the people, and the Group strives to evolve constantly so that we can continue to be entrusted by society and make valuable contributions to the area in the future.

<JT Group Purpose >

Fulfilling Moments, Enriching Life

We at JT Group have always been a part of moments that foster a more enriching life.

Regardless of the changing times, from advances in science and technology to diversifying values,
we will continue to cherish a life that finds fulfillment in the moment.

The times we accept our true selves. The times we share the joy with loved ones, and the times we lift each other up.
These strings of moments add to the beautiful days that make up a wonderful life.
And we hope that these make a better society, a better world, and even a better future.

These were the times we shared over the years.

JT Group will take these fulfilling moments to the next level.

We will continue enriching lives through our businesses and endeavors with our growing customers and partners.

JT Group will do everything it can to make the world say that today is another good day.

<Business Purpose >

Tobacco Business: Creating fulfilling moments. Creating a better future.

Pharmaceutical Business: Respecting science, technology and people, we will contribute to patients' lives.
Processed Food Business: Bringing Joy to Meals and Fun to the Table.

(3) Resources Allocation Policy

The Group's mid- to long-term resources allocation policy is to prioritize business investments for sustainable profit growth^(Note) in the mid- to long-term, while striking a balance between profit growth through business investments and shareholder returns, based on the 4S model and the JT Group Purpose.

Of the Group's core businesses, the Group regards the tobacco business as the core business and profit growth engine, so it places top priority on business investments that will lead to the sustainable profit growth of the tobacco business. On the other hand, the Group will make necessary investments for the Pharmaceutical Business and the Processed Food Business to complement profit growth for the Group as a whole.

Note: Investment towards the growth of the tobacco business is our highest priority. Pursue growth of adjusted operating profit at constant FX through quality top-line growth through the continuous provision of new values and satisfaction to customers and society.

(4) Group-Wide Profit Targets and Policy on Shareholder Return

The Group has set group-wide profit targets and a mid- to long-term guidance on shareholder return in the "Business Plan 2024" in accordance with our management principle and the resources allocation policy.

In the "Business Plan 2024," due to a large-scale strategic investment in the most promising HTS^(Note 1), the Group expects adjusted operating profit at constant FX for fiscal 2024 at the same level as in the previous year. However, as the pace of growth of HTS will be more rapid toward the latter half of the business plan period, the Group expects a mid single digit annual average growth rate in adjusted operating profit at constant FX during the period. The Group aims to achieve a mid to high single digit annual average growth rate over the medium and long term.

In terms of "prioritize business investments for sustainable profit growth in the mid- to long-term" and of "strike a balance between profit growth through business investments and shareholder returns" under the resources allocation policy based on the 4S model and the JT Group Purpose, our shareholder returns policy is set as follows:

- Aim to enhance shareholder returns by realizing the Company's mid- to long-term profit growth, while maintaining a solid financial base^(Note 2)
- Target a dividend payout ratio of about 75%^(Note 3), a competitive level^(Note 4) in the capital markets
- Consider implementing a share buy-back program, mainly taking into account the Company's financial outlook of the respective year and mid-term capital needs.

Notes: 1. Heated tobacco sticks. High temperature heated tobacco products.
2. The Company will maintain a solid financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
3. To be in the range of approximately $\pm 5\%$.
4. Monitor the shareholder return trends of global Fast-Moving Consumer Goods (FMCG) companies which have a stakeholder model similar to our 4S model and have realized strong business growth.
5. Actual results, performance or achievements, or those of the industries in which we operate, may differ from any future results, performance or achievements expressed or implied by the forward-looking statements. For details of risks related to the Group, please refer to "II. Review of Operations 3. Business and Other Risks."

(5) Business Environment and Basic Strategies for Attaining Group-Wide Profit Targets

i. Business environment

The business environment in which the Group operates is characterized by an increasing degree of uncertainty, such as the emergence of geopolitical risks, and foreign exchange risks in a hyperinflation market. Enhancing adaptability to such a changing environment is critical to achieve sustainable profit growth by overcoming the uncertain business environment and adequately executing business on a global scale. "Adaptability" refers to the ability to assume a wider range of contingencies than in the past, during the planning phase, and to quickly and flexibly respond to changes and events that surpass the assumptions so that the Group can deal with uncertainty over the future. The Group believes that how well and how quickly companies can overcome uncertainties will continue as the key to determine their competitiveness.

Moreover, in view of the forward march of digital technology, changes in the consciousness and behavior of consumers, and the shift towards greater awareness of ESG and sustainability, the Group believes that, rather

than merely responding passively while enhancing its adaptability to such a changing environment, the Group should initiate transformation itself and accelerate evolution to an organization that will lead this revolution.

The Group formulates its business plan, a three-year plan that is renewed each year on a rolling basis in order to speed up responsiveness and strengthen competitiveness while keenly identifying challenges in our operating environment, which presents increasing uncertainties.

ii. Basic strategies

As basic strategies for attaining the targets, the Group will strive for “achieving quality top-line growth,” “strengthening cost competitiveness,” and “strengthening business foundations,” implementing the strategies based on the concept of selection and focus.

Mainly, the Group places emphasis on “achieving quality top-line growth,” concentrating resources in key brands and product categories, in order to increase value added to products and services, as described in the following explanations of basic strategies for each business.

Concerning “strengthening cost competitiveness,” the Group aims at improving profitability and enhancing cash generation capability by optimizing business and corporate costs and establishing quick and efficient business operation systems, while leveraging the efforts of maintaining and enhancing quality. Additionally, the Group will reinforce its business continuity capabilities, while seeking to improve cost competitiveness.

When “strengthening business foundations,” it is critical to accurately identify changes in the business environment and to keep ourselves ready to readjust in order to meet challenges without being constrained by precedents. The Group will make continuous improvement efforts from that perspective. In addition, the Group will maximize synergies by leveraging the global footprint as represented by the diversity of the Group’s global workforce, which represents at least 100 nationalities, and by promoting collaboration on a global scale. As the Group strongly believes that the quality of human resources is the key to business activity and performance, it will strengthen human resource development.

(6) Business Environment and Basic Strategies by Segment

Tobacco Business

The tobacco business is the Group’s core business and profit growth engine and aims for mid to high single digit annual average growth rate over the mid- to long-term in adjusted operating profit growth rate at constant FX.

i. Business environment

The tobacco industry is evolving and there are many types of tobacco products available in this marketplace today, including cigarettes, HTP, E-Vapor products, fine cut tobacco, cigars, pipe, oral, waterpipe and kretek. HTP uses tobacco leaf, but instead of burning the leaf, it uses methods such as heating the leaf to generate tobacco vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy, and has been growing steadily, particularly in countries around the world. The products are taxed and regulated as tobacco products in principle because they use tobacco leaves. Development of HTP (including heated tobacco sticks that use high-temperature heating) is an area of keen interest for all market players, and the Group expects innovation to drive further growth. Moreover, the size of the oral market has been growing particularly in Europe and the U.S. Such smokeless tobacco products, which enable users to enjoy the characteristic tobacco taste and flavor directly through their nose or mouth, include snus containing tobacco leaf and nicotine patches containing no tobacco leaf. In the market for E-Vapor products, which instead of using tobacco leaf vaporize liquids containing nicotine so that the generated vapor can then be enjoyed by the user, the Group has a certain market size, notably in the U.S. and across Europe. As E-Vapor products do not use tobacco leaf, they have been subject to regulations and taxation that differs from that of tobacco containing products in many markets. However, changes in regulation and taxation of such products has emerged in some countries in recent years.

Approximately 5.4 trillion^(Note 1) combustibles^(Note 2) are consumed annually around the world, reaching global sales of approximately USD800 billion^(Note 1). China is by far the largest market, accounting for over 40% of global combustibles industry volume, but is almost exclusively operated by a state monopoly, China National Tobacco Corporation. Indonesia, the U.S., Russia, Turkey, Egypt, Germany and Japan are the following seven largest markets^(Note 1). Excluding China National Tobacco Corporation, there are four major global tobacco players: Philip Morris International Inc., British American Tobacco Plc., the JT Group and Imperial Brands Plc. In terms of RRP, besides these four companies, there are a multitude of mid- or small-scale producers selling E-Vapor products.

In general, the market dynamics of combustibles^(Note 3) are distinctively different between mature and emerging markets. In mature markets, combustibles industry volume tends to decline and these movements can reflect various factors, such as limited economic growth, tax increases, tightening regulations and demographic changes among others. In addition, down-trading is prevalent in these markets, as limited growth of income inclines consumers to seek more value in comparatively affordable tobacco products. In emerging markets, on the other hand, combustibles industry volume is trending higher in some countries, particularly across the Middle East and Africa, driven by population growth and economic development. As personal income generally increases year on year, consumers have been looking for quality and trading up to products in a higher price range.

Global combustibles industry volume^(Note 1) has been decreasing in recent years, although at a sustainable pace. However, more importantly, the profit-generating structure of the tobacco industry remains solid, and despite environmental difficulties, the Group expects industry value to continue growing in the 2022-2024 period, with price increases more than compensating for the volume contraction, particularly in combustibles. These trends – decline in combustibles industry volume and increase in value – are expected to continue. In addition, due to consumer demand and other factors, the market mix for HTP, E-Vapor products and related products varies from country to country, but the main markets for RRP include the U.S., Japan, Italy, and the U.K. Compared to that of combustibles^(Note 3) the size of the market is still small, but it is growing year after year and the RRP market is forecast to expand going forward, driven by growth in HTP.

- Notes:
1. According to fiscal 2022 data. Including fine cut tobacco.
 2. Combustibles include all tobacco products excluding contract manufactured products, waterpipe, HTP, oral and E-Vapor.
 3. Including fine cut tobacco.

ii. Basic strategies

<Quality top-line growth>

- Concentration of management resources on combustibles and RRP

As combustibles are expected to remain the largest category in the tobacco industry as a whole over the mid- to long-term in terms of volume and sales, their importance will be undiminished. As such, the Group will seek improvement of Return On Investment (ROI) in part through increased cost efficiency by enlisting continuous improvement efforts, while carrying out market investment and consistently implementing pricing initiatives looking toward top-line growth. Moreover, we aim to achieve sustainable growth by leveraging strong brand portfolio and taking share of the respective markets.

As we expect further expansion of RRP market, mainly heated tobacco sticks (HTS), we will continue increase our presence in the market as the pillar of the future business growth. By investment with priority to HTS, we will accelerate the global development of Ploom X, and aim to expand our share in the HTS category under the Ploom brand. In addition, we will strengthen our organizational capabilities to support these initiatives.

- Maintaining and increasing shares in the key markets through brand equity enhancement

Over the past years, the Group's tobacco business has grown its share in most of the key markets through superior brand equity.

In order to further grow market share, the Group will continue strengthening its brands, especially through consistent investments in the GFB. At the same time, the Group will also strengthen its local brands. These diverse local brands allow the Group to meet the unique preferences of the consumers and complement the brand portfolios in the diverse markets and regions where the Group is active. The Group will continue to focus the investments in innovation, as it is one of the most effective methods to enhance brand equity.

The Group's innovation efforts will focus on strengthening five key elements which add value to its tobacco products: 1) tobacco blends, 2) flavors, 3) filters and other non-tobacco materials—these three are important elements to determine quality of taste—4) capability to process these innovations into products and 5) package design, which is critical to visual quality.

<Strengthening cost competitiveness>

The tobacco business will persistently pursue continuous cost efficiency improvement of the operations, in particular with respect to the global supply chain, with an emphasis on agility and efficiency without

compromising quality. The Group will enhance its cost competitiveness by optimizing the global supply chain through various initiatives, including: further vertical integration in global leaf procurement; extended use of common non-tobacco materials; increased collaboration among suppliers; flexible procurement to benefit from attractive market prices; and improved inventory management for both tobacco and non-tobacco materials. Furthermore, enhanced productivity through realignment of manufacturing process and optimal level of capital expenditures will ensure conversion cost containment. The Group is also determined to improve its business continuity capability by securing options for sourcing and geographically spreading critical functions. Specifically, the Group has been striving to ensure a framework of multiple supply sources, optimal manufacturing capacity allocation on a global basis and diversification of production capability for priority SKUs (Stock Keeping Units).

The Group will improve the margin through increased cost efficiency while maintaining quality, and enhance cash flow generation by optimizing working capital and capital expenditures.

<Strengthening business foundations>

Commencing from fiscal 2022, the Group unified the organization structure of the tobacco business and consolidated the tobacco business headquarter function at the headquarters in Geneva. Under the new organization structure, based on the idea of consumer centricity, the Group will be committed to strengthening its global organizational power through maximizing utilization of global resources, speeding up the decision making process, and effective and efficient business operation systems while at the same time, aiming to strengthen capabilities in the digital realm and in product development. By being able to swiftly allocate resources based on a system of prioritization from a global perspective, the Group will also strengthen the value provided to consumers.

Furthermore, the Group believes that human resource development is the key driver of sustainable profit growth in the tobacco business.

The Group sells products in at least 130 countries and territories, and the global workforce of employees representing at least 100 nationalities works regardless of nationality, gender, and age. The Group maximizes synergies by leveraging this diversity and promoting collaboration on a global scale. As the Group believes that the quality of human resources is the key to business activity and performance, it will strengthen human resource development and enhance its ability to recruit, develop, and retain employees on a global basis.

The tobacco business remains committed to increasing its presence as a leading global tobacco manufacturer and further strengthening its role as the core business and profit growth engine of the Group, by steadily implementing the above business strategies.

Pharmaceutical Business

The Group's Pharmaceutical Business will strive to make profit contribution to the Group through the promotion of R&D on next-generation strategic products and by maximizing the value of each product.

i. Business environment

The global pharmaceutical market continued to grow, with an average annual increase of about 4.9% over the past five years, to USD1,472.5 billion in 2022, up 2.7% year on year^(Note). While increasing health awareness, population growth and development of public healthcare systems result in a higher demand for more advanced drugs, governments are strengthening their control on drug prices by holding back medical costs, due mainly to the rapidly aging society and fiscal deficits.

In order to control medical care expenses, the Japanese government has been promoting the use of generic drugs, leading the generic drugs market to expand in the Japanese pharmaceutical market. Additionally, a drastic reform of the drug pricing system has been conducted a gradual price reduction each year from 2021, and the situation remains challenging for the industry.

It is not easy to discover promising drug development targets and, amid stricter approval standards for new drugs, the global competitiveness in development is intensifying. The Company possesses R&D capabilities for creating world-class, original drugs, and competes with numerous companies, not only those in Japan, but also global companies, including large pharmaceutical companies and start-up companies.

ii. Basic strategies

<Stable profit contribution>

To make stable profit contribution, the Group will step up efforts to promote R&D on next-generation strategic products and seek optimum timing for out-licensing, and maximize the value of each product, as key tasks to strengthen the earnings base further.

- Promoting R&D on next-generation strategic products and seeking optimum timing for out-licensing

Promoting R&D on next-generation strategic products is a key task from the perspective of the sustainable development of the Group's Pharmaceutical Business. Market launch of new drugs is becoming increasingly difficult every year. However, the Group will explore appropriate drug development opportunities by collecting information concerning unmet needs of medical facilities around the world. The Group will also conduct flexible research management, carefully tailored to each drug candidate.

With the intensification of worldwide R&D competition in recent years, it is essential to define a sophisticated development strategy that takes into account of the requirements of medical facilities and implementation of clinical tests quickly. In order to accelerate the speed of the R&D and swiftly provide the new drugs the Group has created to patients around the world, the Group not only promotes in-house development but also continues to out-license compounds to other companies, particularly global pharmaceutical companies, and aggressively explore alliance opportunities.

- Maximizing the value of each product

Since 2014, the Company has launched Riona® Tablets (hyperphosphatemia treatment), CORECTIM® Ointment for treatment of atopic dermatitis, and ENAROY® Tablets for treatment of anemia associated with chronic kidney disease, and the Company's subsidiary Torii Pharmaceutical has launched MITICURE® House Dust Mite Sublingual Tablets, CEDARCURE® Japanese Cedar Pollen Sublingual Tablets, and ORLADEYO® Capsules for suppression of the attacks in hereditary angioedema, all in Japan. Outside Japan, the licensing partners are currently selling Stribild® Combination Tablets (anti-HIV drug), Genvoya® (anti-HIV drug) and Mekinist® (melanoma and NSCLC treatment), etc. In order to maximize the contribution to medical facilities through these products, the Company will work to steadily spread the products in the market in close partnership with Torii Pharmaceutical and the Company's licensing partners.

The Group recognizes, in order to conduct these various activities in an effective manner, the urgent requirement of training personnel who can collect accurate information regarding unmet needs at medical facilities and the latest pharmaceutical research, and use the information to formulate a sophisticated development strategy and a strategy to maximize product value, and global personnel capable of competing with academia and pharmaceutical companies around the world. The Group will concentrate efforts on its initiatives for these purposes.

Processed Food Business

The Group's Processed Food Business aims to contribute to the earnings of the Group through mid- to long-term profit growth driven by high-quality expansion in the top line.

i. Business environment

In 2022, annual consumption of frozen food in Japan^(Note) increased 3.0% to approximately 2.98 million tons from the previous fiscal year. Domestic market size on a consumption basis including imports^(Note) grew 10.5% from the previous fiscal year to ¥1,206.5 billion, and exceeded ¥1 trillion for the sixth consecutive year.

We expect the Japanese processed food industry to continue to grow as lifestyles change including an increase of double-income households. This change leads to a growing consumer need for simpler and shorter cooking

times. Frozen foods can help meet the diverse needs of consumers with its abundant variety and convenience in recreating freshly served taste.

The Company's subsidiary, TableMark Co., Ltd., is competing against major players like Maruha Nichiro, Nichirei Foods, Ajinomoto Frozen Foods and Nissui as well as a multitude of mid- or small-scale producers, although the Group is starting to see segregation of competition within the industry according to the product categories these competitors respectively own. These competitors are not the only ones the Group needs to keep an eye out on. The Group believes it is necessary to monitor trends in sales channels amid the expansion of private brand products by various distribution companies; and the reorganization of wholesale entities. The Group also needs to be aware of the continuing risk of price fluctuations in raw materials due to global food shortages.

Note: Japan Frozen Food Association (2022 data)

ii. Basic strategies

<Quality top-line growth>

The Processed Food Business focuses primarily on frozen and ambient foods, including staple food products such as frozen udon noodles, packed cooked rice, and frozen okonomiyaki, as well as seasonings. In the area of product line-up, the Group plans to create products that offer good value for the price from consumers' perspective while using its unique technology. This will be achieved by improving the ability to identify consumers' needs, generate ideas based on the identified needs, and transform the generated ideas into products. Concerning marketing, the Group will develop effective and efficient advertising and promotional activities in line with this product strategy and reinforce the trade marketing capabilities. By adopting these measures, the Group aims to further expand its market share.

<Strengthening cost competitiveness>

In the Processed Food Business, the Group has a variety of cost containment programs, including strengthening the raw materials procurement capabilities, efficiently managing the distribution network, and improving the productivity of the Group factories. In addition, consistent group-wide efforts will be made to lower fixed costs, including more efficient use of sales activity expenditures, through better selection and focus of promotional activities. By these means, the Group will work to improve cost competitiveness.

<Strengthening business foundations>

- Food safety control

Looking ahead, the Group will continue to manage the businesses while taking all possible measures to ensure food safety control from the four perspectives of food safety, food defense, food quality, and food communication in order to deliver safe and high-quality food products to consumers.

Regarding food safety, the Group will seek to minimize risks by utilizing food safety management systems already introduced.

Regarding food defense, the Group will further promote the already implemented Food Defense Program in order to prevent purposeful attacks.

Regarding food quality, the Group will pursue "deliciousness," which should be the fundamental quality of foods. The Group will also seek to enhance product added value and consumer satisfaction through continued improvement in accordance with inquiries and information from consumers.

Regarding food communication, the Group will conscientiously listen to the voices of consumers and actively provide information so as to make the Group's activities more visible to the outside.

- Human resource development

Development of human resources that support the business activities is critically important. Competence development programs as well as appropriate career paths of the employees will be created and implemented in order to develop personnel with various skills including marketing expertise and product development knowhow.

In summary, under the 4S model and the JT Group Purpose, the Group will enhance its ability to adapt to changes, implement bold and expeditious reforms of mindset and behavior, and consistently execute its growth strategy. Through these initiatives, the Group will achieve sustainable profit growth and continuously increase corporate value in the mid- to long-term.

2. Concept and Initiatives for Sustainability

The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

(1) Overview of Sustainability

The Group believes that contributing to the development of society through its business activities is essential for long-term growth of the Group, and that efforts to achieve sustainability in its business and society have long been considered fundamental to management. The Group has established a sustainability strategy underpinned by its materiality identified with respect to its business and wide range of stakeholders based on the 4S model, its management principle, and the JT Group Purpose. The Group will address social issues and achieve sustainable growth in its business by harnessing the driving force of the entire Group.

a. Governance

Important issues of sustainability are deemed matters to be resolved by and matters to be reported to the Board of Directors. Specific instances of this in recent years have included resolution by the Board of Directors with respect to revising materiality. This has also included reporting to the Board of Directors regarding the JT Group Environment Plan along with focus areas, aspirational goals, targets and progress of each business, and also regarding formulation of the JT Group Sustainability Targets, which serve as Group-wide targets for sustainability based on the revised materiality.

In addition, since 2020, the Sustainability Advisory Forum has been held regularly to discuss the Group's sustainability issues. With the Chief Sustainability Officer acting as Chairman, the forum is attended by heads of the Group's businesses and corporate divisions. In 2023, three forums were held, thereby serving as a platform for discussing and sharing information regarding issues and topics such as formulation of the JT Group Sustainability Targets based on the revised materiality, initiatives for reducing greenhouse gas (GHG) emissions and progress achieved toward such targets, initiatives for respecting human rights and governance, sustainability issues in each business, the Corporate Sustainability Reporting Directive (CSRD), and stakeholder engagement. Details of the discussions at the forum are reported regularly to the President and Directors.

b. Strategy

Based on the belief that as nature, society, people's lives are intertwined, sustaining our ways of living, and the activities of corporate entities, will depend on the sustainability of the environment and society in which we exist, the Group, with its management principle of pursuing the 4S model, has formulated the JT Group Materiality for five challenges identified based on the JT Group Purpose and discussed at the Board of Directors. Based on the JT Group Materiality, the JT Group Sustainability Targets have been set in order to clarify the specific details of our initiatives. In realizing the JT Group Purpose, the Group is contributing to that sustainability through its commitment to working on the JT Group Materiality with specific initiatives based on the JT Group Sustainability Targets.

JT Group Purpose

Fulfilling Moments, Enriching Life

JT Group Materiality

As nature, society, and people’s lives are intertwined, sustaining our ways of living, and the activities of corporate entities, will depend on the sustainability of the environment and society in which we exist. In realizing the JT Group Purpose, we are contributing to that sustainability through our commitment to working on the issues identified in our materiality.

Living with the Planet	Value Creation that Exceeds Consumer Expectations	Investing in Our People and Supporting Their Growth	Responsible Supply Chain Management	Good Governance
Preserve a harmonious relationship between our environment, people, and corporate organizations through initiatives to improve our impact on environment	Create diverse products and services beyond consumer expectations	Invest in people to support their development with attention to diversity, and enhance human capital by fostering a corporate culture that maximizes individuality and ability of each person	Create a sustainable supply chain capable of withstanding sudden changes in the business environment, by tackling social issues such as respecting human rights or preservation of our environment	Enhance our governance by improving our stakeholder satisfaction and continue to be a trustworthy corporate entity

JT Group Sustainability Targets

(For the JT Group Sustainability Targets, please refer to “d. Metrics and targets.”)

c. Risk management

The Group defines risks that may affect the Group, and closely observing these trends, takes measures to prevent these risks from actualizing and to minimize the impact in the event that they are actualized. Furthermore, the Group has established a system that can comprehensively understand and manage all of these risks, and the risk management process consists of the following four steps. By appropriately managing these risks in seeking to attain sustainable profit growth over the mid- to long-term, the Group adequately leverages opportunities in giving rise to strategic business expansion.

(Risk identification)

The person in charge of risk management promotion (currently Senior Vice President, Corporate Governance, Compliance), who is designated by the President, will understand all risks that may affect the Group.

(Risk evaluation)

Each Executive Officer will evaluate the risks for their own departments from the viewpoint of the possibility of actualization and the amount of impact in the event of actualization, select significant risks to provide prioritized response, and report to the person in charge of risk management promotion.

Based on the above, the person in charge of risk management promotion will determine significant risks to the Group that may cause significant loss regarding the achievement of the Group’s management targets and business strategy, and report to the President.

(Formulation of plans to address risks)

Significant risks to the Group are reported to the person in charge of risk management promotion and the President after plans to address risks are designed by each Executive Officer.

(Monitoring of plans to address risks)

The progress of plans to address the Group’s significant risks is regularly reported to the person in charge of risk management promotion and the President by each Executive Officer.

For details, please refer to “II. Review of Operations 3. Business and Other Risks.”

d. Metrics and targets

Based on the revised materiality, the JT Group Sustainability Targets have been set. The JT Group Sustainability Targets establish initiatives for addressing various sustainability issues of the Group based on the

JT Group Materiality, and encompass sustainability initiative targets for all of our businesses. For the JT Group Sustainability Targets, please refer to the following.

- JT Group Sustainability Targets: https://www.jt.com/sustainability/pdf/JTGS_TargetsE_202402.pdf

For the JT Group Environment Plan, focus areas, aspirational goals, targets and progress of each business for fiscal 2022, please refer to the following. For results of fiscal 2023, please check the Integrated Report 2023, to be released in June 2024.

- JT Group Environment Plan:

https://www.jt.com/sustainability/environment/pdf/EP2030_FY22_EN.pdf

- Tobacco Business:

https://www.jt.com/sustainability/strategy/materiality_strategy_sdgs/pdf/Tobacco_sustainability_strategy_FY22.pdf

- Pharmaceutical Business:

https://www.jt.com/sustainability/strategy/materiality_strategy_sdgs/pdf/Pharmaceutical_sustainability_strategy_FY22.pdf

- Processed Food Business:

https://www.jt.com/sustainability/strategy/materiality_strategy_sdgs/pdf/Processed_food_sustainability_strategy_FY22.pdf

The JT Group's Environment Plan and targets have been carried over or updated and integrated into the JT Group Sustainability Targets. Moreover, sustainability targets previously set by the tobacco, pharmaceutical and processed food businesses have also been incorporated, and new targets have been set. Reporting of the JT Group Sustainability Targets will commence with fiscal 2024 results in 2025.

(2) Climate change

Climate change is the biggest environmental challenge facing society and our business. The effects of climate change, such as global warming and modified weather patterns, will have serious implications for our supply chain given that our products are mainly agriculture-based, but also for our own operations based in various locations around the world. The Group is committed to tackling this issue. In February 2022, the Group decided to commit to achieve Net Zero for its entire value chain by 2050. As a milestone, the Group aims to be Carbon Neutral for its own operations by 2030. In support of this, the Group has set more ambitious 2030 science-based reduction targets and in 2022, they were validated by the Science Based Targets initiative (SBTi) as being in line with the 1.5°C scenario.

Our approach to addressing climate-related risks is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

For details, please refer to the Company's Integrated Report (https://www.jt.com/investors/results/integrated_report/index.html).

a. Governance

Through its business-wide enterprise risk management (ERM) process, the Group has identified climate change as one of its most critical risks, and has accordingly been making progress in identifying and assessing such risk at the national and local level. Plans to address climate change risks and progress thereof are regularly reported to Directors, and such information is appropriately shared and discussed at meetings of the Board of Directors as necessary. For the details of governance structure, please refer to JT website (https://www.jt.com/about/corporate_governance/index.html).

b. Strategy

The Group conducts scenario analysis based on multiple climate change scenarios (1.5°C, 2°C and 4°C). For the analysis based on these scenarios, the Representative Concentration Pathways (RCP) scenarios (RCP2.6, RCP4.5, RCP8.5) provided by the Intergovernmental Panel on Climate Change (IPCC) are used. As a result of the scenario analysis, two main climate change risks, “carbon pricing (raising carbon taxes)” and “the impact on leaf tobacco growing due to changes in environmental conditions,” were identified. The Group’s plan is to mitigate these risks by continuing to implement climate-related initiatives across its value chain and address areas for improvement.

<Scenario analysis results>

- Transition risk: carbon pricing (raising carbon taxes)

Impact	A carbon tax is imposed on raw or secondary materials, or services used in each phase of the agricultural value chain (e.g. agricultural chemicals, agricultural machinery, processing machinery, storage and distribution). Rising carbon taxes may increase procurement cost of tobacco leaf and other materials. It may also lead to additional company expenditure due to tax increases for the Group’s direct operations. Based on multiple scenarios, calculation results indicate potential financial impact ranging from ¥0.7 billion to ¥15.0 billion in real terms for the effects of raising carbon taxes attributable to rising temperatures. Financial impact is calculated by multiplying the GHG emissions forecast for 2050 in regions where carbon taxes may exist, by the carbon tax level in those locations. GHG emissions in 2050 are predicted based on the expected reduction in emissions of the Group and sales growth.
Mitigation plan	The Group manages this risk by reducing its energy consumption through capital investment and energy saving programs, as well as renewable energy programs (onsite generation of renewable energy, purchasing green energy). In addition to actively promoting decarbonization of vehicles used in business activities, the Group is also working with and supporting its respective suppliers in terms of understanding their climate change risks and appropriately implementing mitigation measures.

Physical risk: the impact on crop growth conditions

Impact	Changes in atmospheric carbon dioxide levels could affect tobacco leaf growth. There is also a risk of shifts in the presence and prevalence of tobacco crop pests and diseases related to climate change. Other risk factors include water scarcity and higher-than-average temperatures and unusual precipitation patterns. All of these could impact the availability and quality of key natural resources for the Group, including tobacco leaf. Such issues could occur in one or more of our tobacco sourcing countries. Based on multiple scenarios, calculation results indicate potential financial impact ranging from ¥8.0 billion to ¥37.0 billion for an increase in procurement cost of tobacco leaf.
Mitigation plan	The Group manages this risk by shifting leaf growing regions based on the climate-related impacts it identified and implementing climate change adaptation measures (e.g. smart agriculture and breeding). The Group also introduces measures to improve yield in growing regions, and to mitigate increased costs and a potential decrease in procurement volumes. Thus far, the Group has attempted to establish a resilient supply chain. It also has built strong relationships with its suppliers while having a geographically diversified supply chain. As a result, the Group currently sources tobacco leaf efficiently and consistently from more than 30 countries.

c. Risk management

The Group formulates plans to address risks upon having evaluated climate change risks through its enterprise risk management (ERM) process. When formulating such plans, the Group takes into account risks specific to each country and region identified through its country-level climate change scenario analysis. The Group then establishes a clear order of priority for addressing such risks drawing on assessment of its overall business risk and assessment specific to respective countries and regions.

d. Metrics and targets

The Group has been committed to achieving net zero across the entire value chain by 2050 in order to fulfill its social responsibility with its sights set on mitigating climate change risks and constructing a decarbonized society. As a milestone in that regard, the Group aims to be Carbon Neutral for its businesses by 2030, with its target of reducing Scope 1 and 2 GHG emissions by 47% against a 2019 base year. Additionally, the Group has set targets pertaining to introduction of renewable electricity as an initiative that contributes to reduce GHG emissions, and it has been working on the targets.

Furthermore, the Group has been taking steps to achieve a 28% reduction in Scope 3, Category 1 GHG emissions by 2030 against a 2019 base year, with its sights set on achieving Net Zero. The Group’s latest GHG emissions are as follows.

(1,000 tons CO _{2e})	
Fiscal 2022	
Scope 1	340
Scope 2	277
Total (Scope 1 + 2)	617
Scope 3, Category 1	6,960

For the Group’s targets and results of fiscal 2022, environmental data/external verification, and data calculation and consolidation methods, please refer to JT website.

- JT Group Sustainability Targets:

<https://www.jt.com/sustainability/environment/index.html>

- Results based on the JT Group Environment Plan 2030:

https://www.jt.com/sustainability/environment/pdf/EP2030_FY22_EN.pdf

- Environmental data/external verification, and data calculation and consolidation methods:

https://www.jt.com/sustainability/environment/data_verification/index.html

For fiscal 2023 environmental data, please check the Integrated Report 2023, to be released in June 2024.

(3) Human capital

To show us the way forward in a social and business environment defined by discontinuous change, the Group has formulated the JT Group Purpose of “Fulfilling Moments, Enriching Life” that will help assure the sustainability of our businesses and the society in which it operates. Not only does the JT Group Purpose depict realms in which the Group is to provide value in the future of society, but it also serves as the driving force for carrying out various initiatives that include formulating and executing mid- to long-term strategies, developing new businesses, engaging in sustainability activities, and forming the corporate culture. Given that each and every employee of the Group serves as the starting point for all activities aimed at realizing the JT Group Purpose, the Group recognizes that their significance will continue to grow going forward. Underpinned by this awareness, the Group has defined human capital as follows, and strives to enhance the definitions, as it continues to enlist the basic concepts set forth in the JT Group Human Resources Management Philosophy.

a. Governance

As a responsible employer, listening to the voices of our employees is crucial, and the Group strives to achieve continuous improvement toward ensuring that it provides fulfilling workplace environments by communicating with them through multiple channels. Specifically, the Group conducts an Employee Engagement Survey (EES) encompassing all employees of the Group and also carry out a PULSE survey conducted at each office and factory, thereby enabling us to identify, assess, and promptly address challenges encountered by each organization from the Group level to the office and factory level.

Moreover, the Group considers that it is its responsibility to provide a safe and healthy work environment for all employees of the Group. To such ends, The Group aligns its health and safety standards with ISO 45001 (OHSAS 18001) and always meets or exceeds legal requirements.

The Company furthermore strives to build a comprehensive health support system, thereby having the President issue a Health Management Declaration and assigning the Senior Vice President in charge of People & Culture to serve as the person in charge of health management promotion. Specifically, the Group has engaged initiatives in order to ensure that every employee is able to take care of their physical and mental health. Such initiatives include assigning on-site health staff (physicians and public health nurses) at 11 key locations nationwide and arranging health consultations on an individual basis.

These initiatives related to human resources and progress thereof are reported to the President and the Board of Directors as necessary.

b. Strategy

<Human capital at the Group>

The Group has been proceeding with efforts that involve enhancing personnel initiatives carried out in seeking to more clearly define and expand its human capital. The Group has defined human capital as “human resources” who support our corporate activities, “corporate culture” that shapes decision-making criteria and patterns of behavior with respect to our activities, and “ownership (individual independence)” embraced in a manner that produces a virtuous cycle between human resources and corporate culture. The Group has also established metrics for status of each definition as well as progress and results achieved with respect to human capital activities (personnel initiatives) linked to them. As such, the Group will work to steadily expand our human capital by regularly monitoring such metrics.

<Human resource>

Given that the Group has long contended that “diversity of people is a source of our competitiveness,” the Group is committed to recruiting human resources equipped with different backgrounds and values, such as age, gender, self-identification, sexual orientation, disability, ethnicity, religion and nationality, as well as experience and expertise. Furthermore, the Group strives to ensure that every member of its workforce driving the Group’s corporate activities is able to maximize their abilities. Going forward, the Group will further focus on strategically recruiting and supporting growth of human resources. This includes human resources who promote expansion and optimization its existing businesses (tobacco business, pharmaceutical business, and processed food business), human resources who drive the development of new businesses catering to human enrichment amidst likely changes over time, and human resources who lead and manage the Group’s business.

Moreover, employees’ mental and physical safety and health is of utmost importance underpinned by “People come first” approach in serving as a company consistently preferred by diverse human resource. The Group strives to improve systems so that the career path and work-life balance desired by its employees in various stages in life, seeking to ensure vibrant work settings within the Group.

<Corporate culture>

Corporate culture (shared values embraced throughout the organization) is one that is vital when diverse human resource drives corporate activities together as a member of the Group. The Group believes that ensuring that these values take root within the organization, thereby shaping the Group’s decision-making criteria and patterns of behavior with respect to corporate activities, is crucial to sustainably create unique values that are characteristic of the Group.

The Group has cultivated a culture of sincerity and support for mutual growth based on a strong sense of ethics. While the Group continues to embrace this culture, it also strives to foster a corporate culture that is suitable for the times and distinctive to the Group by encouraging employees to take on challenges more than ever before and promoting internal and external collaboration in order to provide society with various forms of “human enrichment” in the time of uncertainty where diversification of values is progressing.

<Ownership (individual independence)>

The Group seeks to create values distinctive to the Group while maximizing the abilities of its diverse human resource. This calls for ensuring a virtuous cycle whereby its organizational values are transmitted in the form of decision-making criteria and patterns of behavior among its diverse human resource (interaction between human resources and corporate culture), while ensuring that each individual shapes the corporate culture of the Group. To such ends, the Group believes that the notion of taking ownership is important in terms of proactively implementing and promoting the core values and behavior (behavioral guidelines) of the Group after each individual understands and embraces the JT Group Purpose.

Accordingly, the Group has defined human capital as “human resources,” “corporate culture,” and “ownership (individual independence),” and it will take steps to expand human capital of the Group through a process of promoting, verifying, and improving personnel initiatives linked to these definitions.

c. Risk management

Whereas the Group engages in various initiatives in seeking to attract talented people with top priority assigned to a diverse workforce going forward, if the Group could not sufficiently fulfill such needs as retaining human resources due to the negative social image placed on tobacco business or other such circumstances, future business operations may become difficult, thus having a negative impact on the Group’s business performance.

The Group strongly believes that the quality of human resources is the key to business activity and performance. Furthermore, as the Group has adopted the “Human Resources Management Philosophy” based on the belief that a diversified employee base is a major factor of its competitiveness, the Group seeks to attract talented people worldwide, and further strengthen development and retention.

Specifically, the Group sets attractive and competitive remuneration levels, which involves establishing benchmarks specific to each region and business. Moreover, the Group is enhancing its discussion process for ensuring an environment conducive to enabling individuals to form careers aligned with their aspirations and preferences. In addition to recruitment for career-track positions whereby career paths of employees are determined based on their experience across a wide range of fields, the Group also hires people for specific job categories beginning with the stage of initial corporate employment, and engages in career recruitment carried out on the basis of job assignments.

Furthermore, the Group works to develop human resources by providing growth opportunities to all employees of the Group, such as by carrying out training applicable to all employees, including executives, which provides them with the necessary skills for their individual careers. At the same time, the Group maintains and improves a motivating work environment, which includes the promotion of diversity, provides a fair nomination and compensation system and operates fairly, and establishes systems and a corporate culture that respects diversity.

d. Metrics and targets

Having set qualitative and quantitative targets across multiple fields that play a role in enhancing human capital of the Group, the Group engages in initiatives while monitoring various metrics in that regard.

In particular, for the empowerment of women under “Diversity, equity & inclusion,” the Group has set its target that “women’s representation in managerial positions is to reach 30% by 2030,” and it will further promote such initiatives. The proportion of female managers in the Group is 23.5% (1,437 women) as of the end of December 2023. (The proportion in the Company alone is 8.3% (82 women)). Three out of 15 Members of the Board and Audit & Supervisory Board Members are women as of the filing date of this Annual Securities Report.

Also, as metrics, the Group will set rates for childcare leave to provide support to its employee in balancing work and family life, and injury rates in line with its vision of Zero workplace injuries. The Group will also monitor such status.

For details, please refer to “Diversity, equity & inclusion,” “Talent attraction,” “Attractive working conditions,” “Health and safety,” “Development support,” and “Internal and external collaboration” presented in the JT Group Sustainability Targets.

- JT Group Sustainability Targets: https://www.jt.com/sustainability/pdf/JTGS_TargetsE_202402.pdf

3. Business and Other Risks

Listed below are major items that, among those relating to the review of operations and accounting revealed in the Annual Securities Report, are recognized by management as items that may significantly influence financial position, operating results and cash flows of consolidated companies. These items include items that may significantly affect the achievement of the Group's management targets and business strategy as well as items that may significantly influence investor decisions from the viewpoint of proactive information disclosure.

However, the risks described below do not constitute an exhaustive list of all the risks related to the Group, and risks not described below also exist. All of the risk factors may potentially have an effect on investment decisions.

The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

<Risk Management System>

The Group defines risks that may affect the Group, and closely observing these trends, takes measures to prevent these risks from actualizing and to minimize the impact in the event that they are actualized. Furthermore, the Group has established a system that can comprehensively understand and manage all of these risks, and the risk management process consists of the following four steps. By appropriately managing these risks in seeking to attain sustainable profit growth over the mid- to long-term, the Group adequately leverages opportunities in giving rise to strategic business expansion.

(Risk identification)

The person in charge of risk management promotion (currently Senior Vice President, Corporate Governance, Compliance), who is designated by the President, will understand all risks that may affect the Group.

(Risk evaluation)

Each Executive Officer will evaluate the risks for their own departments from the viewpoint of the possibility of actualization and the amount of impact in the event of actualization, select significant risks to provide prioritized response, and report to the person in charge of risk management promotion.

Based on the above, the person in charge of risk management promotion will determine significant risks to the Group that may cause significant loss regarding the achievement of the Group's management targets and business strategy, and report to the President.

(Formulation of plans to address risks)

Significant risks to the Group are reported to the person in charge of risk management promotion and the President after plans to address risks are designed by each Executive Officer.

(Monitoring of plans to address risks)

The progress of plans to address the Group's significant risks is regularly reported to the person in charge of risk management promotion and the President by each Executive Officer.

(1) Risks Relating to the Business, Profit Structure and Management Policy of the Group

a. Significance of tobacco revenue from the main market in consolidated revenue

The Group sells products in at least 130 countries and regions. Among these, tobacco revenue in the main markets, such as Japan, Russia, and the U.K., makes a significant contribution to the Group's revenue. Accordingly, the manifestation of various risks that exist in the environment for the tobacco business, such as a decrease in tobacco demand, tax increases, regulations and other factors (for details of risks relating to the tobacco business, see "(2) Risks Relating to the Group Businesses, Risks Relating to the Tobacco Business" below), or negative impacts in main markets arising from a relative increase in country risk caused by factors such as a change in the political environment, a change in economic conditions, a change in the social environment, a change in the legal system, or the occurrence of riots, terrorism or war, could result in a worsening of Group performance, including revenue from the Tobacco Business deteriorating.

The Group is working to maintain and grow tobacco revenue from its main markets by optimizing its product portfolio, reinforcing trade marketing capabilities and implementing measures for effective promotions. In addition, by further strengthening the business base not only in main markets but also globally, the Group will strive to secure various markets in which it is possible to sustainably generate profits without depending only on specific main markets.

b. Business expansion

The Group worked proactively to obtain external resources for the business expansion, such as the acquisition of the RJR Nabisco Inc.'s non-U.S. tobacco business (acquired in 1999 for approximately USD7.8 billion, or ¥944.0 billion as calculated by the exchange rate at the time of the acquisition; the same applies hereinafter), as well as the acquisition of Gallaher Group Plc (acquired in 2007 for approximately GBP 7.5 billion, or ¥1,720.0 billion), the acquisition of Katokichi Co., Ltd. (now TableMark Co., Ltd.) (acquired in 2008 for approximately ¥109.0 billion), and the acquisition of the non-U.S. tobacco business of Natural American Spirit (acquired in 2016 for approximately USD5.0 billion, or ¥591.4 billion). In an effort to expand its business, the Group will consider acquisitions, capital movements, business tie-ups and cooperative arrangements with other companies and may execute when the Group judges such transactions would contribute to the future earnings of the Group. However, should such transactions not generate the expected outcome, or should a significant, unforeseen problem be discovered after the acquisition, same may negatively affect the Group's business performance. Examples that may have such an impact include a failure to carry out marketing, operational, personnel, technological or organizational integration due to geographical or cultural differences; a failure to maintain sustained demand for the products of a business subject to acquisition or tie-up, or manufacture and sell said products; a failure to continue the Group's present operations; a failure to retain personnel with superior capabilities at an acquired business or maintain the motivation of its employees; a failure to apply the Group's internal control system to an acquired business; a failure to build an effective brand and product portfolio; a failure to link sales and market strategies of different product lines; or a dispersal of management's attention from the Group's present operations.

Also, as a result of the acquisitions, the Group has recorded a substantial amount of goodwill and intangible assets in the consolidated statements of financial position, and the amounts of goodwill and intangible assets account for 35.9% (¥2,616.4 billion) and 2.8% (¥207.0 billion) of the consolidated total assets, respectively, as of the end of the current fiscal year. The Group believes that the abovementioned goodwill and intangible assets appropriately reflect the future profitability that will result from the unleashing of synergy effects of each business value and integration; however, if it is determined that this expected outcome does not materialize as a result of factors such as changes in the business environment or competitive forces, or if the discount rate applied becomes higher, the Group may incur an impairment loss that negatively impacts the Group's performance.

When carrying out acquisitions, capital movements, business tie-ups and cooperative arrangements with other companies to expand its business, the Group utilizes timely and appropriate external knowledge and evaluations, and makes decisions using the Board of Directors, etc. upon deliberations with related top management regarding the appropriateness of acquisition costs, contract conditions, etc. In addition, after acquisition, the Group incorporates the status of the acquired company's business operations into each business's Business Plan and regularly monitors such status, and takes actions, such as following up and understanding signs of impairment, to maximally realize synergy.

The Group views the role of the Pharmaceutical Business and the Processed Food Business in the Group as that of supplementing sustainable profit growth over the mid- to long-term, and believes that also in the future these businesses will make a stable and even larger profit contribution. However, although the Group plans to continue to invest in these businesses, this investment is not guaranteed to generate the returns that the Group anticipates.

c. Effects of foreign exchange and interest rate fluctuations

The Company reports its consolidated financial statements indicating all figures in yen; however, overseas Group companies report their financial statements in other currencies such as Russian ruble, euro, British pound, Taiwanese dollar, US dollar, and Swiss franc. Accordingly, the results, assets, and liabilities of overseas Group companies are converted into yen when the consolidated financial statements of the Company are prepared and indicated in yen therein. As a result, those figures are affected by fluctuations from the currency used by overseas Group companies in their accounts settlement against the yen. The Group's overseas businesses account for more than half of revenue and adjusted operating profit, and foreign exchange fluctuations may have a significant effect on the consolidated financial statements.

JT International Holding B.V. (hereinafter referred to as "JTIH"), which is responsible for consolidating the financial results of the Group's tobacco business outside Japan, uses the US dollar for its financial reporting. However, JTIH does business through consolidated subsidiaries and affiliates around the world, some of which use foreign currencies other than the US dollar. This means that the Group's consolidated results are affected not only by exchange rate fluctuations between the Japanese yen and the US dollar but also by those between

the US dollar and other foreign currencies used by the consolidated subsidiaries and affiliates of JTIH for their financial reporting.

In addition, any liquidation, sale or significant drop in the value of a foreign Group company whose foreign currency denominated stock was acquired by the Company will result in the recording of an investment loss with respect to said company in the consolidated financial statements of the Company and this loss will be affected by the exchange rate fluctuation between the yen and the foreign currency that was used to acquire said stock.

Furthermore, most of the Group's international transactions are subject to the effects of foreign currency exchange rates. As an example of this risk, in the tobacco business, the Group uses foreign-grown leaf tobacco. While this leaf tobacco is procured to some degree in US dollars, the tobacco products that contain it are sold in the local currencies of various countries. Therefore, should the US dollar appreciated against these various local currencies, this may have a negative effect on profitability at the Group.

Furthermore, the Group holds financial assets, such as bank deposits and government bonds, and financial liabilities, such as bank loans and bonds. The fluctuation of interest rates pertaining to these assets and liabilities may affect the performance and financial position of the Group as these fluctuations affect the variance of interest income and interest expense and the price of financial assets and financial liabilities.

In addition, the Group's business performance and financial position may be affected in the event that the amount of plan assets, amount of retirement benefit obligations, etc. of the Group fluctuate due to the fluctuation of foreign exchange markets or interest rate levels.

The Group formulates and implements a foreign exchange hedge policy and an interest rate hedging policy, taking into consideration the current condition of the foreign exchange market and interest rates in a comprehensive manner, and the results are regularly reported by division with responsibility for financial matters to the President and the Board of Directors of the Company.

d. Natural disasters and other contingency situations

The Group has expanded its business in various countries and regions in the world, and is working to further strengthen and expand its global business base in the tobacco business in particular. Recently, natural disasters such as earthquakes, tsunamis, typhoons or floods, or infectious disease, have occurred in Japan and overseas. Future large-scale natural disasters or human-made disasters such as suspension of infrastructure, political instability, fires and bombings, spread of infectious diseases, or other such unforeseen emergencies, may negatively affect the Group's business performance. Such effects may be caused by supply shortages from damage to suppliers; disruptions to traffic, logistics services or sales channels; suspension of utilities such as electric or water; declines in demand; employees suffering damage in a disaster; or stoppages of product supply due to logistics disruption.

The Group prepares against the occurrence of natural disasters and unforeseen circumstances, and carries out initiatives to increase employee's disaster prevention awareness, such as continuously gathering and sharing crisis management-related information during the quiet period in addition to the introduction of a safety confirmation system that confirms the safety of employees and their families, and disaster prevention training. Furthermore, in order to keep losses from damage to a minimum, the Group insures key assets, such as buildings, machinery, equipment and inventory, with casualty insurance as appropriate. In addition, in the event of natural disasters or other contingency situations occurring, the Group will review the Business Continuity Plan and revise it if necessary, and swiftly and flexibly respond so that it can carry out its Business Continuity Plan based on appropriate information gathering and the assessment of the situation.

e. Climate change

The Group has formulated the JT Group Sustainability Targets encompassing specific targets and initiatives linked to its materiality identified with respect to its business and wide range of stakeholders based on the 4S model, its management principle, and the JT Group Purpose.

Based on its recognition that climate change associated with global warming constitutes a key challenge that may affect business and society at large, the Group has set targets related to climate change under "Living with the Planet" in the Group Materiality. The Group also has identified risks and opportunities relating to climate change by conducting climate change scenario analysis based on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). According to this analysis, an increase of the carbon tax burden,

etc. as transition risks and changes to the habitat of tobacco leaves due to the intensification of climate change, etc. as physical risks may negatively affect the Group's business performance.

To fulfill its social responsibility towards constructing decarbonized society, the Group aims to achieve net-zero GHG emissions across its entire value chain by 2050, and it has been making progress in carrying out initiatives that include reducing fossil fuel consumption, transitioning to non-fossil fuels, and making greater use of renewable electricity. The Group has also been engaging in initiatives to secure stable procurement of leaf tobacco by developing leaf tobacco varieties and improving cultivation systems taking into account factors such as changes in crop growth conditions. The Group will put in place a system in order to enable it to more accurately grasp, and create appropriate responses to the way that climate change affects its business, reflect it in the business strategy and further promote appropriate information disclosure.

f. Country risk

The Group has expanded its business in various countries and regions in the world. Geographical expansion increases exposure to country risks, such as a change in the political environment, a change in the economic conditions, a change in the social environment, a change in the legal system, or the occurrence of riots, terrorism or war. If materialized, these risks could negatively affect the Group's business performances due to blockage to supply chains or distribution networks, damage to assets or facilities, or difficulties in allocation of personnel or sales management.

Furthermore, the Group conducts business in countries that are subject to economic sanctions. Although the Group manages its business operations appropriately and lawfully in accordance with these various economic sanctions, if it is acknowledged that the Group has violated the sanctions, the Group would be at risk of being subject to large monetary penalties or other such consequences. Also, if there is a development such as a change in the details of the sanctions, this may negatively affect the Group's business performances by, for example, making the Group unable to continue operating in the countries subject to the sanctions. Even if the Group obeys the sanctions, simply operating in the countries subject to the sanctions may have a detrimental effect on the public image of the Group.

In the Russian market, the Group is fully committed to complying with all applicable sanctions, regulations, etc. while continuing business operations. In parallel, given the continued challenging and complex environment, we continue to evaluate various options, including the potential transfer of ownership of our Russian tobacco business. As this moment, the Company is unable to reasonably estimate the outlook and the impact on financial results.

The Group gathers and monitors information pertaining to country risk in each country and region in which it has expanded its business, and works for stable business operations while ascertaining geopolitical factors. Furthermore, by strengthening and expanding its global business base and securing multiple markets that can continuously generate profits, the Group is working to minimize the negative effects on the Group's business performance in the event that country risks are realized in specific markets.

g. Changes in consumer preferences and behaviors

Uncertainties in the business environment in which the Group operates, such as the contraction of the global economy and a slowdown in economic growth, continue to increase. Within this, the Group recognizes that continuing to provide new value and satisfaction to consumers for continuous profit growth is important, and is working to enhance product and service added value based on changes in consumer preferences and behaviors. However, in the event that consumer preferences and behaviors change due to a deterioration of the economy, etc. and the Group is unable to appropriately respond, the Group's business performance could be negatively affected due to factors such as consumers in existing businesses leaving and the loss of opportunities for growth.

In order to continue to provide new value and satisfaction to consumers, the Group identifies consumer preferences by analyzing market trends and carrying out qualitative and quantitative consumer surveys, and works to realize high value-added products that conform to consumers' preferences such as by improving existing products and developing new products. For example, in the tobacco business, the Group has improved existing RRP products by increasing the convenience sought by consumers and developed new products, and has secured high-quality products, such as combustibles^(Note), and set appropriate prices.

In the Processed Food Business, the Group is developing products that take health into consideration due to increasing health consciousness recently.

Note: Combustibles include all tobacco products excluding contract manufactured products, waterpipe, HTP, oral and E-Vapor.

h. Competition with rival companies

The Group is a global company operating the Tobacco Business, the Pharmaceutical Business and the Processed Food Business. It rigorously competes with rival companies engaged in any of these businesses, and going forward, competition may further intensify.

In the tobacco business, the Group expanded its business by building on its self-sustaining growth and by acquiring the RJR Nabisco Inc.'s non-U.S. tobacco business and Gallaher Group Plc. As a result, its competitive relationships with global players operating tobacco business such as Phillip Morris International Inc. and British American Tobacco Plc. as well as strong firms operating in localized markets are observed.

In the Pharmaceutical Business, the Group competes with numerous companies, not only those in Japan, but also global companies, including large pharmaceutical companies and start-up companies. In the Processed Food Business, the Group is starting to see segregation of competition within the industry according to the product categories these competitors respectively own. The Company's subsidiary, TableMark Co., Ltd., is competing against major players like Maruha Nichiro, Nichirei Foods, Ajinomoto Frozen Foods and Nissui as well as a multitude of mid- or small-scale producers.

Each business and market share fluctuates under multiple factors including competition, regulations, pricing strategies, changing consumer preferences and behaviors, heightened societal interest in health issues, brand strengths and economic conditions occurring in different markets not to mention short-term fluctuations caused by temporary factors such as the introduction of new products by the Group and other companies and the special promotional activities effected for them. A lower market share or decreased competitiveness due to these factors may negatively affect the Group's business performance.

In this competition with rival companies, the Group assumes that it will continue to provide new value and satisfaction to consumers in order to realize continuous profit growth. To that end, the Group provides products that match the changes in consumer preferences and behaviors, optimizes its product portfolio, reinforces the trade marketing capabilities and carries out effective promotional activities, and constantly considers and implements measures such as further increasing cost efficiency and securing multiple markets that can continuously generate profits.

i. Instability in raw material procurement and transport costs

The Group has a global manufacturing footprint, and procures various types of raw materials from Japan and various countries around the world. The status and costs of procurement are affected by factors such as weather and other natural phenomena, impacts on supply chains due to rising country risks, the balance between supply and demand, and exchange fluctuations. Furthermore, there is the risk that increases in transport costs will be further exacerbated going forward due to increasing personnel expenses in the logistics industry, which are caused by labor shortages, and rising crude oil prices. In the event that the Group is unable to stably secure the necessary amount of raw materials, or in the event that raw material procurement costs and costs to transport products rise, the Group's business performance may be negatively affected due to being unable to guarantee the stable supply of products and other factors.

In order to reduce the risks associated with these raw material procurement costs and transport costs becoming unstable, the Group prepares for unforeseen circumstances and secures multiple suppliers. Furthermore, the Group continuously monitors raw material prices, and efficiently uses raw materials, such as by reviewing product specifications as appropriate, upon confirming manufacturing processes and quality. Similarly, the Group continuously monitors crude oil prices and trends in the logistics industry, and reviews transport methods and streamlines them as appropriate. In addition, by reinforcing its relationship with suppliers, the Group increases its procurement abilities for key raw materials, and carries out the necessary response, such as working to improve the internal sourcing ratio for the procurement of tobacco leaves.

j. Supply chain risks

The Group has established a sustainability strategy underpinned by its materiality identified with respect to its business and wide range of stakeholders based on the 4S model, its management principle, and the JT Group Purpose. The Group has identified "responsible supply chain management" in the Group's materiality, underpinned by its awareness that appropriately maintaining and managing the supply chain is a significant matter for the continuation of its business activities. In various countries and regions in the world where the Group has expanded its business, it collaborates with stakeholders, such as suppliers, and works on

procurement activities that take the environment and society into consideration. However, in the event that environmental or human rights issues occur or laws and regulations are violated in the supply chain, the Group's business performance could be negatively affected due to factors such as the impairment or decline of public trust in the Group.

Based on the JT Group Supplier Standards, the Group is working to establish a sustainable supply chain, such as by carrying out initiatives to introduce supplier screening in accordance with the evaluated ESG items and monitoring them regularly, and understanding potential risks related to compliance, human rights, the environment and occupational safety and health. Agricultural Labor Practices (ALP) were formulated in the tobacco business based on "tackling child labor," "respecting worker rights" and "ensuring workplace health and safety," which work to maintain and manage the tobacco leaf supply chain.

k. Litigation

Some of the Company's subsidiaries are defendant in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or E-vapor products, or exposure to tobacco smoke. As of the fiscal year end date, there were smoking/vaping and health-related cases pending in which some of the Company's subsidiaries were named as defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s non-U.S. tobacco business. In addition, the Company and/or some of its subsidiaries are also a defendant in lawsuits other than the smoking/vaping and health-related cases.

The Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the Group and payment of substantial amount of monetary compensation could materially affect its business performance. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations and prompt the filing of a number of similar lawsuits against the Group, forcing it to bear litigation costs and materially affecting its business performance. Apart from smoking/vaping and health-related ones, the Group also may become the defendant in further litigation. Should any problems arise on the Group's product quality, this may lead to claims seeking profit liability. Such litigation cases may negatively affect the Group's business performance or manufacture, sale, and import and export of its products, should the outcome of any such claims prove unfavorable.

The Group has prepared a system in order to deeply cooperate internally and externally where the Group responds to litigation cases pertaining to the Group in a timely and appropriate manner by quickly understanding the information regarding the case, sharing information to management and relevant departments, coordinating with an outside lawyer if necessary and considering policies to deal with the situation going forward.

Regarding major litigation cases to which the Group is a party, please refer to "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 38. Contingencies."

l. Difficulty in maintaining human resource competitiveness

Whereas the Group engages in various initiatives in seeking to attract talented people with top priority assigned to a diverse workforce going forward, if the Group could not sufficiently fulfill such needs as retaining human resources due to the negative social image placed on tobacco business or other such circumstances, future business operations may become difficult, thus having a negative impact on the Group's business performance.

The Group strongly believes that the quality of human resources is the key to business activity and performance. Furthermore, as the Group has adopted the "Human Resources Management Philosophy" based on the belief that a diversified employee base is a major factor of its competitiveness, the Group seeks to attract talented people worldwide, and further strengthen development and retention.

Specifically, the Group sets attractive and competitive remuneration levels, which involves establishing benchmarks specific to each region and business. Moreover, the Group is enhancing its discussion process for ensuring an environment conducive to enabling individuals to form careers aligned with their aspirations and preferences. In addition to recruitment for career-track positions whereby career paths of employees are determined based on their experience across a wide range of fields, the Group also hires people for specific job categories beginning with the stage of initial corporate employment, and engages in career recruitment carried out on the basis of job assignments.

Furthermore, the Group works to develop human resources by providing growth opportunities to all employees of the Group, such as by carrying out training applicable to all employees, including executives, which provides them with the necessary skills for their individual careers. At the same time, the Group maintains and improves a motivating work environment, which includes the promotion of diversity, provides a fair nomination and compensation system and operates fairly, and establishes systems and a corporate culture that respects diversity.

m. Infringement of intellectual property rights

In order to achieve “quality top-line growth,” the Group utilizes various intellectual properties, enhances product and service added value and actively acquires the rights to these intellectual properties. Under such circumstances, if an outside party infringes the Group’s intellectual property rights, the Group’s technology and brands may not be sufficiently protected, which in turn could lead to negative effects on the Group’s business strategies and financial position. Or, if it is acknowledged that the Group’s products and services have infringed on the intellectual property rights of an outside party, the Group may risk having to pay compensation for damages, or becoming unable to provide the products and services, which could negatively affect the Group’s business strategies and the financial position.

In order to avoid the risk of infringement of the Group’s intellectual property rights by an outside party, the Group prepares measures to acquire the rights of intellectual properties and appropriately manage its intellectual property rights. Furthermore, in order to prevent the infringement of the intellectual property rights of an outside party before it occurs, the Group responds timely and appropriately, such as by investigating and monitoring the status of intellectual property rights.

n. Environmental regulations

The Group carries out research and development and production, the processes of which are subject to a wide variety of legal restraints in various countries and regions in the world related to environmental protection with respect to hazardous substances, waste and other effects. In the future, if environmental pollution or a similar problem occurs as a result of the Group’s business activities, or if environmental regulations are introduced or existing ones are changed, the Group’s business performance may be negatively affected due to factors such as being liable for damages for environmental pollution, the decline of corporate reputation, the incurring of additional expenses for capital expenditures, etc. to respond to regulations or restrictions on existing business activities.

In order to prevent environmental pollution, the Group continuously monitors the establishment and revision of environment-related laws and regulations, thoroughly observes environment-related laws and regulations, such as by making them well known to relevant departments, and appropriately responds as necessary. For example, the Group confirms the status of compliance with environment-related laws and regulations annually with internal audits in accordance with ISO 14001, primarily at manufacturing facilities. In addition, the Group establishes an even stronger environmental management system by being audited by an outside agency once every three years.

Furthermore, the Operational Review and Business Assurance Division of the Company and the auditing divisions of the Group companies in Japan perform environmental audits, and make evaluations from an objective viewpoint. The results of these audits are reported to management and shared with relevant departments, which leads to the improvement of the Group’s overall environmental management system.

o. Information security

In the operation of business, the Group utilizes various types of information technology to efficiently perform business and operations. To that end, in the event that damage to systems, or leaks of confidential information occur as a result of unforeseen circumstances, such as attacks by illicit access or computer viruses to the Group and suppliers, or disasters, the business performance of the Group may be negatively affected due to temporary suspension of information systems, the decline of public trust, the loss of competitive advantage and the bearing of expenses to appropriately respond to these events.

The Group has clarified its position on initiatives for information security, put in place a variety of rules in relation to information security in order to comprehensively and continuously promote information security measures, and works to protect and manage information assets, such as the systems and data owned by the Group, in an appropriate manner. Furthermore, the Group works to reinforce information security from the aspect of both hardware and software. In regard to hardware, the Group continuously carries out technological

and operational inspections and improvements related to security for key systems including requests to suppliers. In regard to software, the Group works to educate employees on security, such as by carrying out information security e-learning that is applicable to all employees.

(2) Risks Relating to the Group Businesses

Risks relating to the Tobacco Business

a. Decreasing tobacco demand

Demand could also decrease depending on the economic conditions, other societal conditions, trends in regulations, price rises, tax increases and other factors, although the trends in demand will vary from region to region. Should demand decrease, sales volume may decrease, and this may negatively affect the Group's business performance.

The Group strives to provide products that can capture changes in consumer preferences and behaviors and optimize our product portfolio. While pursuing self-sustaining growth by adopting a balanced approach to investing in markets in which it already has a strong base, as well as in markets with high growth potential, the Group takes the view that searching for and exploiting growth opportunities through the acquisition of external resources is also a valuable strategic option, and it is working to secure positions in multiple markets capable of generating continuous profit, rather than in just one specific market. With regard to issues such as tax increases and strengthened smoking regulations, the Group is implementing measures such as gathering information on regulatory trends with greater speed and accuracy, actively cooperating in policymaking that leads to fair and balanced regulation by engaging in constructive dialogue with government-affiliated participants (including regulators) and other stakeholders, setting prices appropriately so as to minimize the impact of higher taxation, and pursuing further cost efficiency.

b. Taxes levied on tobacco

In countries around the world, governments are discussing increases in tobacco excise taxes to secure public finances and promote public health, and are actually raising taxes in some cases. Some countries are also implementing increases in taxes such as consumption tax or value-added tax (VAT) with the aim of improving public finances.

It is difficult to predict changes in the types of taxes or tax rates imposed on tobacco products in various countries, and if tax hikes are implemented at an unexpected timing, frequency or rate of increase, or in a region where tax hikes were not anticipated, the Group may be unable to react to such tax hikes promptly and appropriately.

Increases in tobacco taxes may, if accompanied by a hike in retail prices, push down demand, move consumers toward lower priced brands, or cause or increase illicit trade such as smuggling and counterfeiting. On the other hand, if there is no retail price hike, such tax increases may cause the earnings structure of the tobacco business to deteriorate. As such, either case may negatively affect the Group's business performance.

The Group is implementing measures such as offering products that match the changing preferences and behaviors of consumers, optimizing its product portfolio, securing positions in multiple markets capable of generating continuous profit rather than in just one specific market, gathering information on trends pertaining to tax increases with greater speed and accuracy, engaging in constructive dialogue with governments and regulators, setting prices appropriately so as to minimize the impact of higher taxation, and pursuing further cost efficiency.

c. Regulations on tobacco products

- Situation overseas

The regulatory environment for tobacco is getting stricter year by year, in the wake of the Framework Convention on Tobacco Control (FCTC), which came into force in February 2005.

The purpose of the FCTC is to control continuously and substantively the proliferation of smoking. Its provisions include price and tax measures; non-price measures to reduce demand (including protection from passive smoking, testing and measuring the contents and emissions of tobacco products and their information disclosure, product packaging and labeling, regulations on tobacco advertising, promotion and sponsorship),

and measures related to the reduction of tobacco supply (including prevention of illicit trade and prohibition of sale of tobacco products to minors). The Japanese government ratified the framework in June 2004.

All Parties to the FCTC are obligated to develop, implement, periodically update and review strategies, plans and programs for tobacco control. However, each party, has a right to determine the content, scope and specific implementation method of their own tobacco control. After coming into force, the Parties of FCTC continue their discussions through regularly holding the Conferences of the Parties (COP) in order to develop the protocols (for which additional ratification, acceptance, accession and other are required to the FCTC Parties) and guidelines in view of implementation of each FCTC provision.

Specific regulations are also undertaken in each country. For example, Russia, a main market of the Group, enacted the comprehensive tobacco control law in February 2013 and has gradually been implementing it since June 2013. The law includes a retail display ban; restrictions on sales of tobacco products in certain retail stores; a ban on advertising, sponsorship and promotions; the introduction of minimal pricing; a ban on smoking in public places; and anti-illicit trade measures.

In addition, the EU revised the EU Tobacco Product Directive (EU TPD) announced in July 2001 and it entered into force in May 2014. The revised Directive includes the tightening of packaging and labeling regulations; restrictions on the use of additives including menthol for cigarettes and Fine Cut; restrictions on tobacco product flavors; regulations related to electronic cigarettes; and anti-illicit trade measures. Each member state has introduced their national regulations based on the revised Directive. In November 2022, a decision was also made to apply restrictions on tobacco product flavors, etc., which had been applied to some tobacco products up until now, to HTP, and looking forward, for HTS new restrictions are expected to be introduced in each country.

Furthermore, the Australian government introduced plain packaging in December 2012, which prohibits displaying logos, brand images or promotional text on tobacco packages. The regulation only allows product names to be displayed in the prescribed color, font, font size and font color. Various countries including France, the U.K. have also introduced and legislated similar regulations, while other countries have been discussing or determining its implementation.

For example, there are signs of increasing regulations on electronic cigarettes, such as the introduction of regulations banning the sale of some flavored electronic cigarettes by the U.S. federal government.

Although it is difficult to accurately predict the content of future laws and regulations relating to sales activities, marketing, packaging and labeling, tobacco products and smoking, the Group expects various regulations, including those like the ones above, to spread across Japan and other countries.

- Situation in Japan

The Tobacco Business Act, related acts and statutes and voluntary standards set forth the regulations for the sale and promotion activities of tobacco products in Japan that include the indication of warning labels on tobacco product advertisements and packages that urge caution over the relationship between the consumption of tobacco products and health.

In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised including the wording of the cautions over the relationship between the consumption of tobacco products and health indicated on tobacco product packages and, starting July 2005, all tobacco products sold in Japan have been in conformity to the revised regulations. In addition, the Japanese Minister of Finance has indicated a “Guideline for Advertising of Tobacco Products” (hereinafter, “Advertising Guideline”) based on the Tobacco Business Act, Article 39 (warning labels) and Article 40 (recommendations, etc. relating to advertising). The Advertising Guideline was revised in March 2004 in accordance with the revision of the Ordinance for Enforcement of the Tobacco Business Act mentioned above (for details, see (3) c. (i), Notes 2 and 3 below).

The Tobacco Institute of Japan (TIOJ) has established voluntary standards regarding the advertising and sales promotion activities for tobacco products. We comply with these standards together with all other TIOJ members. In February 2016 under the Financial System Council tobacco business subcommittee meeting, a new labeling sub-committee was established, which performed a specialized investigation in relation to means of the Advertising Guideline. The labeling sub-committee reported the results of its investigation to the tobacco business subcommittee in June 2016, and as a result of further discussions conducted within the tobacco business subcommittee, “Review of Warning Labels Regulations / Advertising Regulations” was published on December 28, 2018. Based on the aforementioned review and a promulgation of a partial amendment of the Ordinance for Enforcement of the Tobacco Business Act; the Advertising Guideline; and Related Notices of the Tobacco Business Act on June 14, 2019, the Tobacco Institute of Japan revised the voluntary standards on the same day (for details of the amendment of the Ordinance for Enforcement of the Tobacco Business Act and the Advertising Guideline, see (3) c. (i), Notes 4 and 5 below). There are four criteria in this revision: the revision

of standards for tobacco products; establishment of new rules for HTP; establishment of new rules for HTP devices; and establishment of new rules for business activity relating to tobacco and television advertising to advocate the improvement of smoking manners.

With regard to the caution on tobacco product packages, the revision required (a) caution statement changes on tobacco product packages by July 1, 2020 and (b) more restrictive advertisement measures for tobacco products. The changes in (a) included wording revision, which reflects the latest scientific knowledge, and increasing the area of the statements at least 50% on the surface. With regard to (b), the measures included more effective ways to prevent minors' access to internet advertisements and new restrictions on the size and presentation methods for point-of-sale advertising.

The enactment of the Partial Amendment of the Health Promotion Act (Act No. 78 of July 25, 2018) (hereinafter, the "Act") in July 2018 strengthened measures to prevent unwanted passive smoking at facilities used by numerous people. The Act classifies the facilities into three types in terms of measures to take: Facility Type 1 includes schools, hospitals and administrative agencies; Facility Type 2 includes restaurants, offices, factories and any other facilities that do not fall under Facility Type 1 or facilities whose main purpose is not for smoking; and other facilities that do not fall in Facility Type 1 or 2 whose main purpose is to provide a place for smoking (includes public smoking areas, bars that are mainly for smoking, and tobacco retailers where on-premise smoking is allowed). Facility Type 1 prohibits smoking within its site but allows designated outdoor smoking areas if they meet all of the requirements. Facility Type 2 prohibits indoor smoking but allows designated smoking rooms, etc. after meeting certain criteria. Additionally, a restaurant can allow indoor smoking once it meets certain requirements. Facilities whose main purpose is to provide a place for smoking allow smoking within their sites. The Act was enacted fully on April 1, 2020, and the Group recognizes that the number of smoking places will diminish as a result. The Group forecasts a certain level of impact on its business performance while it is difficult to predict the anticipated changes in smoking environment.

- Impact on the Group's business performance

Although it is impossible to predict the content of future laws, regulations and industry guidelines relating to sales activities, marketing, packaging and labeling, tobacco products and smoking, the Group expects regulations like the above and new regulations (including those of local governments) to diffuse in countries where the Group sells its tobacco products.

The Group's position is to support any regulation relating to tobacco that is appropriate and reasonable. Nevertheless, if regulations such as those mentioned above are tightened, or if the Group is unable to respond to this tightening of regulations in a timely and appropriate manner, subsequent declines in tobacco demand or market share, costs for compliance with new regulations or other factors may negatively affect the Group's business performance. In the tobacco business, the Group is implementing measures such as gathering information on regulatory trends with greater speed and accuracy, and engaging in constructive dialogue with governments, regulators, and various stakeholders.

d. Illicit trade such as smuggling and counterfeiting

One of the most serious issues in the tobacco industry is the increase of illicit trade, including smuggling and counterfeit product distribution. Motivations for illicit trade are believed to include the high profit margin of tobacco products and cross-border price gaps arising from different taxation systems and tax levels among countries. As historical evidence shows, illicit trade in a market tends to increase after a steep tax increase.

Illicitly traded products not only significantly damage the credibility of brands and the companies that own those brands, but also negatively affect governments' tax revenues. Therefore, the Group and other tobacco companies are working together with governments to eliminate illicit trade.

The Group is making efforts towards countermeasures, such as by concluding cooperation agreements to counter illicit trade with the governments and all its provinces and territories. Even so, growth in illicit trade such as smuggling and counterfeiting of tobacco products may negatively affect the Group's business performance because of consequences including damage to its brand equity or the need for substantial expenses for countermeasures and the like to eliminate illicit trade. In order to protect consumers and society, as well as the business and the reputation of the Group, the Group has formed an Anti-Illicit Trade team that works to prevent illicit trade. The Anti-Illicit Trade team works with the Group's various markets to prevent genuine products being diverted into illegal channels, and cooperates with law enforcement to remove illegal tobacco products from the marketplace. Making use of public-private partnerships, the team maintains proactive

dialogues with governments and law enforcement authorities in various countries in relation to the threat posed by illicit trade, and has established programs around the world to educate law enforcement on how to recognize counterfeit products.

The Group also deploys and operates a Track and Trace system for tobacco products, enabling it to track and analyze the movement of products through the supply chain. For more than a decade, this Track and Trace system has played an important role in its compliance policy, and although it was at first a voluntary initiative, legislation has recently been drawn up to make such Track and Trace systems mandatory in some countries. In addition to systems already deployed in the United Arab Emirates, Saudi Arabia and Russia, etc., an EU directive for the first regional-level tobacco products Track and Trace system applicable to all member states came into force in May 2019.

Furthermore, in accordance with its rigorous compliance policy, the Group implements measures to prevent illicit trade, such as by dealing only with reputable business partners, and raising awareness among consumers of the negative impact of purchasing unregulated products.

Risks relating to the Pharmaceutical Business

a. Research and development, manufacture and sale of pharmaceutical products

The Pharmaceutical Business engages in research and development so as to swiftly provide original and revolutionary new drugs to patients around the world. New drug development requires the Group to invest enormous amounts of time and money, and the hurdles to discovering new drugs become higher every year. In some cases, development is delayed or canceled when the anticipated results in terms of efficacy and safety cannot be confirmed during development or when unexpected side effects occur during development. Such cases may have a negative impact on the performance of the Group by failing to achieve the expected investment returns, or by delaying said returns, amongst other effects.

In addition, although the pharmaceuticals thus developed undergo stringent examinations before being approved by the governmental agencies with jurisdiction in various countries around the world, if unexpected side effects and the like are discovered after the product goes on sale that subsequently develop into a suspension of sales or a product recall, such a situation could negatively impact the performance of the Group by causing a decline in revenue, the occurrence of expenses related to the suspension of sales or product recall, or the decline of public trust in the Group.

The Pharmaceutical Business maximizes effective use of its resources by focusing on fields of treatment where it can leverage the small-molecule drug knowledge and platform that it has built up over the years, and is also working to shorten research and development time, and reduce R&D costs, by utilizing AI and data science to improve the efficiency of drug discovery research. Furthermore, through collaborative initiatives with companies and academic institutions in Japan and overseas aimed at establishing proprietary drug discovery technology, the Pharmaceutical Business seeks to construct a stable earnings base by accelerating R&D, raising the hit rate for drugs discovered, and broadening the pipeline by actively licensing and adopting new compounds.

With regard to side effects, the Pharmaceutical Business collects and evaluates safety information after pharmaceutical products are launched, and takes other measures necessary to ensure the safety and appropriate use of its pharmaceutical products.

b. Regulation and healthcare policy

The Pharmaceutical Business operates under regulations, imposed by the policies of various countries, that seek to ensure the quality, effectiveness and safety of pharmaceutical products. The environment in which the pharmaceutical industry operates is expected to remain challenging, due to such factors as attempts by various governments to control healthcare costs, and the drastic reform of the drug pricing system in Japan. In the event that pharmaceutical regulations are made more stringent, the Group may incur additional costs to ensure that products comply with strengthened rules. In the event of drug prices being lower than expected as a result of trends in healthcare systems or regulatory policies, including reform of drug price standards, Group revenue may decline. In either case there would be negative effects on the performance of the Group.

The Pharmaceutical Business is working on other appropriate measures to deal with these issues, in addition to following pharmaceutical regulations and drug price standards, such as continuous monitoring of regulatory trends to get a grasp of the details of amendments at an early stage. With regard to drug prices, in addition to

continuously creating innovative products, the Pharmaceutical Business is putting together the evidence that demonstrates the scientific basis for the value they provide.

c. Dependency on specific licensees/contract manufacturers

The Group's Pharmaceutical Business has been striving to make stable profit contribution to the Group through the promotion of R&D on next-generation strategic products and by maximizing the value of each product. With regard to research and development, the Group is further broadening pre-clinical research themes as well as constructing a high-precision research strategy that emphasizes "first in class" discoveries. Its aim is to use these to drive forward R&D for next-generation strategic products, while implementing initiatives at the perfect time to maximize the value of licensing activities for proprietary compounds, and cooperating closely with licensing partners. In addition, manufacture of each product is contracted to external manufacturers, and the Group seeks to maintain close relationships with these companies. In the event that agreements with these contract manufacturers are changed or terminated, or in the event that the partnership suffers from delays or congestion, the returns expected at the point at which the agreement was concluded may not be achieved, or returns may be delayed, with a resulting negative impact on the performance of the Group.

When considering a partnership, the Pharmaceutical Business makes a judgment as to whether to approve or reject based on a multilateral analysis and evaluation. When concluding an agreement, it anticipates risks that could emerge, and engages in discussions to form a consensus on how to mitigate them. In addition, even during a partnership it seeks to enhance the quality of the relationship by working continuously to maintain and develop it further.

Risks relating to the Processed Food Business

a. Food safety and quality

The mission of the Processed Food Business is to provide consumers with safe and high-quality food. The frozen and ambient foods business and the seasonings business that make up the two core operations are each responsible for food safety control functions, and take all possible measures to ensure food safety control during the operation of the business. However, in the event that problems related to food safety or quality occur that exceed those anticipated by the Group, in addition to a decline or impairment of public trust in the Group, costs related to product recalls and demands for compensatory damages may be incurred, which could negatively impact performance.

In addition to conducting continuous quality assurance activities aimed at providing safe and secure products from the four perspectives of food safety, food defense, food quality, and food communication, the Processed Food Business confirms their effectiveness through periodic audits. With the objective of constructing a management system platform to achieve the highest levels of food safety, the Company has drawn up policies, rules and guidelines related to food safety control for the Processed Food Business as a whole, and monitors the initiatives of each operating company in their operation. In addition, excluding one factory that began operations in fiscal 2020, all of the Group's factories inside and outside Japan, as well as the Group's business partners' factories that produce frozen foods, have achieved certification under the ISO 22000 or FSSC 22000 international standards for food safety management. The one remaining factory is currently in the process of obtaining certification for both ISO 22000 and FSSC 22000.

b. Food regulations

The Processed Food Business is subject to a variety of legal restrictions, such as the Food Safety Basic Act, the Food Sanitation Act, and the Food Labeling Act. The mission of the Processed Food Business is to provide consumers with safe and high-quality food, and the Group operates a thorough program of compliance to ensure conformity with all these legal restrictions. However, in the event that legal restrictions are introduced or changed, additional costs may be incurred to comply with these regulations, or existing business activities may be restricted, leading to a negative impact on the Group's business performance.

In addition to conducting advance preparations by continuously monitoring for regulatory introductions and amendments, gathering information as appropriate, and considering additional countermeasures, the Processed Food Business responds to circumstances as required.

(3) Other Factors Which May Materially Affect Investment Decisions

a. Relations with the Japanese government and the Minister of Finance

The JT Act obligates the government to continue to hold more than one-third of all the Company's shares issued. As of December 31, 2023, the government held 33.35% of all the Company's shares issued. As a consequence, the Japanese government is able to have a substantial influence on proposals for ordinary resolutions at the Company's General Meetings of Shareholders such as the election of Members of the Board. Furthermore, the Japanese government has the veto power for special resolutions for such actions as mergers, capital reductions or amendments to the Articles of Incorporation.

In addition, the Minister of Finance has the authority to supervise the Company under the JT Act and Tobacco Business Act. Under the JT Act, the scope of the Company's businesses includes the "manufacture, sale and importation of tobacco products and ancillary businesses, as well as businesses required for attaining the objective of the Company," and "business required for attaining the objective of the Company" are subject to the Minister of Finance's approval. Consequently, the Minister of Finance's approval is required in order for the Company to engage in new businesses outside the scope of currently approved businesses (for details, see c. (ii) below).

As mentioned above, in addition to the Japanese government's rights as a shareholder of the Company, the government has the authority to supervise the Company and other powers under the JT Act and Tobacco Business Act. Since it cannot be guaranteed that the interests of the government will always coincide with the interests of other shareholders, this may have a negative effect on the interests of other shareholders.

Under the "Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake," which was promulgated on December 2, 2011, the government makes it a principle to secure revenue to fund reconstruction resources until the fiscal year ended March 31, 2023. To this end, it is required for an examination to be made of the feasibility of selling the Company's shares by reassessing the framework under which the government holds the shares, while taking into consideration the framework of the country's commitment to tobacco-related business based on the Tobacco Business Act and the like.

b. Purchasing of leaf tobacco

The Tobacco Business Act requires the Company to annually enter into purchase contracts with tobacco growers regarding the aggregate cultivation area for specific varieties of leaf tobacco and the prices for leaf tobacco by variety and grade. The Company must purchase all leaf tobacco produced pursuant to such contracts, except for any not suited for the manufacture of tobacco products. When the Company decides the aggregate cultivation area and the prices of leaf tobacco for its contracts with tobacco growers, it is required to respect the opinion of the Leaf Tobacco Council (hatabako shingi kai), which consists of members appointed by the Company with the approval of the Ministry of Finance from among the representatives of domestic leaf tobacco growers and academic appointees (for details, see c. (i) below). Much like many other agricultural products in Japan, production costs for domestically grown leaf tobacco is higher than those of foreign-grown leaf tobacco to the extent that the purchasing price for the former (before redrying) is approximately three times that of the latter (after redrying). The obligation to purchase virtually all leaf tobacco produced in Japan may adversely impact the Group's relative competitiveness because other global tobacco companies use foreign-grown leaf tobacco only.

c. Legal matters relating to the business of filing company

(i) Tobacco Business Act (Act No. 68 of August 10, 1984)

	Description
1. Purpose	The object of this Act is, in consideration of the tax relating to tobacco products as a portion of the treasury revenue incidental to the abolishment of the tobacco monopoly system, to promote a sound development of the tobacco industry in our country by making necessary adjustments in the production and purchase of domestically produced leaf tobacco as raw material for tobacco products and in business activities etc. of manufacture and sale of the tobacco products, whereby it will contribute to ensuring treasury revenue and a sound development of the national economy. (Article 1)
2. Cultivation and purchase of domestically grown leaf tobacco for use as raw material	<p>(1) When intending to purchase the domestically produced leaf tobacco, Japan Tobacco Inc. (hereinafter, “JT”) shall enter into agreements in advance with those who intend to cultivate leaf tobacco for the purpose of selling it to JT regarding the cultivation area for each item of leaf tobacco and the prices for each item and each grade of the leaf tobacco. (Article 3)</p> <p>(2) JT shall purchase all leaf tobacco produced pursuant to such agreements, except those which are not suitable as raw materials for tobacco products. (Article 3)</p> <p>(3) In the case where JT intends to enter into an agreement, JT shall consult with the Leaf Tobacco Council that JT establishes, and respect its opinion concerning the total cultivation area and the prices of leaf tobacco. (Articles 4 and 7)</p> <p>(4) The Leaf Tobacco Council shall deliberate on the price of the leaf tobacco so that subsequent production of leaf tobacco is ensured, by taking into account the production costs, commodity prices and other economic conditions. (Article 4)</p> <p>(5) JT shall determine the regional breakdown of the aggregate cultivation area for the respective items of leaf tobacco seeking the opinion of the Japan Tobacco Growers Association (hereinafter, “JTGA”) and, within the scope of such regional breakdown, enter into agreements with growers. (Article 5)</p> <p>(6) If a member grower of a tobacco growers association entrusts JTGA with entering into an agreement regarding fundamental matters of the agreements such as the price of leaf tobacco, JT shall establish said fundamental matters with JTGA and such agreement shall be deemed as a part of the agreements executed between JT and said grower. (Article 6)</p>
3. Manufacture of tobacco products	<p>(1) No tobacco products shall be manufactured by any party other than JT. (Article 8)</p> <p>(2) JT shall obtain the approval of the Minister of Finance on the maximum wholesale price for each item of tobacco products. (Article 9)</p> <p>(3) JT shall make efforts to ensure a smooth supply of tobacco products taking into account regional demand conditions for tobacco products. (Article 10)</p>
4. Sale of tobacco products	<p>(1) A party wanting to engage in the sale of tobacco products imported by themselves shall register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, “Specified Distributor”). (Articles 11 to 19)</p> <p>(2) A party wanting to engage in the wholesaling of tobacco products shall, for the time being, register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party. (Articles 20 and 21)</p> <p>(3) A party wanting to engage in the retailing of tobacco products shall, for the time being, obtain the approval of the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, “Retailer”). (Articles 22 to 32)</p> <p>(4) If JT and a Specified Distributor want to sell manufactured or imported tobacco products, the list price of each item, and any subsequent change thereof, shall be approved by the Minister of Finance for the time being. Necessary regulations are in place with respect to the approval: for example, the Minister of Finance shall grant approval unless it deems such price is unfair to consumers, etc. (Articles 33 to 35) (Note 1)</p> <p>(5) A Retailer is only permitted to sell tobacco products at list prices that have been approved by the Minister of Finance. (Article 36)</p>

	Description
5. Other	<p>(1) JT or a Specified Distributor shall indicate the wording as prescribed by Ordinance of the Ministry of Finance for warning consumers of the relationship between the consumption of tobacco products and health prior to the commencement of sale of the tobacco products that it manufactured or imported. (Article 39)(Notes 2, 4)</p> <p>(2) Advertisers of tobacco products shall give due consideration to the prevention of smoking by persons under 20 years of age, etc. and make efforts lest such advertisement should be made to an excessive extent. The Minister of Finance may implement necessary measures with respect to advertisers. (Article 40)(Notes 3, 5)</p>

Notes: 1. The so-called list price system is maintained for the time being as a means to prevent confusion in the distribution order, a well-established constant that materialized after the list price system was adopted in 1904. Tobacco is a luxury item different from the so-called public property and public services and, in a distribution market completely liberalized after the opening of import markets and other factors, the Company and Specified Distributors stipulate prices on application (POA) to the Minister of Finance based on their respective, independent management decisions.

Concerning the approval of list prices, the Company understands that a government delegate gave the following explanation of the gist of the process at the 1984 Diet deliberations on the proposed Tobacco Business Act:

Pertaining to tobacco product list prices, under the Tobacco Business Act, in the event an application is made for the approval of list prices, the Minister of Finance may exceptionally deny approval if it deems such list price unfair to consumers or unfairly low in comparison with wholesale prices of domestic products or import prices of imported products. In all other cases, the Minister approves list prices in line with the spirit of Tobacco Business Act.

2. In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on tobacco product packages was changed to specify risks related to eight items, four of which are diseases associated with direct smoking (lung cancer, heart attack, stroke and emphysema), while the other four are smoking by pregnant women, passive smoking, addiction to smoking and youth smoking. Each tobacco product package must indicate, on its main surfaces, a warning regarding at least one of the four items associated with direct smoking and at least one of the other four items. The Ordinance stipulates, among others, (1) that these warnings must be rotated throughout the year in ways to ensure that they receive equal exposure on each product item and each type of package and (2) that the display must occupy 30% or more of the main surfaces of the package. In addition, the Ordinance stipulates that when wording like “mild” and “light” are used on the package, they must be accompanied by a warning that clarifies that such words do not mean that the risk to their health is lower than other tobacco products so as to prevent consumers from misunderstanding the relationship between the consumption of tobacco products and health. The Company has been adhering to this rule since July 1, 2005.
3. In March 2004, the “Guideline for Advertising of Tobacco Products” was revised to stipulate that the outdoor advertising of tobacco products (posters, billboards, etc.) shall generally be prohibited. It also specifies matters concerning the presentation and content of the health warnings that accompany tobacco advertising.
4. In June 2019, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on tobacco product packages was changed. According to the revision of this Ordinance, new warnings were established for HTP. Also, the Ordinance stipulates that a tobacco product package must indicate, on its front main surface, warnings about the effects on others and, on its back main surface, warnings about the prevention of smoking by minors, (persons under 20 years of age) and the effects on the smoker. The display of these warnings must occupy 50% or more of each main surface of the package. In addition, the Ordinance stipulates that when wording like “mild” and “light” are used on the package, they must be accompanied by a warning on the front main surface of the package that clarifies that such words do not mean that the risk to their health is lower than other tobacco products. Because the display of nicotine and tar levels on tobacco product packages may mislead consumers into thinking that the displayed levels indicate a lower risk to their health, the Ordinance also stipulates that the package must indicate that the actual intake levels of nicotine and tar could vary from the displayed levels depending on the consumer’s smoking style. The display of these warnings is required for HTP and cigarettes with a certain volume (cigarette sales volume of 0.1 billion or more cigarette equivalent units from April 2018 to March 2019) shipped from April 1, 2020 and for other products shipped from July 1, 2020.
5. In June 2019, the “Guideline for Advertising of Tobacco Products” was revised to limit the locations where tobacco products can be advertised and, excluding distribution by mail, etc., where tobacco product samples, leaflets, brochures, pamphlets, etc. can be distributed to locations where tobacco products are sold, designated smoking areas and locations restricted to use by adults only. It also specifies matters concerning the presentation and content of the health warnings that accompany tobacco advertising and the matters concerning the devices used to heat HTP.

(ii) Act on Japan Tobacco Inc. (Act No. 69 of August 10, 1984)

	Description
1. Purpose	Japan Tobacco Inc. (“JT”) is a stock company whose purpose is to engage in business related to the manufacture, sale, and importation of tobacco products in order to attain the objectives set forth in Article 1 of the Tobacco Business Act. (Article 1)
2. Stock	<p>The Japanese government must continue to hold more than one-third of all Japan Tobacco Inc. (“JT”) shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the General Meeting of Shareholders; the same shall apply to the following items). (Article 2, paragraph 1)</p> <p>Whenever JT intends to solicit subscribers for an issuance of shares or subscription rights to shares of JT, or deliver shares (excluding own shares), subscription rights to shares (excluding subscription rights to treasury shares), or issuance of bonds with subscription rights to shares (excluding bonds with subscription rights to treasury shares) at the time of share exchange or delivery, the approval of the Minister of Finance is required. (Article 2, paragraph 2)</p> <p>The disposal of JT shares held by the government shall be effectuated within the maximum range stipulated by resolution of the Diet based on the budget of the corresponding year. (Article 3)</p>
3. Scope of business	<p>JT shall engage in the following businesses in order to attain the objectives stated in 1 above.</p> <p>(1) business of manufacture, sale and importation of tobacco products (2) business incidental or relating to the business in the preceding item (3) other business required for attaining the object of JT</p> <p>JT shall obtain authorization from the Minister of Finance before engaging in any business corresponding to (3) above. (Article 5)</p>
4. Monitoring	<p>(1) The appointment or dismissal of Members of the Board, Executive Officers (<i>sikkoyaku</i> at a company with committees), and Audit & Supervisory Board Members require authorization from the Minister of Finance. (Article 7)</p> <p>(2) Amendments to JT’s articles of incorporation, appropriations of surplus (except disposal of losses), and any merger, corporate split, or dissolution of JT require authorization from the Minister of Finance. (Article 8)</p> <p>(3) JT shall formulate a business plan prior to each business year and obtain authorization from the Minister of Finance. Any change thereof also requires authorization from same. (Article 9)</p> <p>(4) Within three months after the closing of each business year, JT shall issue its balance sheet, statement of income, and business report to the Minister of Finance. (Article 10)</p> <p>(5) Transfers of manufacturing facilities or similar material assets require authorization from the Minister of Finance. (Article 11)</p> <p>(6) The Minister of Finance shall monitor JT in accordance with this Act as well as the Tobacco Business Act and may implement necessary measures in the execution of same. (Articles 12 and 13)</p>

(iii) Acts relating to tobacco excise taxes (including tobacco special excise taxes)

	Description			
	National Tobacco Excise Tax	National Tobacco Special Excise Tax	Local Tobacco Excise Tax	
1. Tax item ^(Note 1)	Tobacco Excise Tax	Tobacco Special Excise Tax	Prefectural Tobacco Excise Tax (also applies to Tokyo)	Municipal Tobacco Excise Tax (also applies to special wards)
2. Taxpayers ^(Note 2)	Manufacturers of tobacco products or those who remove tobacco products from bonded areas		Manufacturers of tobacco products, Specified Distributors or wholesalers selling to Retailers	
3. Tax base ^(Note 3)	Number of cigarettes removed from the manufacturing site or bonded area (for tobacco products other than cigarettes, prescribed cigarette count conversion)		Number of cigarettes relating to sales to Retailers (for tobacco products other than cigarettes, prescribed cigarette count conversion)	
4. Tax rate ^(Note 4)	¥6,802 per 1,000 cigarettes	¥820 per 1,000 cigarettes	¥1,070 per 1,000 cigarettes	¥6,552 per 1,000 cigarettes
5. Declaration and payment ^(Note 5)	Tobacco product manufacturers are to declare and pay taxes for each month's shipment by the end of the following month. Parties removing tobacco products from bonded areas are to declare and pay taxes by the time of extraction		For sales of tobacco products relating to sales locations of Retailers located within a given prefecture, a declaration and payment of taxes is to be made to that prefecture for each month's transfer by the end of the following month	For sales of tobacco products relating to sales locations of Retailers located within a given municipality, a declaration and payment of taxes is to be made to that municipality for each month's transfer by the end of the following month

- Notes: 1. Article 3 of the Tobacco Excise Tax Act, Article 4 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 1, paragraph 2 and Articles 4 and 5 of the Local Tax Act
2. Article 4 of the Tobacco Excise Tax Act, Article 5 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 74-2, paragraph 1 and Article 465, paragraph 1 of the Local Tax Act
3. Article 10 of the Tobacco Excise Tax Act, Article 7 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-4 and 467 of the Local Tax Act
4. Article 11, paragraph 1 of the Tobacco Excise Tax Act, Article 8, paragraph 1 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-5 and 468 of the Local Tax Act
5. Articles 17 to 20 of the Tobacco Excise Tax Act, Article 12 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-10 and 473 of the Local Tax Act
6. In the event the tax system relating to tobacco subject to high excise taxes is examined, on a general basis, as part of a revision of the tax system by the government each year and the tax system is revised, a decision is made upon the deliberation and resolution of the legislature subsequent to the determination of government policy through deliberation by the Tax System Council and other bodies. Relevant government policy is determined once cabinet approval of a bill is secured following the cabinet's approval of an outline of the tax reform proposal.

(iv) Taxation methods applied to tobacco products other than cigarettes

The tax base for the tobacco excise tax is held to be the number of cigarettes, but based on the fact that the number of tobacco products other than cigarettes is not understood, the following tobacco product categories are converted into the equivalent of single cigarettes, based on the respective category weights.

Classification	Tax base	Conversion method
Tobacco products for smoking		
Pipe tobacco	Number of cigarettes resulting from conversion by weight ^(Note)	Converted at the rate of 1 g per cigarette
Cigar tobacco		
Flake tobacco		Converted at the rate of 2 g per cigarette
HTP	Separate (refer to the figure below)	
Chewing tobacco products	Number of cigarettes resulting from conversion by weight	Converted at the rate of 2 g per cigarette
Snuff products		

Note: The tax base for little cigars (a cigar contains less than 1 g of tobacco per cigar) specifies that one little cigar be converted into the equivalent of one cigarette.

HTP were categorized as “pipe tobacco” before the 2018 Tax Reform, and were converted to cigarettes at the rate of 1 g per cigarette, with the cigarette excise tax rate being applied to the resulting number. After the reform a new tax category was established for HTP on October 1, 2018, with these tobacco products being converted to cigarettes at a rate prescribed by the new conversion methods described below. Moreover, with regard to the review of the form of excise taxation for such HTP, transitional measures were devised to allow staged implementation between October 1, 2018 and October 1, 2022.

Tax base of HTP			Conversion method
Conversion method before reform	Number of cigarettes resulting from conversion by weight	(A)	HTP is converted at the rate of 1 g per cigarette
Conversion method after reform	Number of cigarettes resulting from conversion by weight and price	(B)	The prescribed weight of HTP ^(Note 1) of 0.4 g converts to 0.5 cigarettes
		(C)	Based on the average retail price per cigarette ^(Note 2) , the retail price of HTP (excluding the equivalent of consumption tax) is converted to 0.5 cigarettes.

Notes: 1. Weight does not include weight of filter and certain other goods

2. Calculated by dividing the total of the national and local tobacco excise tax per cigarette, and a figure equivalent to tobacco special excise tax, by 60%

		Conversion volume during the transitional measures period (tax base)
On and before September 30, 2018		$(A) \times 1.0$
Revision	October 2018	$(A) \times 0.8 + \{(B) + (C)\} \times 0.2$
	October 2019	$(A) \times 0.6 + \{(B) + (C)\} \times 0.4$
	October 2020	$(A) \times 0.4 + \{(B) + (C)\} \times 0.6$
	October 2021	$(A) \times 0.2 + \{(B) + (C)\} \times 0.8$
	October 2022	$\{(B) + (C)\} \times 1.0$

[Main movements relating to the tobacco tax system and the Company's responses]

Month/Year	Item	Description	The Company's response
May 1986	1986 Tax Reform	Tax increase equivalent to ¥900 per 1,000 cigarettes	Fixed price revised by amount equivalent to tax increase
April 1989	1989 Tax Reform	Following the introduction of the consumption tax, "tobacco consumption tax" changed to "tobacco excise tax" and taxation formula unified to a unit tax	Basically, fixed price revision unnecessary
April 1997	1997 Tax Reform	[Revision of Local Tax Act] Local Tobacco Excise Tax revenue transferred from the Prefectural Tobacco Excise Tax to the Municipal Tobacco Excise Tax	Fixed price revision unnecessary
		[Revision of Consumption Tax Act] Consumption tax rate revised from 3% to 5%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
December 1998	1998 Tax Reform	Act Concerning Special Measures for Financing Debt Transferred to the General Accounts established and ¥820 per 1,000 cigarettes of Tobacco Special Excise Tax introduced	Basically, price per cigarette raised by ¥1
May 1999	1999 Tax Reform	[Revision of Special Taxation Measures Act and Local Tax Act] Tax revenue transferred from Tobacco Excise Tax to Prefectural Tobacco Excise Tax and Municipal Tobacco Excise Tax	Fixed price revision unnecessary
July 2003	2003 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥820 per 1,000 cigarettes	Price per cigarette raised by approx. ¥1
July 2006	2006 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥852 per 1,000 cigarettes	Amount equivalent to tax increase shifted to fixed price of all brands with some prices increased higher than said amount
October 2010	2010 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥3,500 per 1,000 cigarettes	With exception of some brands, prices increased higher than the amount equivalent to tax increase
April 2014	2014 Tax Reform	[Revision of Consumption Tax Act] Consumption tax rate revised from 5% to 8%	With exception of some brands, prices raised by ¥10 or ¥20 per pack to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
April 2016	2015 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥1,000 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥30 to ¥50 per pack
April 2017	2015 Tax Reform	Based on 2015 Tax Reform, tax increase by ¥1,000 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥30 per pack
April 2018	2015 Tax Reform	Based on 2015 Tax Reform, tax increase by ¥1,500 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥40 per pack

Month/Year	Item	Description	The Company's response
October 2018	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
October 2019	2015 Tax Reform	Based on 2015 Tax Reform, tax increase by ¥3,932 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥90 per pack
	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased by a margin lower than the amount equivalent to tax increase
	2019 Tax Reform	[Revision of Consumption Tax Act] Consumption tax rate revised from 8% to 10%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
October 2020	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
	2020 Tax Reform	Tax increase based on 2020 Tax Reform	With exception of some brands, prices increased higher than the amount equivalent to tax increase
October 2021	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
	2020 Tax Reform	Tax increase based on 2020 Tax Reform	With exception of some brands, prices increased higher than the amount equivalent to tax increase
October 2022	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased by a margin lower than the amount equivalent to tax increase

- Notes: 1. The review of tobacco excise tax caused by the 2018 Tax Reform resulted in an increase in the national and local tobacco excise tax rate of ¥3,000 per 1,000 cigarettes, with the establishment of a new tax category for HTP, and a review of the form of excise taxation based on the characteristics of these products. These reviews, viewed from the perspective of mitigating radical change, etc., have been respectively devised as transitional measures, with the former implemented in three stages, in which each stage consists of a ¥1,000 increase per 1,000 cigarettes between October 2018 and October 2021 (with no increase in the rate of excise tax in October 2019), and with the latter implemented in five stages between October 2018 and October 2022.
2. The Outline of the 2024 Tax Reform Proposals approved by the Cabinet of Japan on December 22, 2023 specifies that tax measures to secure financial resources for strengthening defense capabilities, including tobacco excise tax, are to be implemented in accordance with the Outline of the 2023 Tax Reform Proposals. Regarding tobacco excise tax, national tobacco excise tax rate will be raised after filling the tax burden gap between cigarettes and HTP, and financial resources equivalent to ¥3 per cigarette will be secured together with the increase in tax revenue from the appropriateness of taxation. The Outline of the 2024 Tax Reform Proposals also specifies that the intent of taking necessary legislative measures at an appropriate time based on the results of the study in accordance with the Outline of the 2023 Tax Reform Proposals and the basic direction described above will be clarified in the supplementary provision of the tax law related to the 2024 tax reform. Furthermore, the Outline of the 2023 Tax Reform Proposals approved by the Cabinet of Japan on December 23, 2022 specifies that the tobacco excise tax rise will be implemented gradually after predictability is ensured while giving sufficient consideration to the impact on domestic leaf tobacco farmers.

4. Management Analysis of Financial Position, Operating Results and Cash Flows

Major notes concerning the operating results from the viewpoint of the management are as follows. The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

(Non-GAAP financial measures)

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, growth rate in adjusted operating profit (AOP) at constant FX is also presented as additional information. The Group has set its group-wide target for annual average growth rate in AOP at constant FX, at mid to high single digit over the mid- to long-term, and will continue to pursue this goal.

Constant FX

Adjusted operating profit at constant FX is a financial benchmark that excludes foreign exchange effects calculated and translated using the foreign exchange rates of the previous year from core revenue or from adjusted operating profit for the current fiscal year in the Tobacco Business. Adjusted operating profit results at constant FX excludes the increase in revenue or profit caused by inflation in some markets calculated using certain methods.

Core revenue

Regarding tobacco business, core revenue is disclosed. Core revenue excludes revenue related to the distribution business and contract manufactured products, among others.

(Hyperinflationary accounting adjustments)

The Group applies accounting adjustments to the underlying financial statements of the subsidiaries in the hyperinflationary economy as required by IAS 29, "Financial Reporting in Hyperinflationary Economies."

(RRP)

Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as HTP and E-Vapor products.

HTP uses tobacco leaf, but instead of burning the leaf, it uses methods such as heating the leaf to generate tobacco vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy. The Company's portfolio includes heated tobacco sticks (HTS) that use high temperature heating, and infused tobacco capsules (Infused) that use low temperature heating.

Conversely, E-Vapor products do not use tobacco leaf, instead using electrical heating of a liquid inside a device or specialized cartridge to generate vapor for the user to enjoy.

Analyses and examinations concerning the operating results from the viewpoint of the management are as follows.

(1) Business Results

a. Consolidated results

(Billions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Revenue	2,657.8	2,841.1	6.9%
Adjusted operating profit	727.8	728.0	0.0%
Operating profit	653.6	672.4	2.9%
Profit attributable to owners of the parent company	442.7	482.3	8.9%

<Revenue>

Revenue increased by 6.9% from the previous fiscal year to ¥2,841.1 billion due to increases in the Tobacco Business and the Pharmaceutical Business. Core revenue^(Note) at constant FX increased by 6.1% from the previous fiscal year.

<Adjusted operating profit>

Adjusted operating profit at constant FX increased by 5.2% from the previous fiscal year mainly due to an increase in the Tobacco Business. Adjusted operating profit including foreign exchange effects was ¥728.0 billion, the same level as the previous fiscal year, due to unfavorable currency movements as a result of the Japanese yen appreciating against several local currencies.

<Operating profit>

Operating profit increased by 2.9% from the previous fiscal year to ¥672.4 billion due to a decrease in amortization cost of acquired intangibles arising from business acquisitions and an increase in gains on sale of real estate in adjustment items.

<Profit attributable to owners of the parent company>

Profit attributable to owners of the parent company increased by 8.9% from the previous fiscal year to ¥482.3 billion due to an increase in operating profit as well as decreases in financing costs and income taxes.

Note: Core revenue at constant FX is the sum of core revenue at constant FX from tobacco business and revenue from the Pharmaceutical Business, Processed Food Business and other.

b. Segment results

Tobacco Business

(Billions of cigarette equivalent units, Billions of yen)

Tobacco Business	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Total volume	527.3	540.1	2.4%
Combustibles volume ^(Note 1)	519.4	531.3	2.3%
RRP volume ^(Note 2)	7.9	8.8	11.8%
Core revenue	2,315.2	2,478.6	7.1%
Adjusted operating profit	754.0	749.8	(0.6)%

<Total volume>^{(Note 3)(Note 4)}

Total volume increased by 2.4% from the previous fiscal year to 540.1 billion cigarettes due to consistent growth in market share in Asia and EMA and increase in industry volume in some markets, despite decrease in industry volume

in the markets in Western Europe. Combustibles volume increased by 2.3% from the previous fiscal year due to increases mainly in EMA. RRP volume increased by 11.8% from the previous fiscal year mainly due to consistent growth in market shares in the HTS category in Japan and the products being launched into new markets. Market share grew in various markets, including the key markets of Italy, Taiwan, Japan, the Philippines, and Russia.

The combined volume of combustibles, including manufacturing under contracts, and RRP manufactured in the fiscal year ended December 31, 2023 increased by 32.1 billion cigarette equivalent units, or 6.1%, from the previous fiscal year to 558.4 billion cigarette equivalent units.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from tobacco business increased by 7.1% from the previous fiscal year due mainly to favorable pricing effects mainly in Western Europe and EMA, consistent growth in market share in Asia and EMA, and favorable foreign exchange effects. Adjusted operating profit decreased by 0.6% from the previous fiscal year due to unfavorable foreign exchange effects. RRP-related revenue^(Note 2) increased by 8.3% from the previous fiscal year to ¥81.6 billion due to increases in RRP volume and market share.

Core revenue from tobacco business at constant FX and adjusted operating profit at constant FX increased by 6.4% and 4.4%, respectively, from the previous fiscal year.

(Note 1) Combustibles include all tobacco products excluding contract manufactured products, waterpipe, HTP, oral and E-Vapor.

(Note 2) RRP volume does not include volume from devices and associated accessories, etc., while RRP-related revenue includes revenue from devices and associated accessories, etc.

(Note 3) Industry volume and market share were estimated by the Company.

(Note 4) The Tobacco Business segment has been divided into three clusters (Asia, Western Europe and EMA). Asia includes the entire Asian region, including Japan, Western Europe includes the Western European region, EMA includes Africa, the Middle East, Eastern Europe, Turkey, Americas, and all Global Travel Retail (duty-free markets). Asia includes Taiwan, Japan, the Philippines, etc., Western Europe includes Italy, the U.K., Spain, etc., and EMA includes Turkey, Romania, Russia, etc. For details, please refer to “V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 6. Operating Segments, (2) Revenues and Performances of Reportable Segments.”

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Revenue	82.9	94.9	14.4%
Adjusted operating profit	11.1	17.4	56.2%

<Revenue and adjusted operating profit>

Revenue increased by 14.4% from the previous fiscal year due to one-time income pertaining to license agreements for licensed compounds and an increase in revenue at Torii Pharmaceutical Co., Ltd., which is a consolidated subsidiary of the Company.

Adjusted operating profit increased by 56.2% from the previous fiscal year due to an increase in revenue despite an increase in research and development expenses.

Processed Food Business

(Billions of yen)

Processed Food Business	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Revenue	155.5	153.9	(1.1)%
Adjusted operating profit	3.5	6.8	95.2%

<Revenue and adjusted operating profit>

Revenue was generally at a similar level as that of the previous fiscal year due to the absence of revenue from transfer of the bakery business, despite growth in sales of products for commercial use from recovery of eating out demand in addition to price revisions in the frozen and ambient foods.

Adjusted operating profit increased by 95.2% from the previous fiscal year due to the effects of price revisions and the effects of an increase in sales of products for commercial use from recovery of eating out demand in the frozen and ambient foods, despite an increase in costs of raw materials and other costs.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets as of December 31, 2023 increased by ¥734.0 billion from the end of the previous fiscal year to ¥7,282.1 billion. This was due mainly to an increase in cash and cash equivalents, as well as to an increase in goodwill resulting from foreign exchange effects.

Liabilities

Total liabilities as of December 31, 2023 increased by ¥438.3 billion from the end of the previous fiscal year to ¥3,369.6 billion. This was due mainly to increases in borrowings and tobacco excise tax payables.

Equity

Total equity as of December 31, 2023 increased by ¥295.7 billion from the end of the previous fiscal year to ¥3,912.5 billion. This was mainly due to an increase in exchange differences on translation of foreign operations, as well as an increase in retained earnings as a result of the recording of profit attributable to owners of the parent company, despite payment of cash dividends.

b. Cash flow position

Cash and cash equivalents at the end of the current fiscal year increased by ¥173.3 billion from the end of the previous fiscal year to ¥1,040.2 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥866.9 billion.

Net cash flows from operating activities

Net cash flows from operating activities during the current fiscal year were ¥567.0 billion, compared with ¥483.8 billion provided in the previous fiscal year. This was mainly due to the generation of a stable cash inflow from the tobacco business, despite payments of income taxes and increases in inventories and prepaid tobacco excise taxes.

Net cash flows from investing activities

Net cash flows used in investing activities during the current fiscal year were ¥126.1 billion, compared with ¥101.8 billion used in the previous fiscal year. This was mainly due to the purchase of property, plant and equipment, intangible assets, and securities.

Net cash flows from financing activities

Net cash flows used in financing activities during the current fiscal year were ¥270.5 billion, compared with ¥306.2 billion used in the previous fiscal year. This was mainly due to the payment of cash dividends and redemption of bonds, despite an increase in short-term borrowings.

(3) Results of Production, Orders Received and Sales

The Group conducts production and sales of broad and various products in the Tobacco Business, Pharmaceutical Business and Processed Food Business. Moreover, the types, formats, content volumes, and packages of their products are broad, and major products are not based on a made-to-order basis. For this reason, size of production and orders received are presented neither in the amount of money nor in volume by segment.

Therefore, results of “production, orders received and sales” are presented in connection with the operating results by segment in “(1) Business Results.”

Regarding business partners which are the source for 10% or more of the Group’s total revenue, the revenue from such partners and the percentage of total revenue are as follows.

Business partner	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Amount (Billions of yen)	Percentage	Amount (Billions of yen)	Percentage
Megapolis Group	387.5	14.6	371.0	13.1

Note: The Group’s Tobacco Business sells products to Megapolis Group, which runs logistics and wholesale businesses mainly in Russia.

(4) Material Accounting Policies

a. Adoption of IFRS

Having acquired RJR Nabisco's non-U.S. tobacco business in 1999 and Gallaher Group Plc in 2007, the Group has been growing steadily as a global company and sells products in at least 130 countries and territories. In this context, the Group has decided to opt for an adoption of IFRS from the fiscal year ended March 31, 2012 based on the Japanese authorities' permission for the listed companies conducting financial and business activities internationally to adopt IFRS voluntarily from the fiscal year ended March 31, 2010. Upon the adoption of IFRS, the Group aims to diversify the group's sources of financing through international markets and to improve quality of business management.

b. Significant accounting estimates and judgment on estimates

Preparation of consolidated financial statements of the Group requires the management to make estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of the management, considering past results and various factors deemed to be appropriate as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by the management. The effects of a change in the estimates and assumptions are recognized prospectively, including the period reviewed.

As for the estimates and assumptions that may have a material effect on the amounts recognized in the consolidated financial statements of the Group, please refer to "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 4. Significant Accounting Estimates and Judgments."

(5) Target Management Benchmarks

The Group considers the most important issue to achieve sustainable profit growth over the mid- to long-term, based on the 4S model, its management principle, and the JT Group Purpose. In order to measure the performance of the businesses that form the foundation for sustainable profit growth, the Group considers it appropriate to exclude foreign exchange effects, temporary factors and special factors, and have set a group-wide profit target of mid to high single digit annual average growth rate over the mid- to long-term in adjusted operating profit at constant FX.

Adjusted operating profit at constant FX in the fiscal year ended December 31, 2023 increased by 5.2% from the previous fiscal year, exceeding the previous year's results despite the challenging business environment.

Analyses and examinations concerning the operating results for the fiscal year ended December 31, 2023 are included in "II. Review of Operations, 4. Management Analysis of Financial Position, Operating Results and Cash Flows, (1) Business Results."

For details of management policies aimed at achieving group-wide profit targets, please refer to "II. Review of Operations, 1. Management Policy, Business Environment, Issues to Be Addressed, Etc."

(6) Factors Causing Significant Effects on Operating Results, Etc.

Along with the expansion of the tobacco business overseas and its contribution to the results, foreign exchange fluctuation greatly impacts consolidated financial statements. Adjusted operating profit at constant FX in the fiscal year ended December 31, 2023 increased by 5.2% from the previous fiscal year, while adjusted operating profit including foreign exchange effects was the same level as the previous fiscal year due to unfavorable foreign exchange effects. Unfavorable foreign exchange effects are also expected to arise in the fiscal year ending December 31, 2024.

In order to mitigate foreign exchange risk, the Group is working to implement a natural hedging strategy by matching revenue currencies to payment currencies. The Group hedges some foreign exchange risks using derivatives or foreign currency-denominated interest-bearing debt, etc.

With regard to factors causing significant effects on the Group's operating results, etc. including the above, please refer to "II. Review of Operations 3. Business and Other Risks."

(7) Basic Policies of Financing Activities

The Group's basic policies of financing activities are as follows.

a. Group Cash Management Systems

To maximize the total group cash efficiency, the Group gives first priority to utilizing internal financing mainly by the Group Cash Management Systems (CMS), where legally permissible and economically viable.

b. External financing

Short-term working capital needs are normally financed through short-term borrowings from financial institutions or through commercial paper, or a combination of both; mid- to long-term financing is done through long-term borrowings from financial institutions, bond or equity, or a combination of those.

For secure and efficient financing, the Group continues to diversify its financing means as well as the financial institutions, and set up secure financing means, such as multiple committed facilities.

c. External investments

Investments with financial institutions should be transacted ensuring safety, liquidity and optimal yield. Speculative dealings in pursuit of profit margin are not allowed.

d. Financial risk management

The Group is exposed to financial risks such as credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price fluctuation risk. The Group manages such risks according to the risk management policies and procedures to avoid or mitigate such risks. The major financial risk management status is reported regularly to the President and the Board of Directors of the Company.

It is the Group's policy that derivatives are only used if it is intended to mitigate risks of transactions for actual business needs, and speculative and trading transactions are not allowed.

For more details on financial risk management, please refer to "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 33. Financial Instruments, (2) Financial Risk Management to (8) Market Price Fluctuation Risk."

(8) Analysis of Capital Resources and Liquidity of Funds

a. Funding requirements

Funds are mainly allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of borrowings, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

Scheduled material capital expenditures and approaches to procuring funds are as presented in "III. Facilities, 3. Plans for New Installation and Retirement of Facilities."

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, borrowings from financial institutions and bond and commercial paper issuances.

<Cash flows>

Please refer to "(2) Financial Position and Cash Flow Position, b. Cash flow position."

<Interest-bearing debt>

Amounts of interest-bearing debt of the Group to be repaid or redeemed as of December 31, 2023 are as follows.

(Billions of yen)

	Book value	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	209.0	209.0	-	-	-	-	-
Long-term borrowings (current portion)	24.4	24.4	-	-	-	-	-
Long-term borrowings	123.0	-	2.8	0.2	20.2	0.1	100.0
Bonds	785.9	-	111.1	-	-	100.0	584.5
Total	1,142.3	233.3	113.9	0.2	20.2	100.1	684.5

Note: Lease liabilities are excluded.

(Long-term debt)

Bonds issued (including the current portion) as of December 31, 2022 and as of December 31, 2023 accounted for ¥737.3 billion and ¥785.9 billion, respectively, and long-term borrowings from financial institutions (including the current portion) accounted for ¥157.2 billion and ¥147.4 billion, respectively. Long-term lease liabilities totaled ¥40.1 billion as of December 31, 2022 and ¥38.2 billion as of December 31, 2023.

As of December 31, 2023, the long-term debt was rated A2 (stable) by Moody's Japan K.K., A+ (stable) by S&P Global Ratings Japan Inc., and AA (stable) by Rating and Investment Information, Inc. (R&I). These ratings are among the highest ratings for international tobacco companies.

These ratings are affected by a number of factors such as developments in the major business markets, the quality of execution of the business strategies, and general economic trends that are beyond the Group's control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the JT Act, bonds issued by the Company are secured by statutory preferential rights to the property of the Company. These rights give bondholders precedence over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

(Short-term debt)

Short-term borrowings from financial institutions totaled ¥63.7 billion as of December 31, 2022 and ¥209.0 billion as of December 31, 2023. There was no commercial paper outstanding. Short-term lease liabilities totaled ¥20.2 billion as of December 31, 2022 and ¥21.4 billion as of December 31, 2023.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of December 31, 2023, the Group had ¥567.7 billion in committed lines of credit from major financial institutions both domestic and international, of which 76.2% was unused. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

5. Important Operational Contracts

No items to report.

6. Research and Development Activities

Research and development activities are mainly undertaken at the Company's Tobacco Science Research Center and Central Pharmaceutical Research Institute.

Research and development expenses of the Group during the fiscal year ended December 31, 2023 amounts to ¥75.1 billion and the research objectives and research and development expenses by each segment are as follows. The above-mentioned research and development expenses include ¥8.8 billion relating to D-LAB, which was set up by the corporate divisions of the Company for the purpose of research and development, and to basic research not affiliated to any segment.

(1) Tobacco Business

The Group is committed to strengthening its R&D capabilities to ensure a long-term competitive advantage. The focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leaves and their processing, enhancement of aroma and taste, upgrading manufacturing technology, and continuous progress on RRP-related technologies. The Group has been striving to add value to the products in these focus areas in a cost efficient manner. It has established a global research platform in Japan, which focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, the market teams are continuously engaged in the product development. Research and development expenses for the Tobacco Business is ¥33.1 billion.

(2) Pharmaceutical Business

R&D activities are the foundation of the Group's Pharmaceutical Business and are critical for its long-term growth and profitability. These R&D activities focus mainly on the fields of circulatory organs, kidneys and metabolism, immune disorders and inflammation, and brain centers. Research and development expenses for the Pharmaceutical Business is ¥32.2 billion.

(3) Processed Food Business

Regarding R&D in the Processed Food Business, the Group devotes its efforts to the development of innovative products that meet consumers' needs and preferences. Research and development expenses for the Processed Food Business is ¥0.9 billion.

III. Facilities

1. Outline of Capital Expenditures

In the fiscal year ended December 31, 2023, the Group made capital expenditures totaling ¥125.4 billion.

For the tobacco business, the Group made business investments of ¥105.1 billion, for the purpose of RRP-related investments and renovation, maintenance and renewal of manufacturing equipment. In the Pharmaceutical Business, we spent ¥7.3 billion on enhancing and strengthening research and development structures and the like. In the Processed Food Business, we invested ¥5.8 billion in improvement, maintenance and renewals of production capability.

- * Capital expenditures include land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

2. Main Facilities

Main facilities of the Group (the Company and its consolidated subsidiaries) are as follows.

(1) Filing Company (the Company)

(As of December 31, 2023)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m ²)	Amount					
Kita-kanto Factory (Utsunomiya-shi, Tochigi)	Tobacco	Tobacco manufacturing facilities	150	2,062	6,038	12,324	272	20,696	292
Tokai Factory (Iwata-shi, Shizuoka) (Note 1)	Tobacco	Tobacco manufacturing facilities	223	2,309	6,063	10,413	275	19,060	270
Kansai Factory (Fushimi-ku, Kyoto-shi, Kyoto)	Tobacco	Tobacco manufacturing facilities	116	5,831	7,601	16,514	324	30,270	313
Tobacco Science Research Center (Aoba-ku, Yokohama-shi, Kanagawa) (Note 1)	Tobacco	Research and development facilities	34	644	1,739	0	1,688	4,071	87
Central Pharmaceutical Research Institute (Takatsuki-shi, Osaka) (Note 1)	Pharmaceutical	Research and development facilities	75	2,687	16,894	52	2,400	22,033	570
Head Office (Minato-ku, Tokyo)	General administration	Other	-	-	5,892	49	1,487	7,428	2,179
Regional Sales Headquarters (47) (Each prefecture) (Note 2)	Tobacco (includes administration)	Other	54	1,950	2,720	118	291	5,079	1,845

(2) Domestic Subsidiaries

(As of December 31, 2023)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m ²)	Amount					
TS Network Co., Ltd. Head Office and other 24 distribution bases (Head Office: Taito-ku, Tokyo) (Note 2)	Tobacco	Distribution facilities	35	721	13,931	1,325	416	16,393	1,765
Japan Filter Technology, Co., Ltd. Head Office and other 2 factories (Head Office: Sumida-ku, Tokyo)	Tobacco	Material manufacturing facilities	100	583	3,493	3,441	193	7,710	358
Torii Pharmaceutical Co., Ltd. Headquarters, other regional sales headquarters, etc. (Head Office: Chuo-ku, Tokyo) (Note 2)	Pharmaceutical	Pharmaceuticals manufacturing facility and other	2	312	1,307	426	275	2,320	583
TableMark Co., Ltd. Head Office and other 5 factories (Head Office: Chuo-ku, Tokyo)	Processed Food	Frozen food production facilities	154	3,931	10,212	9,798	180	24,121	1,346

(3) Foreign Subsidiaries

(As of December 31, 2023)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m ²)	Amount					
JTI Polska Sp. z o. o. (Poland) (Note 1)	Tobacco	Tobacco manufacturing facilities	532	318	14,142	52,135	1,236	67,831	2,550
LLC Petro (Russia) (Note 2)	Tobacco	Tobacco manufacturing facilities	194	124	4,989	8,341	2,690	16,144	1,038
JTI Tütün Ürünleri Sanayi A.Ş. (Turkey)	Tobacco	Tobacco manufacturing facilities	232	164	889	6,845	163	8,061	951

- Notes: 1. Companies have land leased to entities other than the consolidated companies.
2. Companies have land leased from entities other than the consolidated companies.
3. Book values include right-of-use assets.

3. Plans for New Installation and Retirement of Facilities

(1) Outline of Capital Expenditures

Regarding the mid- to long-term resource allocation of the Group, it will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on the 4S model, its management principle, and the JT Group Purpose. Of the reportable segments, the Group positions the Tobacco Business as the core business and profit growth engine and places top priority on business investments that will lead to its sustainable profit growth. On the other hand, the Group will make necessary investments for the Pharmaceutical Business and the Processed Food Business to complement profit growth for the Group as a whole.

Based on this policy, the Group plans capital expenditures (facility construction and expansion) totaling ¥154.0 billion in the fiscal year ending December 31, 2024.

As the Company and its consolidated subsidiaries have wide-ranging plans for capital expenditure, figures are disclosed by segment.

The Group's actual capital expenditures may differ significantly from the planned figures mentioned above as a result of a number of factors including those presented in "II. Review of Operations, 3. Business and Other Risks."

Segment	Capital expenditure plan for the fiscal year ending December 31, 2024 (Billions of yen)	Main purpose of investment	Funding
Tobacco Business	134.0	Expenditures for RRP-related investments and also strengthening of production capabilities, and maintenance and renewal for manufacturing facilities	Internally generated funds
Pharmaceutical Business	9.0	Expenditures for the development and reinforcement of R&D capabilities	Same as above
Processed Food Business	10.0	Expenditures for the expansion of production capacity, and improvements, maintenance and upgrading of productivity	Same as above

* Capital expenditures include land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

(2) Sales or Retirement of Important Facilities, etc.

There were no other plans for sales or retirement of important facilities except for the regular renewal of facilities as of December 31, 2023.

IV. Filing Company

1. Information on the Company's Shares

(1) Total Number of Shares Authorized

a. Total number of shares authorized

Class	Total number of shares authorized (Share)
Ordinary shares	8,000,000,000
Total	8,000,000,000

b. Number of shares issued

Class	Number of shares issued (Share; as of December 31, 2023)	Number of shares issued (Share; as of the date of filing: March 22, 2024)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange Prime Market	(Note 2)
Total	2,000,000,000	2,000,000,000	—	—

Notes: 1. The provisions of Article 2 of the JT Act prescribe that the Japanese government must continue to hold more than one-third of all shares issued by the Company (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the General Meeting of Shareholders).

2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.

(2) Status of Subscription Rights to Shares

a. Stock options

Subscription rights to shares issued pursuant to the Companies Act are as follows. Also, the matters presented below reflect the situation as of the last day of the Company's fiscal year (December 31, 2023). Matters that have undergone change between the last day of the Company's fiscal year and the last day of the end of the month before the date of filing (February 29, 2024) are presented in parentheses [], while other matters have undergone no change since the last day of the Company's fiscal year.

Note that the stock option plan was abolished in fiscal 2020 (excluding the stock options already granted). The granted stock options could be exercised when the stock option holder loses all positions as Member of the Board, Audit & Supervisory Board Member or Executive Officer. The Company does not plan to change this exercise condition going forward.

- Stock options based on resolutions taken at meetings of the Board of Directors held between December 21, 2007 and September 16, 2011

Resolution date	December 21, 2007	September 19, 2008	September 28, 2009	September 17, 2010	September 16, 2011
Positions and number of persons granted	Members of the Board 11 persons Executive Officers (excluding persons serving as Member of the Board) 16 persons	Members of the Board 11 persons Executive Officers (excluding persons serving as Member of the Board) 14 persons	Members of the Board 9 persons Executive Officers (excluding persons serving as Member of the Board) 14 persons	Members of the Board 9 persons Executive Officers (excluding persons serving as Member of the Board) 14 persons	Members of the Board 8 persons Executive Officers (excluding persons serving as Member of the Board) 15 persons
Number of subscription rights to shares	16 units	21 units [18 units]	41 units	43 units	46 units [36 units]
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (the Company's standard class of shares with no rights limitations)	Same as left	Same as left	Same as left	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	3,200 shares (Notes 1, 6)	4,200 shares [3,600 units] (Notes 1, 6)	8,200 shares (Notes 1, 6)	8,600 shares (Notes 1, 6)	9,200 shares [7,200 units] (Notes 1, 6)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left	Same as left	Same as left	Same as left
Exercise period of subscription rights to shares	From January 9, 2008 to January 8, 2038	From October 7, 2008 to October 6, 2038	From October 14, 2009 to October 13, 2039	From October 5, 2010 to October 4, 2040	From October 4, 2011 to October 3, 2041
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥581,269 per unit	¥285,904 per unit	¥197,517 per unit	¥198,386 per unit	¥277,947 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	(Note 2)	Same as left	Same as left	Same as left	Same as left
Conditions for exercising subscription rights to shares	(Note 3)	Same as left	Same as left	Same as left	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left	Same as left	Same as left	Same as left
Provisions for acquiring subscription rights to shares	(Note 4)	Same as left	Same as left	Same as left	Same as left

Resolution date	December 21, 2007	September 19, 2008	September 28, 2009	September 17, 2010	September 16, 2011
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 5)	Same as left	Same as left	Same as left	Same as left

Notes: 1. Number of shares to be issued upon exercise of subscription rights to shares

The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each subscription right to shares (hereinafter, “Number of Shares Granted”) shall be one. However, in cases where the Company conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of the Company after the date on which the Company allots subscription rights to shares (hereinafter, “Allotment Date”), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of the Company and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date. When adjusting the Number of Shares Granted, the Company shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, the Company shall later do so as soon as possible.

2. Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares

- Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Regulation on Corporate Accounting. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen.
- Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.

3. Conditions for exercising subscription rights to shares

- The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, “Subscription rights to shares Holder”) may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as Member of the Board (including *sikkoyaku* at a company with committees), Audit & Supervisory Board Member and Executive Officer of the Company
- In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.

4. Provisions for acquiring subscription rights to shares

In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as “in cases where the resolution of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made”), the Company may acquire subscription rights to shares on the date separately provided for by the Board of Directors. In this case, the Company shall, in exchange for acquiring each subscription right to shares, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

Value per share = Closing price for regular transactions of ordinary shares of the Company on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as “the resolution of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made”) – ¥1

- Proposal to ask approval of a contract of merger where the Company is not to be the surviving company
- Proposal to ask approval of a contract or plan of company split where the Company would be the split company
- Proposal to ask approval of a share exchange contract or share transfer plan where the Company becomes a wholly-owned subsidiary

5. Matters regarding delivery of subscription rights to shares accompanied by reorganization

In cases where the Company merges (limited to cases where the Company is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where the Company becomes the split company in either case), or exchanges or

transfers shares (limited to cases where the Company becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, "Reorganization"), the Company shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, "Remaining Subscription rights to shares"). However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.

- a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization
Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder
 - b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
Ordinary shares of the Company Subject to Reorganization
 - c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares
To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.
 - d. Value of property to be contributed when subscription rights to shares are exercised
The value of the property to be contributed when each subscription right to shares to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to be issued upon exercise of each subscription right to shares, which is decided pursuant to c. above.
The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.
 - e. Period during which subscription rights to shares can be exercised
From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in "Exercise period of subscription rights to shares" mentioned above.
 - f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares
To be determined in the same manner as "Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares" mentioned above.
 - g. Restrictions on transferring of subscription rights to shares
Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization
 - h. Provisions for acquiring subscription rights to shares
To be determined in the same manner as "Provisions for acquiring subscription rights to shares" mentioned above.
 - i. Other conditions for exercising subscription rights to shares
To be determined in the same manner as "Conditions for exercising subscription rights to shares" mentioned above.
6. The Company conducted a share split at a ratio of 200 to one ordinary share with July 1, 2012 as effective date. As a consequence, the number of shares to be issued upon exercise of the subscription rights to shares issued before this share split has been adjusted from one share to 200 shares and is presented accordingly.

- Stock options based on resolutions taken at meetings of the Board of Directors held between September 21, 2012 and June 14, 2019

Resolution date	September 21, 2012	September 20, 2013	September 19, 2014	July 17, 2015	June 17, 2016
Positions and number of persons granted	Members of the Board (excluding Outside Directors) 7 persons Executive Officers (excluding persons serving as Member of the Board) 17 persons	Members of the Board (excluding Outside Directors) 7 persons Executive Officers (excluding persons serving as Member of the Board) 19 persons	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 19 persons	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 18 persons	Members of the Board (excluding Outside Directors) 5 persons Executive Officers (excluding persons serving as Member of the Board) 18 persons
Number of subscription rights to shares	98 units	80 units	46 units	75 units	93 units
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (the Company's standard class of shares with no rights limitations)	Same as left	Same as left	Same as left	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	19,600 shares (Note 1)	16,000 shares (Note 1)	9,200 shares (Note 1)	15,000 shares (Note 1)	18,600 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left	Same as left	Same as left	Same as left
Exercise period of subscription rights to shares	From October 10, 2012 to October 9, 2042	From October 8, 2013 to October 7, 2043	From October 7, 2014 to October 6, 2044	From August 4, 2015 to August 3, 2045	From July 5, 2016 to July 4, 2046
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥320,000 per unit	¥513,400 per unit	¥483,200 per unit	¥711,200 per unit	¥572,600 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	(Note 2)	Same as left	Same as left	Same as left	Same as left
Conditions for exercising subscription rights to shares	(Note 3)	Same as left	Same as left	Same as left	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left	Same as left	Same as left	Same as left
Provisions for acquiring subscription rights to shares	(Note 4)	Same as left	Same as left	Same as left	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 5)	Same as left	Same as left	Same as left	Same as left

Resolution date	June 14, 2017	June 15, 2018	June 14, 2019
Positions and number of persons granted	Members of the Board (excluding Outside Directors) 5 persons Executive Officers (excluding persons serving as Member of the Board) 19 persons	Members of the Board (excluding Outside Directors) 5 persons Executive Officers (excluding persons serving as Member of the Board) 18 persons	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 20 persons
Number of subscription rights to shares	155 units	362 units [336 units]	681 units [561 units]
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (the Company's standard class of shares with no rights limitations)	Same as left	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	31,000 shares (Note 1)	72,400 shares [67,200 shares] (Note 1)	136,200 shares [112,200 shares] (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left	Same as left
Exercise period of subscription rights to shares	From July 4, 2017 to July 3, 2047	From July 3, 2018 to July 2, 2048	From July 2, 2019 to July 1, 2049
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥482,200 per unit	¥300,000 per unit	¥188,000 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	(Note 2)	Same as left	Same as left
Conditions for exercising subscription rights to shares	(Note 3)	Same as left	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left	Same as left
Provisions for acquiring subscription rights to shares	(Note 4)	Same as left	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 5)	Same as left	Same as left

Notes: 1. Number of shares to be issued upon exercise of subscription rights to shares
The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each subscription right to shares (hereinafter, "Number of Shares Granted") shall be 200. However, in cases where the Company conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of the Company after the date on which the Company allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places. In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of the Company and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders. In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date. When adjusting the Number of Shares Granted, the Company shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, the Company shall later do so as soon as possible.

2. to 5. Same as (Notes) 2-5 for stock options based on resolutions of the Board of Directors taken between December 21, 2007 and September 16, 2011.

b. Details of rights plan

No items to report.

c. Other status of subscription rights to shares

No items to report.

(3) Exercise of Bond Certificates With Subscription Rights to Shares With Exercise Price Amendment Clause

No items to report.

(4) Trends in Total Number of Shares Issued and Share Capital

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2012	1,990,000	2,000,000	–	100,000	–	736,400

Notes: 1. The Company conducted a share split at a ratio of 200 to one share with July 1, 2012 as effective date. Consequently, the balance of shares issued increased by 1,990,000 thousand shares to 2,000,000 thousand shares.

2. At the 39th Ordinary General Meeting of Shareholders held on March 22, 2024, it was resolved to reduce ¥100,000 million from its capital reserve, and the amount of the reduction will be reclassified as other capital surplus. The effective date is June 28, 2024 (planned).

(5) Shareholder Composition

(As of December 31, 2023)

Category	Shareholder composition (100 shares in one share unit)								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals	Total	
					Companies	Individuals			
Number of shareholders (Person)	2	181	71	4,526	665	1,350	828,646	835,441	–
Number of shares held (Unit)	6,669,282	2,925,193	898,672	412,620	1,955,070	4,485	7,117,629	19,982,951	1,704,900
Holding rate of shares (%)	33.37	14.64	4.50	2.06	9.78	0.02	35.62	100.00	–

Notes: 1. 2,246,920 units of treasury shares are included in “Individuals.”

2. The number of “Other corporations” includes 336 units in the name of Japan Securities Depository Center, Inc.

(6) Status of Major Shareholders

(As of December 31, 2023)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (excluding treasury shares) (%)
Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,925,200	37.57
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	174,583,700	9.83
Custody Bank of Japan, Ltd. (Trust Account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	61,906,618	3.49
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo, Japan	32,423,221	1.83
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	25,094,341	1.41
JAPAN SECURITIES FINANCE CO., LTD.	2-10, Nihonbashi-kayabacho 1-chome, Chuo-ku, Tokyo, Japan	17,169,700	0.97
Barclays Securities Japan Limited BNYM (Standing proxy: MUFG Bank, Ltd.)	10-1, Roppongi 6-chome, Minato-ku, Tokyo, Japan (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan)	16,188,600	0.91
JP MORGAN CHASE BANK 385781 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	13,722,976	0.77
JT Group Employees' Shareholding Association	1-1, Toranomom 4-chome, Minato-ku, Tokyo, Japan	11,878,075	0.67
Mizuho Securities Co., Ltd.	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo, Japan	9,361,248	0.53
Total	–	1,029,253,679	57.98

Note: In addition to the above, the Company held 224,692,028 shares of ordinary shares as treasury shares.

(7) Status of Voting Rights

a. Number of shares issued

(As of December 31, 2023)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 224,692,000	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,603,100	17,736,031	(Note 2)
Shares less than one unit	Ordinary shares 1,704,900	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,736,031	–

Notes: 1. The number of “Shares with full voting rights (Other)” includes 33,600 shares in the name of Japan Securities Depository Center, Inc. “Number of voting rights” includes 336 units of voting rights related to shares with full voting rights in its name.

2. The Company’s standard class of shares with no rights limitations. Its share trading unit is 100 shares.

3. Includes 28 shares of treasury shares.

b. Treasury shares

(As of December 31, 2023)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	1-1, Toranomom 4-chome, Minato-ku, Tokyo, Japan	224,692,000	–	224,692,000	11.23
Total	–	224,692,000	–	224,692,000	11.23

2. Acquisition of Treasury Shares

[Class of shares] Acquisition of ordinary shares falling under Article 155, item (vii) of the Companies Act

(1) Acquisition by Resolution of the General Meeting of Shareholders

No items to report.

(2) Acquisition by Resolution of the Board of Directors

No items to report.

(3) Items Not Based on Resolutions of the General Meeting of Shareholders or Board of Directors

Category	Number of shares (Share)	Total value (Millions of yen)
Treasury shares acquired during this fiscal year ended December 31, 2023	284	1
Treasury shares acquired during the period from January 1, 2024 to the filing date of this Annual Securities Report	258	1

Note: The figure for treasury shares acquired during the period from January 1, 2024 to the filing date of this Annual Securities Report does not include the number of shares from purchases of shares less than one unit from March 1, 2024 until the filing date of this Annual Securities Report.

(4) Status of Disposal and Ownership of Acquired Treasury Shares

Category	Fiscal year ended December 31, 2023		From January 1, 2024 until the filing date of this Annual Securities Report	
	Number of shares (Share)	Total disposal value (Millions of yen)	Number of shares (Share)	Total disposal value (Millions of yen)
Acquired treasury shares offered for subscription	–	–	–	–
Acquired treasury shares that were cancelled	–	–	–	–
Acquired treasury shares transferred for merger, share exchange, share delivery and company split	–	–	–	–
Others				
(Disposal of treasury shares by restricted stock)	157,700	343	–	–
(Disposal of treasury shares by performance share unit)	37,019	81	–	–
(Exercise of subscription rights to shares)	260,000	566	31,800	69
(Sales resulting from requests for sale of shares less than one unit)	–	–	–	–
Treasury shares held	224,692,028	–	224,660,486	–

Notes: 1. The number of disposed shares and total disposal value in the “From January 1, 2024 until the filing date of this Annual Securities Report” column does not include disposal of treasury shares by restricted stock and performance share unit, transfers by the exercise of subscription rights to shares, or sales of shares less than one unit performed from March 1, 2024 until the filing date of this Annual Securities Report.

2. The number of treasury shares held in the “From January 1, 2024 until the filing date of this Annual Securities Report” column does not include disposal of treasury shares by restricted stock and performance share unit, transfers by the exercise of subscription rights to shares, or purchases and sales of shares less than one unit performed from March 1, 2024 until the filing date of this Annual Securities Report.

3. Dividend Policy

In terms of “prioritize business investments for sustainable profit growth in the mid- to long-term” and of “strike a balance between profit growth through business investments and shareholder returns” under the resources allocation policy based on the 4S model and the JT Group Purpose, our shareholder returns policy for the current fiscal year is set as follows:

- Aim to enhance shareholder returns by realizing the Company’s mid- to long-term profit growth, while maintaining a solid financial base^(Note 1)
- Target a dividend payout ratio of about 75%^(Note 3), a competitive level^(Note 2) in the capital markets
- Consider implementing a share buy-back program, mainly taking into account the Company’s financial outlook of the respective year and mid-term capital needs.

Notes: 1. The Company will maintain a solid financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
2. Monitor the shareholder return trends of global Fast-Moving Consumer Goods (FMCG) companies which have a stakeholder model similar to our 4S model and have realized strong business growth.
3. To be in the range of approximately $\pm 5\%$.

It is also a basic policy of the Company to pay an interim dividend and year-end dividend, with the former determined by the Board of Directors and the latter by the General Meeting of Shareholders. The Company’s Articles of Incorporation stipulate that the Company may pay interim dividends to shareholders with the record date of June 30 each year upon a resolution by the Board of Directors.

In light of business performance in the current fiscal year, the year-end dividend for the fiscal year ended December 31, 2023 was ¥100 per share. Therefore, the total annual dividend for the fiscal year ended December 31, 2023, including the interim dividend of ¥94, is ¥194 per share.

Also, internal reserves will be prepared not only for present and future business investments and to acquire external resources but also for the purchase of treasury shares and other objectives.

The dividend for the 39th term is as follows.

Resolution date	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)
The Board of Directors on July 31, 2023	166,856	94.00
Ordinary General Meeting of Shareholders held on March 22, 2024	177,531	100.00

4. Status of Corporate Governance

(1) Outline of Corporate Governance

Whereas the following contains statements regarding the fiscal year ended December 31, 2023, the final day of that fiscal year, and the fiscal year ended December 31, 2022, the statements herein are current as of the filing date, unless otherwise indicated.

a. Basic concept on the corporate governance

The Company's belief is that corporate governance is the means for conducting transparent, fair, timely and decisive decision-making for pursuing the Group's management principle, the 4S model. Specifically, the 4S model aims "to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can."

The Company has set out the "JT Corporate Governance Policy," and strives to make enhancements based on its belief that it will enable the Group to achieve mid- to long-term sustainable profit growth and increase company value, which will contribute to the development of the Group's stakeholders and eventually the economic society as a whole.

The Company will continue to strive to make enhancements of the Group's corporate governance as one of the key challenges for its management.

For the latest JT Corporate Governance Policy, please refer to the following JT website.

https://www.jt.com/about/corporate_governance/index.html

b. Outline of corporate governance structure and reason for adoption of the structure

As a company with an Audit & Supervisory Board, the Company has strengthened the supervisory function of management while maintaining its objectivity and neutrality by means of the Audit & Supervisory Board carrying out appropriate audits of the execution of duties by Members of the Board and Executive Officers from an independent and fair standpoint. Based on the audit system of the Audit & Supervisory Board, while facilitating the prompt execution of business through the delegation of authority by reducing the size of the Board of Directors and introducing an Executive Officer system, the Company has established the JT Group Compliance Committee, which is composed of the President, Executive Vice President(s) and external experts, and the Advisory Panel on Nomination and Compensation comprised entirely of Members of the Board who do not serve as Executive Officers, in which more than half of whose members being Independent Outside Directors, as voluntary structures and created an effective corporate governance system.

The Company continuously seeks to enhance corporate governance and to improve management transparency and objectivity through, for instance, the appointment of an additional Outside Director and Outside Audit & Supervisory Board Member on March 20, 2019, appointment of an additional Outside Director on March 23, 2022 and further appointment of an additional Outside Director on March 22, 2024.

The Company has selected the current structure because it recognizes that, through initiatives like these, the corporate governance structure functions effectively regarding business execution and supervision.

The Board of Directors meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters, to supervise implementation of business and to receive reports from the Members of the Board on the status of implementation of business. In addition, the Chairperson of the Board has been positioned as a non-executive Director in order to concentrate on supervising management while also serving as the chairman of the Board of Directors. The Company appoints at least one-third of Independent Outside Directors with qualifications conducive to sustainable profit growth and enhancement of company value over the mid- to long-term from a viewpoint of strengthening the supervisory function and management transparency. The Board of Directors has set forth in the Board of Directors Regulations matters to be discussed at the Board of Directors meetings. In addition, from the viewpoint of realizing swift decision making and high-quality implementation of business, the Board of Directors has set forth a clear decision-making process based on internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the "Responsibility and Authority Regulations") concerning essential business matters as well as delegates authority as necessary to Executive Officers based on JT Group management strategies, etc., under the Executive Officer system. In the fiscal year ended December 31, 2023, the Board of Directors convened 14 times, and all Members of the Board attended every meeting.

The Company has adopted the concept of skills necessary for the Board of Directors, and has developed and disclosed a skills matrix that lists the areas in which the knowledge and experience of each Director and Audit & Supervisory Board Member are expected to be particularly effective.

For the latest skills matrix, please refer to the following JT website.

<https://www.jt.com/about/officer/index.html>

The Advisory Panel on Nomination and Compensation was established as an optional advisory body to the Board of Directors and integrates the functions of the previous Meeting for Talent Development and Compensation Advisory Panel. Its specific roles include supporting the growth, including succession plans, of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of designated Directors and Directors also serving as Executive Officers; and reporting the results of the deliberation on remuneration of Directors and Executive Officers. Its purpose is to render the Board's decision-making more objective and transparent and to upgrade the Board's supervisory functions by having the Board deliberate on executive appointment and remuneration in accordance with the results of the deliberation in the Panel. In order to ensure its independence and objectivity, the Panel is comprised entirely of Members of the Board who do not serve as Executive Officers, in which more than half of its members are independent Outside Directors. Chaired by an independent Outside Director, the Panel has seven members, and meets at least once a year. In the fiscal year ended December 31, 2023, the Advisory Panel on Nomination and Compensation convened five times, and all members of the Panel attended every meeting.

Effective from fiscal 2024, the structure of the JT Group Compliance Committee has been changed so that it oversees and promotes compliance for the entire JT Group and serves as a deliberative body with accountability to the Board of Directors. The Committee comprises the President, Executive Vice President(s) and external experts, and is chaired by the President. Meanwhile, the Company appoints a Senior Vice President in charge of compliance who oversees the Legal and Compliance Division in an effort to establish and promote a group-wide, cross-sectional system and shed light on issues. In addition, the corporate and business divisions each have their own divisional compliance committees, which autonomously deliberate on compliance matters in their own divisions. The JT Group Compliance Committee receives reports from each of the divisional compliance committees, monitors and deliberates on the JT Group's overall initiatives, and reports adequately to the Board of Directors. In this way, the committee strives to strengthen the connection with the Board of Directors, and enhances and strengthens the JT Group's compliance from both the supervision and promotion aspects. The compliance promotion departments of the Company and its subsidiaries (meaning the Legal and Compliance Division within the Company, and corresponding departments within subsidiaries) inform Members of the Board and employees of the Company, as well as Directors, etc. and employees of subsidiaries (with Members of the Board, Directors, etc. and employees hereinafter collectively referred to as "directors and employees") regarding each department's compliance code of conduct through each department and each organization. Meanwhile, these compliance promotion departments also work to enhance the effectiveness of the compliance system by enlightening directors and employees about compliance through training and other programs, etc.

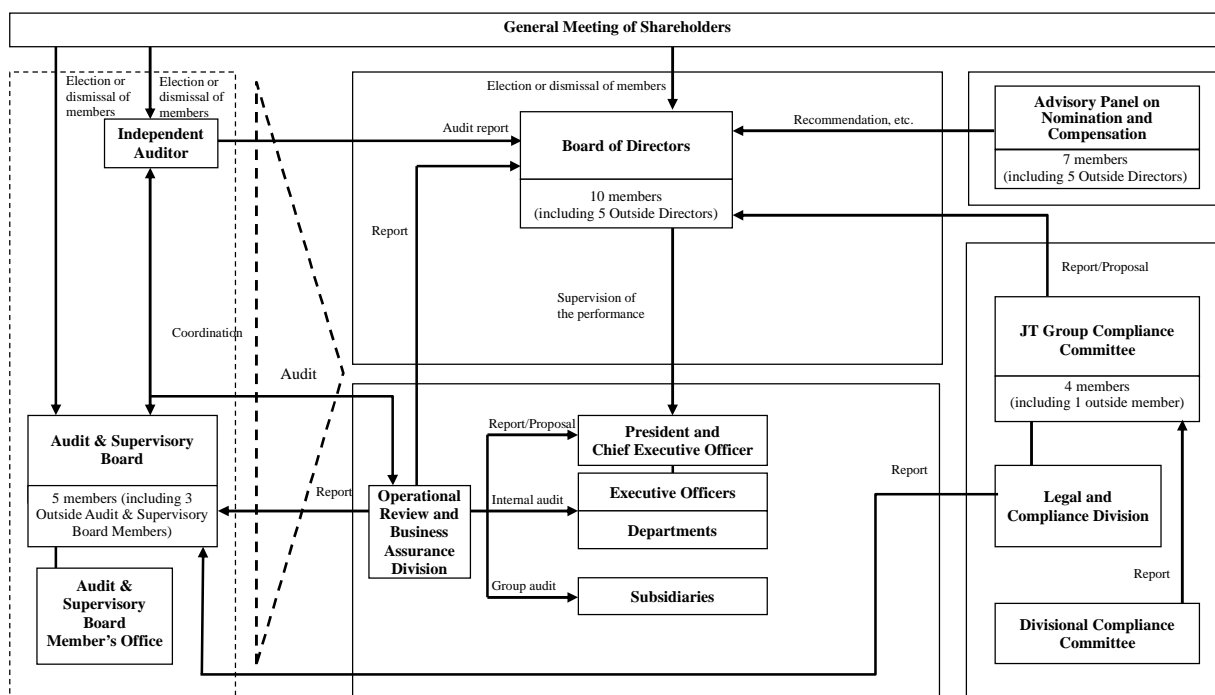
In the fiscal year ended December 31, 2023, the JT Group Compliance Committee convened three times under the previous compliance system, and all members of the Committee attended every meeting.

The Company has adopted the Audit & Supervisory Board system under which Audit & Supervisory Board Members of the Company (hereinafter "Audit & Supervisory Board Members," with the terms "Audit & Supervisory Board," "Audit & Supervisory Board Member's Office," and "Manager of the Audit & Supervisory Board Member's Office" also referring to those items within the Company) assertively exercise authority as an independent body with the mandate of shareholders, which includes attending and speaking at the Board of Directors meetings and other important meetings as well as actively inspecting business sites. In addition, they also perform audits appropriately from an objective viewpoint in accordance with the characteristics of the duties of the Outside Audit & Supervisory Board Members and the standing Audit & Supervisory Board Members. The Audit & Supervisory Board Members work to ensure sound and sustainable growth and maintain and enhance public trust in the Company by examining the performance of duties by Members of the Board and Executive Officers.

The Audit & Supervisory Board, which meets as necessary, is composed of members with substantial knowledge of management, law, finance, accounting and other aspects of business. Standing Audit & Supervisory Board Member Hideaki Kashiwakura has served as Controller, Vice President of the M&S Management Department of Tobacco Business Division, Deputy Chief Financial Officer of the Company and President, Chief Executive Officer of JT BusinessCom Inc., having extensive experience and wide-ranging knowledge in corporate management, business development, finance and accounting, as well as business operation in Japan and overseas. Standing Audit & Supervisory Board Member Tsutomu Hashimoto served as

Vice President, Operational Review and Business Assurance, having extensive experience and wide-ranging knowledge in risk management and information securities through audit operation in Japan and overseas. In the fiscal year ended December 31, 2023, the Audit & Supervisory Board convened 14 times, and all of the Audit & Supervisory Board Members attended every meeting.

The status of the development of the Company's corporate governance system is represented as the following schematic depiction.



As of the filing date, the members of the Company's corporate governance system are as follows:

Name of body	Members
Board of Directors	Chairman: Mutsuo Iwai, Chairman of the Board Members: Shigeaki Okamoto, Masamichi Terabatake, Kei Nakano, Koji Shimayoshi, Yukiko Nagashima ^(*1) , Masato Kitera ^(*1) , Tetsuya Shoji ^(*1) , Hiroko Yamashina ^(*1) , Kenji Asakura ^(*1)
Audit & Supervisory Board	Chairman: Hideaki Kashiwakura, Standing Audit & Supervisory Board Member Members: Tsutomu Hashimoto, Shigeru Taniuchi ^(*2) , Nobuo Inada ^(*3) , Emiko Takeishi ^(*3)
Advisory Panel on Nomination and Compensation	Chairman: Tetsuya Shoji, Outside Director Members: Mutsuo Iwai, Shigeaki Okamoto, Yukiko Nagashima, Masato Kitera, Hiroko Yamashina, Kenji Asakura
JT Group Compliance Committee	Chairman: Masamichi Terabatake, Representative Director and President, Chief Executive Officer Members: Kei Nakano, Koji Shimayoshi and 1 outside committee member

- (*1) Outside Director
- (*2) Standing Outside Audit & Supervisory Board Member
- (*3) Outside Audit & Supervisory Board Member

c. Implementation status of internal control system, risk management system and systems necessary to ensure the properness of operations in subsidiaries

The Company has always endeavored to run an internal control system of the Company and the Group through initiatives in such areas as compliance, internal audits, and risk management. Moreover, the Company has created the systems required under the Companies Act and the Regulation for Enforcement of the Companies Act by implementing measures aimed at ensuring the effectiveness of audits by Audit & Supervisory Board Members. The Company will work to maintain and enhance the systems in each company while consecutively reviewing and revising the current system as necessary, and ensure appropriate implementation of business. For the foreign subsidiaries, the Company builds and operates the necessary system in conformity with the following provisions concerning subsidiaries, in principle, while complying with the laws and regulations in the country in which the subsidiary is incorporated.

- Systems to ensure that the performance of duties by directors and employees of the Company and its subsidiaries conforms to laws, regulations, and the Articles of Incorporation

Under the internal reporting system (whistle-blower system), the Company and each of its subsidiaries has a desk through which directors and employees may consult or report, in case they detect any conduct that may violate laws and regulations. Compliance promotion departments that receive a report or request for consultation investigate the details and take necessary action, while working to prevent recurrence of the issue. In addition, separate from the consultation and reporting desks that are handled by the Legal and Compliance Division, the Company has established consultation and reporting desks that are independent of business operations and are handled by Audit & Supervisory Board Members. An Audit & Supervisory Board Member who receives a consultation or a report investigates its content, and the Company carries out necessary measures and tries to prevent the recurrence. The Company will bring matters of particular importance involving the Group to the divisional compliance committees and the JT Group Compliance Committee, and will request deliberation or will report on the issue.

Under the system for excluding anti-social forces, the Company and its subsidiaries are resolved to fight against them, not to comply with an unreasonable demand and not to have any relations with them. Designating the Corporate Governance Division of the Company as the department assuming the responsibility for supervising efforts to exclude anti-social forces at the Group level, the Company cooperates with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way. The Company also consistently makes enlightening activities to eliminate anti-social forces by making directors and employees of the Company and its subsidiaries informed about the rules not to have any relations with anti-social groups and organizations and by educating the directors and employees through providing relevant training as necessary.

In order to ensure the reliability of financial reporting of the Group, the Company is operating a relevant internal control system that it has established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of staff to the task of evaluating financial results and reporting them, the company is striving to maintain and improve the reliability of its financial reporting.

- Procedures and arrangements for storage and management of information on the performance of duties by the Members of the Board of the Company

The Company makes sure to properly store and manage the minutes of General Meetings of Shareholders and meetings of the Board of Directors in line with laws and regulations. The Company makes sure that the information on important matters relating to business execution and decision-making including the conclusion of corporate contracts is stored and managed by the relevant departments and divisions as specified by the Responsibility and Authority Regulations, and establishes rules on managing the processes of decision-making, procurement and accounting.

- System for reporting matters concerning the performance of duties by Directors, etc. of subsidiaries to the Company

The Company makes subsidiaries to regularly report important information to the Company's departments and divisions that are in charge of the subsidiaries.

- Rules on management of risk of loss of the Company and its subsidiaries, and procedures/arrangements for other matters

The Company has established internal policies, rules and manuals relating to the Group for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and Chief Executive Officer and the Board of Directors on a quarterly basis via Chief Financial Officer. With regard to the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibility and Authority Regulations, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management.

The Company works to achieve an integrated understanding of all risks that may affect the Group, and to manage them accordingly. This risk management is coordinated by the person in charge of risk management promotion, who determines which risks are significant, and reports them to the President and Chief Executive Officer. Executive Officers also take the lead role in drawing up measures to address significant risks. After

submitting reports to the person in charge of risk management promotion and to the President and Chief Executive Officer, the Executive Officers promote and execute these measures, and provide progress reports on them to the same individuals. With regard to risk management process, please refer to “II. Review of Operations 3. Business and Other Risks.”

In cooperation with the internal audit functions of subsidiaries, the Operational Review and Business Assurance Division of the Company examines and evaluates the internal control systems, etc. of the Group companies in light of the level of importance and the risks involved, and from an objective standpoint that is independent of organizations responsible for business execution. It provides reports and counsel to the President and Chief Executive Officer and also reports to the Board of Directors.

To prepare for possible emergencies, the Company has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, the Company is ready to establish an emergency project system, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions and subsidiaries. Events to which a response has been made and the details of such events shall be reported to the Board of Directors in a timely and appropriate manner.

- System to ensure that Members of the Board of the Company and Directors, etc. of its subsidiaries can perform their duties efficiently

The Board of Directors of the Company meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters and to supervise business execution. The Board of Directors of the Company receives reports from Members of the Board of the Company on the status of business execution at least once every three months. For important management issues, particularly management policy and basic plans regarding overall business operations of the Company, in addition to matters to be referred to the Board of Directors of the Company, a clear decision-making process is stipulated in the Responsibility and Authority Regulations to have a system that enables to realize swift decision-making and high-quality business execution. The Company has adopted the Executive Officer System, under which Executive Officers appointed by the Company’s Board of Directors execute business properly by exercising the authority delegated to them in their respective areas, in accordance with JT Group management strategies decided by the Board. In order to manage business operations in ways that contribute to the business efficiency and flexibility of the Company, basic matters concerning the Company’s organization, allocation of duties to officers and staff and the roles of individual divisions are specified by the relevant internal rules.

The Company has been constructing an efficient system for business execution within the Group through the formulation, etc. of rules and policies that apply to the Group.

- Systems necessary to ensure the properness of operations in the Company and the Group

The Group has set “Fulfilling Moments, Enriching Life” as JT Group Purpose, and there is a group-wide consensus on this purpose. The Company has specified the functions and rules common for the Group to effectuate group management that optimizes the operations of the entire Group as a whole. Moreover, the Company has been putting in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

- Matters for employees assisting Audit & Supervisory Board Members in their duties in the event such employees were requested by Audit & Supervisory Board Members

The Company has allocated sufficient staff to the Audit & Supervisory Board Member’s Office (five persons as of December 31, 2023) as an organization supporting the Audit & Supervisory Board Members in performing their duties. In addition, the Company makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

- Matters relating to the independence of employees belonging to the Audit & Supervisory Board Member's Office from the Company's Members of the Board, and matters relating to the assurance of the effectiveness of instruction by Audit & Supervisory Board Members to those employees

The evaluation of the Manager of the Audit & Supervisory Board Member's Office is made by the Audit & Supervisory Board and the evaluation of the other employees assigned to the Audit & Supervisory Board Member's Office is made by the Manager of the Audit & Supervisory Board Member's Office based on the advice of the Audit & Supervisory Board. The transfer and discipline of employees assigned to the Audit & Supervisory Board Member's Office is to be deliberated in advance with the Audit & Supervisory Board.

The Company makes the employees belonging to the Audit & Supervisory Board Member's Office follow the direction and orders of Audit & Supervisory Board Members in assisting the duties of the latter, and not be assigned to other concurrent positions relating to the business execution of the Company.

- System for reporting by directors and employees of the Company and its subsidiaries or persons reported by directors and employees of its subsidiaries to the Audit & Supervisory Board and Audit & Supervisory Board Members

When directors and employees of the Company and its subsidiaries detect any evidence of malfeasance in financial documents or serious breaches of laws and regulations or the Company's Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the Company's management. In addition, when directors and employees of the Company and its subsidiaries are asked by Audit & Supervisory Board Members to compile important documents for their perusal, to accept field audits and to submit reports, they are due to respond to the request in a prompt and appropriate manner.

The Legal and Compliance Division makes reports regularly to Audit & Supervisory Board Members on the status of whistleblowing involving the Group, and makes non-regular reports as necessary.

- System to ensure that persons reporting to Audit & Supervisory Board Members are not subject to disadvantageous treatment due to having reported

The Company thoroughly communicates within the Group that persons engaging in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions.

- Matters concerning policies for the prepayment of expenses involving the performance of duties by Audit & Supervisory Board Members, procedures for reimbursement, and the handling of other expenses or debts involving the performance of those duties

When an Audit & Supervisory Board Member has made claim to the Company for the prepayment of expenses, etc. in accordance with Article 388 of the Companies Act, the Company will promptly handle the relevant expenses or debt, with the exception of cases in which the Company deems the claimed expenses or debt to be unnecessary to the performance of the duties of the Audit & Supervisory Board Member.

The Company makes a budget covering audit-related expenses so as to secure effectiveness of audits by Audit & Supervisory Board Members. The Company also bears the portion of miscellaneous expenses for audits by Audit & Supervisory Board Members that are in excess of budget, with the exception of cases in which the Company deems the expenses to be unnecessary to the performance of duties.

- Other systems to ensure effective auditing by Audit & Supervisory Board Members

Audit & Supervisory Board Members are allowed to attend not only meetings of the Board of Directors of the Company but also other important meetings of the Company. The Operational Review and Business Assurance Division and the Legal and Compliance Division maintain cooperation with Audit & Supervisory Board Members by exchanging information.

d. Other matters regarding corporate governance

• Evaluation of effectiveness of the Board of Directors

With regard to the effectiveness of the Board of Directors, in addition to annual questionnaire-based self-evaluations by Members of the Board and Audit & Supervisory Board Members from the standpoint of such themes as business operation systems and supervisory functions of the Board of Directors, and dialogue with shareholders and investors, before compiling the results the Board of Directors Secretariat also conducts individual interviews if needed with the aim of supplementing the results of the evaluations. The results of the self-evaluations are assessed and analyzed at the Board of Directors, leading to further improvements in its effectiveness.

In fiscal 2023, the questionnaire was conducted as follows.

Furthermore, we take advice from external institutions when creating the questionnaire and analyzing the results, in order to ensure objectivity and further improve the evaluation of effectiveness.

- Questionnaire preparation period: From September to November 2023
- Period of evaluation: Year 2023 (January 2023 to December 2023)
- Response period: November 17, 2023 - December 1, 2023
- Target respondents: Total of 14 Members of the Board and Audit & Supervisory Board Members
- Summary: Rating for each question (on a scale of 5) and filling out the free form
- Consultation by the Board of Directors: February 19, 2024

The major items evaluated were as follows. Questions are designed to confirm improvements to the issues identified in fiscal 2022 in addition to items that should be continually checked.

1. Roles, Functions and Composition of the Board of Directors (6 questions)
2. Business operation of the Board of Directors (7 questions)
3. Cooperation with audit institutions and risk management (3 questions)
4. Relationship with shareholders and investors (3 questions)
5. Voluntary committee (2 questions)
6. Issues to be discussed and shared (1 question)

In fiscal 2023, we took the following actions to address the issues identified in the effectiveness evaluation for fiscal 2022.

Main issues	Details of actions
<ul style="list-style-type: none">• Further strengthening the supervisory function of the Board of Directors• Strengthening the effectiveness and efficiency of the Board of Directors	<ul style="list-style-type: none">• Further enhance opportunities to report and share the status of various management issues and risk management and the status of discussions in voluntary committees• Continual improvement of the management of the Board of Directors, including the enhancement of meeting facilities and facilitation of proceedings

In the evaluation of effectiveness conducted for fiscal 2023, the items undergoing evaluation obtained good results on the whole as continuing from fiscal 2022, allowing the Company to confirm that the effectiveness of the Board of Directors is improving, and the Board of Directors is functioning effectively. The responses to each question showed minimal deviation, indicating a general consensus in the recognition and understanding of the strengths and weaknesses of the Members of the Board and Audit & Supervisory Board Members. Additionally, there was especially high praise for the enhanced efforts in management aspects. These include

the setting agenda items at Board of Directors' meetings and other forums for the exchange of views, as well as conducting open and dynamic proceedings.

In order to make an enhanced effectiveness, the Company will target continuous improvements from fiscal 2024 onwards, focusing on the following initiatives.

Continuous issues	Policy for initiatives going forward
<ul style="list-style-type: none"> • Continued strengthening of the effectiveness and efficiency of the Board of Directors • Continued further strengthening of the supervisory function of the Board of Directors 	<ul style="list-style-type: none"> • Improvement of the management of the Board of Directors, including the facilitation of proceedings • Enhancement of opportunities to share and discuss the main management issues, etc. • Enhancement of opportunities for communication among the officers

The Company will continue to implement improvements required to further enhance effectiveness, including the above-mentioned activities.

- Policy for ensuring the effectiveness of the governance system for the listed subsidiary

The Company believes it is an indispensable prerequisite for the listed subsidiary to maintain independence in terms of management and to duly protect its minority shareholders' interests in order for, not only the listed subsidiary, but also for the Company to grow in value. Therefore, the Company is striving to build an appropriate governance system for the subsidiary as a listed subsidiary. The Company has instituted the Group's Responsibility and Authority Regulations as internal decision-making rules. The listed subsidiary has opted to adopt these regulations, thereby gaining autonomy in terms of decision-making authority. Such autonomy ensures its independence as a listed subsidiary.

Torii Pharmaceutical is a consolidated subsidiary of the Company and is listed on the Tokyo Stock Exchange. We recognize that appointment of directors at Torii Pharmaceutical places consideration from the perspective of whether the appointment will contribute to enhancing corporate value and shareholder interests, upon having enlisted a proper and transparent process as a listed company, from a position independent of the Company. In addition, Torii Pharmaceutical is upgrading the effectiveness of its governance system, which effectively utilizes Independent Outside Directors. To such ends, Torii Pharmaceutical approved a resolution on transiting to a majority independent Board of Directors at its Annual General Meeting of Shareholders held on March 26, 2020, and additionally disclosed its intentions to transition to the company with an Audit and Supervisory Committee structure in November 2023. The Company gives due consideration to the interests of general shareholders when exercising its authority to appoint and dismiss Independent Outside Directors of Torii Pharmaceutical. Meanwhile, the Company appropriately assesses each proposal by determining whether the individual in question is deemed capable of adequately providing advice to management from a medium- to long-term perspective, while also seeking to furthermore heighten the transparency and fairness in that regard by supervising management from a broader perspective on the basis of embracing the corporate philosophy of Torii Pharmaceutical and understanding its business.

- Succession planning

The Company places priority on fostering successive generations of executives who will manage its future operations in the Group, expanding its pool of executive candidates and improving quality thereof.

To develop a steady stream of highly skilled, highly qualified leaders capable of excelling in the global arena, the Company aims to upgrade its executive development program, succession plan and succession planning process with input from both external consultants and the Independent Outside Directors on the Advisory Panel on Nomination and Compensation. Senior management, having the President and Chief Executive Officer at the core, are deeply involved in selecting executive candidates and supporting their growth.

The Company expands its executive talent pool by selecting groups of human resources who have the potential for being future executive candidates by organizational rank through Group-wide recruitment and recommendations from management, particularly executive officers. The Company develops selected personnel mainly through diverse and challenging job assignments based on individualized development plans formulated with input from outsourced objective assessments and periodic discussions with management.

- Key points of the partial exemption of liability and liability limitation agreement

The Company's Articles of Incorporation stipulate that the Company may enter into an agreement with Members of the Board (excluding those who are Executive Directors, etc.) and Audit & Supervisory Board Members to limit the scope of their liabilities in advance to the extent permitted by the Companies Act and the Company may exempt Members of the Board and Audit & Supervisory Board Members from liabilities to the extent permitted by the same act. This provision is intended to enable Members of the Board and Audit & Supervisory Board Members to fulfill their expected role and make it easier to appoint the right persons from a broad choice both within and outside the company. As of the date of submission, the Company has such liability limiting agreements with its Members of the Board (excluding those who are Executive Directors, etc.) and Audit & Supervisory Board Members.

- Liability agreement

The Company has entered into liability agreements with each of its Members of the Board and Audit & Supervisory Board Members as stipulated in Article 430-2, paragraph 1 of the Companies Act, whereby the Company shall compensate them for expenses incurred under item (i) of the same paragraph, and any losses incurred under item (ii) of the same paragraph, to the extent permitted by laws and regulations. However, to provide coverage for losses incurred under item (ii) of the same paragraph, measures have been put into place to ensure that the proper performance of duties of insureds is not impaired, by making such coverage premised upon a final judgment or the reaching of a judicial settlement (including cases where the Company recognizes there is a due process that is equivalent to this) and requiring a resolution by the Board of Directors of the matter after it has been deliberated by the Advisory Panel on Nomination and Compensation of the Company.

- Liability insurance agreement for executive officers, etc.

The Company has entered into a liability insurance agreement for executive officers, etc. with an insurance company as stipulated in Article 430-3, paragraph 1 of the Companies Act, under which all Members of the Board, Audit & Supervisory Board Members, and Executive Officers are the insured. Under the terms of this insurance agreement, litigation expenses and compensation for damages arising from legal action against the insured by third parties, shareholders or companies shall be supplemented, and a premium for the insurance agreement is fully borne by the Company. Note that any damages, etc., incurred by the insured in association with his/her criminal act or violation of laws and regulations while he/she is aware of that are not subject to the coverage; as such, a measure is taken to ensure/maintain the appropriateness in the execution of duties by the insured.

- Number of Members of the Board

The Company's Articles of Incorporation stipulate that the number of Members of the Board must be 15 or less.

- Nomination of Member of the Board Candidates, etc.

With regard to candidates for Members of the Board, the JT Corporate Governance Policy stipulates that the proposed list of candidates created by the President and Chief Executive Officer shall be deliberated by the Advisory Panel on Nomination and Compensation, the content and results of which are reported to the Board of Directors, and that after appropriate opportunities to receive advice from Independent Outside Directors have been secured, a decision shall be made by resolution of the Board of Directors. The Company's Articles of Incorporation stipulate that Members of the Board must be appointed by a majority of the shareholder votes cast on an occasion where shareholders representing at least one-third of the total voting rights are present.

In the JT Corporate Governance Policy, it is prescribed that Audit & Supervisory Board Member candidates shall be nominated by resolution of the Board of Directors as persons who are expected to perform their duties appropriately from a position independent of the Board of Directors. The resolution shall be made after securing opportunities for receiving appropriate advice from Independent Outside Directors by having the Advisory Panel on Nomination and Compensation deliberate on a candidate proposal formed by the President and Chief Executive Officer and report the content and results of its deliberations to the Board of Directors,

and after receiving prior consent from the Audit & Supervisory Board. The Company's Articles of Incorporation stipulate that Audit & Supervisory Board Members must be appointed by a majority of the shareholder votes cast on an occasion where shareholders representing at least one-third of the total voting rights are present.

With regard to the dismissal of Executive Directors and Members of the Board also serving as Executive Officers, the JT Corporate Governance Policy stipulates that in cases where such persons do not meet the required qualifications or have become unable to perform their duties, a decision shall be made by resolution of the Board of Directors after securing appropriate opportunities for receiving advice from Independent Outside Directors by having those Members of the Board who are not subject to dismissal request the Advisory Panel on Nomination and Compensation to deliberate on the proposal for dismissal, and then having the Panel report the content and results of its deliberations to the Board of Directors. In relation to resolutions pertaining to the dismissal of Members of the Board, there are no provisions in the Articles of Incorporation that differ from those of the Companies Act.

Further, when bringing up the agenda item on the appointment of Member of the Board candidates at the shareholders' meeting, and when the Board of Directors has resolved to dismiss Executive Directors and Members of the Board also serving as Executive Officers, the Company shall disclose the reasons for the appointment of individual candidates and for the dismissal.

- Matters to be decided by the Board of Directors without referral to General Meeting of Shareholders

Acquisition of treasury shares

In order to enable flexible management that meets changes in business environment, the Company's Articles of Incorporation stipulate that the Company may acquire treasury shares through means such as market transaction upon a resolution by the Board of Directors under Article 165, paragraph 2 of the Companies Act.

Interim dividends

In order to enable profits to be returned to shareholders in a flexible manner, the Company's Articles of Incorporation stipulate that the Company may pay interim dividends to shareholders, upon a resolution by the Board of Directors under Article 454, paragraph 5 of the Companies Act.

- Requirements for special resolutions at General Meeting of Shareholders

In order to facilitate the smooth conduct of General Meeting of Shareholders with an easier quorum requirement for special resolutions, the Company's Articles of Incorporation stipulate that a resolution as specified by Article 309, paragraph 2 of the Companies Act is valid if it is supported by at least two-thirds of the votes cast at a General Meeting of Shareholders attended by shareholders representing at least one-third of the Company's total voting rights (compared with the usual requirement of "at least half").

- Measures regarding transactions that involve possible conflict of interest between the Company and specified shareholders to avoid harming the interests of shareholders (excluding the shareholder who is a party to such a transaction)

The Company requires resolution by the Board of Directors with respect to gaining approval for uncustomary transactions between the Company and its major shareholders.

(2) Status of Officers

a. Officers

There are twelve male officers and three female officers (20.0% of the officers are women).

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)	
Chairperson of the Board	Mutsuo Iwai	October 29, 1960	April 1983	Joined the Company (Japan Tobacco and Salt Public Corporation)	1 year since March 2024	43,200
			June 2003	Vice President, Corporate Planning Division		
			July 2004	Vice President, Corporate Strategy Division		
			June 2005	Senior Vice President and Vice President, Food Business Division, Food Business		
			June 2006	Member of the Board and Executive Vice President, President, Food Business		
			June 2008	Executive Vice President, Chief Strategy Officer		
			June 2010	Member of the Board and Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business		
			June 2011	Member of the Board Executive Vice President, JT International S.A.		
			June 2013	Senior Executive Vice President, Chief Strategy Officer		
			January 2016	Executive Vice President, President, Tobacco Business		
			March 2016	Representative Director and Executive Vice President		
			January 2020	Member of the Board		
			March 2020	Deputy Chairperson of the Board		
			June 2020	Outside Director, Benesse Holdings, Inc. (Current Position)		
			June 2021	Outside Director, TDK Corporation (Current Position)		
			March 2022	Chairperson of the Board, the Company (Current Position)		
January 2023	Outside Director, &Capital Inc. (Current Position)					
(Significant Concurrent Positions outside the Company)						
Outside Director, Benesse Holdings, Inc.						
Outside Director, TDK Corporation						
Outside Director, &Capital Inc.						

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)	
Deputy Chairperson of the Board	Shigeaki Okamoto	February 20, 1961	April 1983	Entered Ministry of Finance	1 year since March 2024	700
			July 2006	Director for the Budget Bureau, Planning and Administration Division of Budget Bureau, Ministry of Finance		
			July 2009	Head of Secretariat Division, Minister's Secretariat, Ministry of Finance		
			August 2012	Deputy Director-General of the Budget Bureau, Ministry of Finance		
			July 2015	Deputy Vice Minister, Ministry of Finance		
			July 2017	Director-General of the Budget Bureau, Ministry of Finance		
			July 2018	Administrative Vice Minister, Ministry of Finance		
			June 2021	Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. (Current Position)		
			December 2021	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office (Current Position) Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office (Current Position)		
			March 2022	Deputy Chairperson of the Board, the Company (Current Position)		
June 2022	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Tokyo Head Office (Current Position)					
			(Significant Concurrent Positions outside the Company) Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Tokyo Head Office			

Title	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
* Representative Director and President, Chief Executive Officer	Masamichi Terabatake	November 26, 1965	April 1989	Joined the Company	1 year since March 2024	249,117
			July 2005	Vice President, Secretary's Office		
			July 2008	Vice President, Corporate Strategy Division		
			June 2011	Senior Vice President, Chief Strategy Officer and in charge of Food Business		
			June 2012	Senior Vice President, Chief Strategy Officer		
			June 2013	Member of the Board Executive Vice President, JT International S.A.		
			January 2018	President and Chief Executive Officer, the Company		
			March 2018	Representative Director and President, Chief Executive Officer (Current Position)		
			(Significant Concurrent Positions outside the Company) Chairman of Supervisory Board, JT International Holding B.V.			
* Representative Director and Executive Vice President	Kei Nakano	March 1, 1968	April 1991	Joined the Company	1 year since March 2024	49,878
			April 2011	Vice President, M&S Strategy Department, Tobacco Business Division		
			June 2014	President and Chief Executive Officer, TS Network Co., Ltd.		
			January 2016	Senior Vice President, Communications, the Company		
			October 2019	Senior Vice President, Corporate Strategy		
			March 2020	Director, Japan Growth Investments Alliance, Inc. (Current Position)		
			January 2022	Senior Vice President, Corporate Strategy, the Company		
			January 2023	Executive Vice President		
			March 2023	Representative Director and Executive Vice President (Current Position)		
			(Significant Concurrent Positions outside the Company) Director, Japan Growth Investments Alliance, Inc.			
* Representative Director and Executive Vice President	Koji Shimayoshi	March 7, 1968	April 1993	Joined the Company	1 year since March 2024	14,400
			July 2008	Vice President, Tobacco Business Planning Division, Tobacco Business		
			July 2012	Vice President, Human Resources Division		
			July 2014	Vice President, Human Resources Division and Human Resources Planning Division		
			October 2015	Senior Vice President, Chief Human Resources Officer		
			January 2017	Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business		
			October 2017	Senior Vice President, JT International S.A.		
			January 2018	Executive Vice President, JT International S.A.		
			January 2024	Executive Vice President, the Company		
			March 2024	Representative Director and Executive Vice President (Current Position)		

Title	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
Member of the Board	Yukiko Nagashima	April 4, 1961	April 1985	Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.)	1 year since March 2024	0
			April 2006	Corporate Executive Officer, Recruit Co., Ltd.		
			January 2008	President and Representative Director, Recruit Staffing Co., Ltd.		
			October 2012	Corporate Executive Officer, Recruit Holdings Co., Ltd.		
			June 2016	Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)		
			April 2018	Standing Audit & Supervisory Board Member, Recruit Co., Ltd. (Current Position)		
			March 2019	Outside Director, the Company (Current Position)		
			June 2021	Outside Audit & Supervisory Board Member, SUMITOMO CORPORATION (Current Position)		
			(Significant Concurrent Positions outside the Company) Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd. Standing Audit & Supervisory Board Member, Recruit Co., Ltd. Outside Audit & Supervisory Board Member, SUMITOMO CORPORATION			
Member of the Board	Masato Kitera	October 10, 1952	April 1976	Joined the Ministry of Foreign Affairs	1 year since March 2024	0
			January 2008	Director-General for Sub-Saharan African Affairs, Middle Eastern and African Affairs Bureau, and Secretary-General, TICAD IV, Ministry of Foreign Affairs		
			July 2008	Director-General, International Cooperation Bureau, Ministry of Foreign Affairs		
			January 2010	Deputy Minister, Ministry of Foreign Affairs		
			September 2012	Assistant Chief Cabinet Secretary		
			November 2012	Ambassador of Japan to the People's Republic of China		
			April 2016	Ambassador of Japan to the Republic of France		
			June 2016	Ambassador of Japan to the Republic of France, Andorra and Monaco		
			April 2020	Advisor, the Company		
			June 2020	Outside Director, Marubeni Corporation (Current Position)		
				Outside Director, NIPPON STEEL CORPORATION (Current Position)		
			March 2021	Outside Director, the Company (Current Position)		
			(Significant Concurrent Positions outside the Company) Outside Director, Marubeni Corporation Outside Director, NIPPON STEEL CORPORATION			

Title	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
Member of the Board	Tetsuya Shoji	February 28, 1954	April 1977	Joined Nippon Telegraph and Telephone Public Corporation	1 year since March 2024	0
			June 2006	Senior Vice President, General Manager of the Personnel Department, Nippon Telegraph and Telephone West Corporation		
			June 2009	Senior Vice President, Head of General Affairs, Nippon Telegraph and Telephone Corporation		
			June 2012	Senior Executive Vice President, Representative Member of the Board, NTT Communications Corporation		
			June 2015	President & CEO, Representative Member of the Board, NTT Communications Corporation		
			October 2018	Representative Member of the Board, NTT, Inc.		
			June 2020	Corporate Advisor, NTT Communications Corporation (Current Position)		
			December 2020	Outside Director, circlace Inc. (Current Position)		
			March 2021	Outside Director, Sapporo Holdings Limited (Current Position)		
			June 2021	Outside Director, Hitachi Zosen Corporation (Current Position) Outside Director, Mitsubishi Logistics Corporation (Current Position)		
March 2022	Outside Director, the Company (Current Position)					
(Significant Concurrent Positions outside the Company)						
Corporate Advisor, NTT Communications Corporation						
Outside Director, circlace Inc.						
Outside Director, Sapporo Holdings Limited						
Outside Director, Hitachi Zosen Corporation						
Outside Director, Mitsubishi Logistics Corporation						
Member of the Board	Hiroko Yamashina	May 20, 1963	April 1986	Joined Orient Leasing Co., Ltd. (Current ORIX Corporation)	1 year since March 2024	0
			March 2007	Head of Office of Internal Controls, ORIX Corporation		
			May 2010	Executive Officer, ORIX Life Insurance Corporation		
			January 2013	Managing Executive Officer, ORIX Life Insurance Corporation		
			January 2014	Corporate Officer, ORIX Corporation		
			January 2016	Group Executive, ORIX Corporation (Current Position) President, ORIX Credit Corporation		
			January 2021	Chairman, ORIX Credit Corporation (Current Position)		
			March 2023	Outside Audit & Supervisory Board Member, the Company		
			March 2024	Outside Director (Current Position)		
			(Significant Concurrent Positions outside the Company)			
Group Executive, ORIX Corporation						
Chairman, ORIX Credit Corporation						

Title	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)
Member of the Board	Kenji Asakura	December 11, 1955	April 1978	Joined Nagase & Co., Ltd.	1 year since March 2024	0
			April 2009	Executive Officer and General Manager of Automotive Solutions Dept., Nagase & Co., Ltd.		
			June 2013	Director, Executive Officer, Nagase & Co., Ltd.		
			April 2015	Representative Director, President and CEO, Nagase & Co., Ltd.		
			April 2023	Representative Director, Chairman, Nagase & Co., Ltd. (Current Position)		
			March 2024	Outside Director, the Company (Current Position)		
			(Significant Concurrent Positions outside the Company) Representative Director, Chairman, Nagase & Co., Ltd.			
Standing Audit & Supervisory Board Member	Hideaki Kashiwakura	February 28, 1969	April 1991	Joined the Company	4 years since March 2023	12,128
			July 2012	Controller		
			October 2014	Vice President, M&S Management Department, Tobacco Business Division		
			January 2017	Manager, Hokkaido branch, Tobacco Business Division		
			January 2019	Deputy Chief Financial Officer (Assistant to CFO)		
			January 2021	President, Chief Executive Officer, JT BusinessCom Inc.		
			March 2023	Standing Audit & Supervisory Board Member (Current Position)		
Standing Audit & Supervisory Board Member	Tsutomu Hashimoto	May 31, 1967	April 1991	Joined the Company	4 years since March 2023	1,584
			March 2019	Vice President, Operational Review and Business Assurance Division		
			March 2023	Standing Audit & Supervisory Board Member (Current Position)		

Title	Name	Date of birth	Summary of career		Term of office	Number of shares held (Share)	
Standing Audit & Supervisory Board Member	Shigeru Taniuchi	September 7, 1962	April	1986	Entered Ministry of Finance	4 years since March 2023	0
			July	2008	Director, Allowance Control and Mutual Assistance Insurance, Budget Bureau, Ministry of Finance		
			July	2009	Director, Agriculture, Forestry and Fisheries Section Budget Bureau, Ministry of Finance		
			July	2010	Director, Treasury, Financial Bureau, Ministry of Finance		
			July	2011	Director, National Property Policy Planning, Financial Bureau, Ministry of Finance		
			July	2012	Director-General, Policy-based Finance, Financial Bureau, Ministry of Finance		
			June	2013	Director of Co-ordination Division, Financial Bureau, Ministry of Finance		
			July	2014	Deputy Director-General of Minister's Secretariat, Social Welfare and War Victims' Relief Bureau, Ministry of Health, Labour and Welfare		
			October	2015	Deputy Director-General of Minister's Secretariat, Medical Insurance, Ministry of Health, Labour and Welfare		
			July	2017	Deputy Director-General of Minister's Secretariat, Elderly Health Care, Ministry of Health, Labour and Welfare		
			July	2018	Director, Social Welfare and War Victims' Relief Bureau, Ministry of Health, Labour and Welfare		
			August	2020	Director-General, Secretariat of Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan, Cabinet Secretariat Director, Social Security Reform, Cabinet Secretariat		
			February	2021	Concurrently serving as Director of Loneliness and Isolation Office, Cabinet Secretariat		
			November	2021	Deputy Director-General, Secretariat of the Digital Garden City Initiative Panel, Cabinet Secretariat		
			December	2021	Concurrently serving as Head of Preparation Work Group for Bill of Establishing Children and Families' Agency, Cabinet Secretariat		
			June	2022	Concurrently serving as Head of preparation Work Group for Establishment of Children and Families' Agency, Cabinet Secretariat		
March	2023	Standing Outside Audit & Supervisory Board Member, the Company (Current Position)					

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Audit & Supervisory Board Member	Nobuo Inada	August 14, 1956	<p>April 1981 Appointed as Public Prosecutor</p> <p>October 2008 Deputy Vice-Minister of Justice, Ministry of Justice</p> <p>August 2011 Director-General, the Criminal Affairs Bureau, Ministry of Justice</p> <p>January 2014 Vice-Minister of Justice, Ministry of Justice</p> <p>September 2016 Superintending Prosecutor, Sendai High Public Prosecutors' Office</p> <p>September 2017 Superintending Prosecutor, Tokyo High Public Prosecutors Office</p> <p>July 2018 Prosecutor-General</p> <p>October 2020 Registered as Attorney at Law (Current Position)</p> <p>June 2021 Outside Director, Member of the Audit and Supervisory Committee, Nomura Securities Co., Ltd. (Current Position)</p> <p>March 2023 Outside Audit & Supervisory Board Member, the Company (Current Position)</p> <p>(Significant Concurrent Positions outside the Company) Attorney at Law, Inada Law Firm Outside Director, Member of the Audit and Supervisory Committee, Nomura Securities Co., Ltd.</p>	4 years since March 2023	0
Audit & Supervisory Board Member	Emiko Takeishi	February 16, 1960	<p>April 1982 Joined the Ministry of Labour</p> <p>July 1992 Joined NLI Research Institute</p> <p>April 2003 Assistant Professor, Institute of Social Science, The University of Tokyo</p> <p>April 2004 Research Fellow, NLI Research Institute</p> <p>April 2006 Assistant Professor, Faculty of Lifelong Learning and Career Studies, Hosei University</p> <p>April 2007 Professor, Faculty of Lifelong Learning and Career studies, Hosei University (Current Position)</p> <p>February 2015 Outside Corporate Auditor, Kewpie Corporation</p> <p>June 2015 Outside Audit & Supervisory Board Member, Tokio Marine & Nichido Fire Insurance Co., Ltd. (Current Position)</p> <p>June 2023 Outside Audit & Supervisory Board Member, KAJIMA CORPORATION (Current Position)</p> <p>March 2024 Outside Audit & Supervisory Board Member, the Company (Current Position)</p> <p>(Significant Concurrent Positions outside the Company) Professor, Faculty of Lifelong Learning and Career studies, Hosei University Outside Audit & Supervisory Board Member, Tokio Marine & Nichido Fire Insurance Co., Ltd. Outside Audit & Supervisory Board Member, KAJIMA CORPORATION</p>	3 years since March 2024	0
Total					371,007

- Notes: 1. Members of the Board Yukiko Nagashima, Masato Kitera, Tetsuya Shoji, Hiroko Yamashina and Kenji Asakura are Outside Directors.
2. Standing Audit & Supervisory Board Member Shigeru Taniuchi, Audit & Supervisory Board Members Nobuo Inada and Emiko Takeishi are Outside Audit & Supervisory Board Members.
3. Persons with the title marked with * concurrently serve as Executive Officer.

4. The Company has introduced the Executive Officer System in June 2001 in order to realize prompt and proper decision-making and business execution. The following 20 persons were appointed effective March 22, 2024.

Title	Name	Post
President	Masamichi Terabatake	Chief Executive Officer
Executive Vice President	Kei Nakano	Finance, Corporate Communications, Business Development and D-LAB
Executive Vice President	Koji Shimayoshi	Corporate Governance, Compliance, Corporate Strategy, Sustainability, People & Culture, Information Technology, Legal, Operation Review & Business Assurance, Pharmaceutical Business and Food Business
Senior Vice President	Junichi Fukuchi	Chief Executive Officer, Tobacco Business, Japan
Senior Vice President	Daniel Torras	Performance & Integration, Tobacco Business, Japan
Senior Vice President	Suguru Fujiwara	Corporate Affairs & Communications, Tobacco Business, Japan
Senior Vice President	Nobuhiro Uezawa	Manufacturing, Tobacco Business, Japan
Senior Vice President	Igor Dzaja	Marketing, Tobacco Business, Japan
Senior Vice President	Kazuyuki Inui	Sales, Tobacco Business, Japan
Senior Vice President	Muneaki Fujimoto	President, Pharmaceutical Business
Senior Vice President	Makoto Kakutani	Head of Central Pharmaceutical Research Institute, Pharmaceutical Business
Senior Vice President	Keisuke Nakagomi	Food Business
Senior Vice President	Osamu Hirose	General Counsel
Senior Vice President	Hiroyuki Fukuda	Corporate Strategy and Business Development
Senior Vice President	Kenji Ogura	Corporate Governance and Compliance
Senior Vice President	Hisato Imokawa	Chief Sustainability Officer
Senior Vice President	Hiromasa Furukawa	Chief Financial Officer and Corporate Communications
Senior Vice President	Yoshiyuki Mishima	People & Culture
Senior Vice President	Hisashi Shimobayashi	Information Technology
Senior Vice President	Yuki Otaki	D-LAB

Note: President and Chief Executive Officer Masamichi Terabatake also serves as President of Tobacco Business.

b. Status of Outside Directors and Outside Audit & Supervisory Board Members

- Numbers of Outside Directors and Outside Audit & Supervisory Board Members as well as their human, capital, business or other relationships of interest

The Company has five Outside Directors and three Outside Audit & Supervisory Board Members.

Outside Director Ms. Yukiko Nagashima is standing Audit and Supervisory Board Member of Recruit Holdings Co., Ltd. and Recruit Co., Ltd. Although the Company has business relationships with both companies, the value of the business was less than 0.01% of the consolidated revenue for Recruit Holdings Co., Ltd. in the fiscal year ended March 2023 and less than 0.01% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. Furthermore, Ms. Yukiko Nagashima is Outside Audit & Supervisory Board Member of SUMITOMO CORPORATION. Although the Company has a business relationship with SUMITOMO CORPORATION, the value of the business was less than 0.001% of the consolidated revenue for SUMITOMO CORPORATION in the fiscal year ended March 2023 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Director Mr. Masato Kitera is an Outside Director of Marubeni Corporation. Although the Company has a business relationship with Marubeni Corporation, the value of the business was less than 0.001% of the consolidated revenue for Marubeni Corporation in the fiscal year ended March 2023 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. Furthermore, Mr. Masato Kitera received remuneration as a part-time advisor of the Company from April 30, 2020, but this agreement has expired due to his election at the Ordinary General Meeting of Shareholders held on March 24, 2021. This remuneration was paid to him as consideration for his advice on the management and business of the Company based on the experience and insight he possesses, and satisfies the independence criteria (not more than ¥10 million) prescribed by the Company. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Director Mr. Tetsuya Shoji is Corporate Advisor of NTT Communications Corporation. Although the Company has a business relationship with NTT Communications Corporation, the value of the business was less than 0.05% of the consolidated revenue for NTT Communications Corporation in the fiscal year ended March 2023 and less than 0.05% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. Furthermore, Mr. Tetsuya Shoji is an Outside Director of Mitsubishi Logistics

Corporation. Although the Company has a business relationship with Mitsubishi Logistics Corporation, the value of the business was less than 0.001% of the consolidated revenue for Mitsubishi Logistics Corporation in the fiscal year ended March 2023 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Director Mr. Kenji Asakura is Representative Director, Chairman of Nagase & Co., Ltd. Although the Company has a business relationship with Nagase & Co., Ltd., the value of the business was less than 0.001% of the consolidated net sales for Nagase & Co., Ltd. in the fiscal year ended March 2023 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Audit & Supervisory Board Member Mr. Nobuo Inada is an Outside Director of Nomura Securities Co., Ltd. Nomura Securities Co., Ltd. holds shares of the Company, but this constitutes less than 0.05% of the total shares. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Audit & Supervisory Board Member Ms. Emiko Takeishi is Outside Audit & Supervisory Board Member of Tokio Marine & Nichido Fire Insurance Co., Ltd. Although the Company has a business relationship with Tokio Marine & Nichido Fire Insurance Co., Ltd., the value of the business was less than 0.05% of the ordinary income for Tokio Marine & Nichido Fire Insurance Co., Ltd. in the fiscal year ended March 2023 and less than 0.05% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. Furthermore, Ms. Emiko Takeishi is Outside Audit & Supervisory Board Member of KAJIMA CORPORATION. Although the Company has a business relationship with KAJIMA CORPORATION, the value of the business was less than 0.05% of the consolidated net sales for KAJIMA CORPORATION in the fiscal year ended March 2023 and less than 0.05% of the Company's consolidated revenue in the fiscal year ended December 31, 2023. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

For the Outside Directors and Outside Audit & Supervisory Board Members other than those stated above, there are no human, capital, business or other relationships of interest that should be reported.

- Outside Directors appointed and functions and roles of Outside Directors in corporate governance of the filing company

The Company has appointed Ms. Yukiko Nagashima, Mr. Masato Kitera, Mr. Tetsuya Shoji, Ms. Hiroko Yamashina and Mr. Kenji Asakura as Outside Directors. The Company anticipates that Ms. Nagashima will leverage her experience in corporate management and execution of business in a wide range of fields, such as emerging businesses and temporary staffing and objective point of view based on her experience as Audit & Supervisory Board Member, and also her high degree of knowledge cultivated through the perspectives of both management and auditing. Furthermore, the Company counts on Mr. Kitera to make use of his abundant international experience and insights concerning international affairs, gained through his long diplomatic career including his important positions as a government officer mostly in the Ministry of Foreign Affairs. In addition, the Company assumes that Mr. Shoji will utilize his considerable experiences in business execution and corporate management, having served as a president and representative director for a telecommunications company, and wide-ranging insights incorporate planning, human resources, global operations, and digitization promotion. Ms. Yamashina has considerable knowledge and broad and deep insights in corporate management and business operation, etc. by having served in important roles such as Corporate Officer of a general financial service provider and President of a subsidiary of the company. The Company counts on Mr. Asakura to make use of his outstanding experience and wide-ranging knowledge in global corporate management, business operation, and corporate cultural reform, etc. cultivated through serving in important roles such as Representative Director, President and CEO and Representative Director, Chairman of a trading company specializing in trading chemical products. Accordingly, as well as expecting that all their experiences will be reflected in the management of the Company through their active provision of proposals and advice to the Board of Directors, the Company believes that they will supervise implementation of business from a fair and independent standpoint.

- Outside Audit & Supervisory Board Members appointed and functions and roles of Outside Audit & Supervisory Board Members in corporate governance of the filing company

Outside Audit & Supervisory Board Members are appointed in light of their significant experience in their respective backgrounds and broad perspective. The Company has appointed Mr. Shigeru Taniuchi, Mr.

Nobuo Inada and Ms. Emiko Takeishi as Outside Audit & Supervisory Board Members. Mr. Taniuchi has extensive experience over many years of serving in a wide range of important positions in ministries and agencies, and through this has acquired extensive experience and deep knowledge of such fields as finance and legal affairs. Mr. Inada has extensive experience and broad and deep knowledge of legal affairs and compliance, etc. through his many years of serving in a wide range of important positions in the legal circles, ministries and agencies. Ms. Takeishi has served in important roles such as a university professor specialized in human resource management and women's labor theory, etc., been a member of the Labour Policy Council of the Ministry of Health, Labour and Welfare, and outside auditors of business companies, and possesses wide-ranging experience and advanced and deep knowledge in personnel systems, labor policies, and corporate governance. The Company expects that their experiences, perspectives and knowledge will be reflected in their audit activity, and the Company believes that they will maintain objective and neutral oversight of the management of the Company by conducting audits from a fair and independent standpoint.

- Independence of Outside Directors and Outside Audit & Supervisory Board Members

At the Board of Directors on April 26, 2012, the Company established a Criteria for Evaluating the Independence of Outside Executives. According to the Criteria, Independent Directors/Audit & Supervisory Board Members must not fall under any of the following categories.

1. A person who belongs or belonged to the Company or an affiliate or sister company of the Company
2. A person who belongs to a company or any other form of organization of which the Company is a major shareholder
3. A person who is a major shareholder of the Company or who belongs to a company or any other form of organization which is a major shareholder of the Company
4. A person who is a major supplier or customer of the Company (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)
5. A major creditor of the Company including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)
6. A certified public accountant who serves as an independent auditor or an audit advisor of the Company, or a person who belongs to an auditing firm which serves as an independent auditor or an audit advisor of the Company
7. A person who receives a large amount of fees from the Company in exchange for providing professional services for legal, financial and tax affairs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)
8. A person who receives a large amount of donation from the Company (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)
9. A person who has fit any of the descriptions in 2 to 8 above in the recent past
10. A close relative of a person who fits any of the following descriptions:
 - (i) A person who fits any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)
 - (ii) A member of the board, audit & supervisory board member, audit advisor, executive officer or employee of the Company or an affiliate or sister company of the Company
 - (iii) A person who has fit the descriptions in (i) or (ii) in the recent past.

Notes:

- A company or any other form of organization of which the Company is a major shareholder
A company or any other form of organization, in which the Company holds more than 10% of all shares issued
- A major shareholder of the Company, or a company or any other form of organization which is a major shareholder of the Company
A person, or a company or any other form of organization, that holds more than 10% of all shares of the Company issued

- A major supplier or customer of the Company
A person whose business with the Company accounts for more than 2% of the consolidated revenue of the Company, or a person whose business with the Company accounts for more than 2% of the consolidated revenue of the person
- A major creditor of the Company including a major loan lender
A financial institution listed in the “Major Lenders” section of the Company’s Business Report, and a financial institution listed as a lender or a lead managing underwriter in materials released at the time of major M&A deals in the past, and at other times
- A person who receives a large amount of fees from the Company in exchange for providing professional services for legal, financial and tax affairs or business consulting services
A person who receives fees of more than ¥10 million in a fiscal year from the Company in exchange for providing professional services for legal, financial and tax affairs or business consulting services.
For a company or any other form of organization, this shall be 2% or more of total income in a fiscal year. However, even if the fees shall be less than 2%, in cases where consideration for services in which such professionals are directly involved exceeds ¥10 million, it shall be considered a large amount.
- A person who receives a large amount of donation from the Company
A person who receives a donation of more than ¥10 million in a fiscal year from the Company. In cases where the recipient is a company or any other form of organization, a person belonging to an organization that receives a donation of ¥10 million in a fiscal year or the equivalent to 2% of the organization’s total annual income or consolidated revenue, whichever is the greater amount.
- A close relative
A spouse or a relative within the second degree of kinship
- A person who performs important duties
A person of head of division or executive rank
- Retrospective measure (criteria for judging “in the recent past”)
The retrospective period shall be the past five years

Notwithstanding the above mentioned notes, as a result of investigations into the past and present state of employment of a candidate, it is judged that the person is in effect independent, that person may become an Outside Member of the Board or an Outside Audit & Supervisory Board Member after receiving the approval of the Board of Directors. In such cases, the grounds for the decision shall be disclosed publicly.

In light of the above set of criteria, the Company has designated Ms. Yukiko Nagashima, Mr. Masato Kitera, Mr. Tetsuya Shoji, Ms. Hiroko Yamashina and Mr. Kenji Asakura, who are Outside Directors, and Mr. Shigeru Taniuchi, Mr. Nobuo Inada and Ms. Emiko Takeishi, who are Outside Audit & Supervisory Board Members, as independent auditors and directors as defined by financial instruments exchanges.

To ensure that supervisory tasks and audits are conducted appropriately, information is shared regarding supervision and audit results and other steps are taken to ensure cooperation among operations involving supervision or audits performed by Outside Directors or Outside Audit & Supervisory Board Members, and operations involving internal audits, audits by Audit & Supervisory Board Members and audits by the Independent Auditor. To ensure appropriate implementation of business, information is exchanged as necessary and other means of cooperation are implemented among operations involving supervision or audits performed by Outside Directors or Outside Audit & Supervisory Board Members, and the Company’s Internal Control Division.

(3) Implementation status of audits

a. Status of audits by Audit & Supervisory Board Members

i. Organization, members and procedures for audits by Audit & Supervisory Board

For the organization, members and procedures for audits by Audit & Supervisory Board, please refer to “(1) Outline of Corporate Governance, b. Outline of corporate governance structure and reason for adoption of the structure” and “(2) Status of Officers, b. Status of Outside Directors and Outside Audit & Supervisory Board Members, Outside Audit & Supervisory Board Members appointed and functions and roles of Outside Audit & Supervisory Board Members in corporate governance of the filing company.”

ii. Status of Audit & Supervisory Board Members and Audit & Supervisory Board activities

During the fiscal year ended December 31, 2023, the Audit & Supervisory Board meeting was held a total of 14 times, with attendance at meetings for individual Audit & Supervisory Board Members after they assumed the office of Audit & Supervisory Board Member being as follows:

Classification	Name	Attendance at meetings of the Audit & Supervisory Board
Standing Audit & Supervisory Board Member	Hideaki Kashiwakura	10/10 (100%)
Standing Audit & Supervisory Board Member	Tsutomu Hashimoto	10/10 (100%)
Standing Outside Audit & Supervisory Board Member	Shigeru Taniuchi	10/10 (100%)
Outside Audit & Supervisory Board Member	Nobuo Inada	10/10 (100%)
Outside Audit & Supervisory Board Member	Hiroko Yamashina	10/10 (100%)

- Notes: 1. Ms. Ryoko Nagata, Mr. Hiroshi Yamamoto, Mr. Toru Mimura, Mr. Hiroshi Obayashi and Mr. Koji Yoshikuni, all of whom retired as of the 38th Ordinary General Meeting of Shareholders held on March 24, 2023, attended all four of the four meetings of the Audit & Supervisory Board as Audit & Supervisory Board Members during the fiscal year ended December 31, 2023.
2. Outside Audit & Supervisory Board Member Ms. Hiroko Yamashina resigned as Audit & Supervisory Board Member and assumed the office of Member of the Board at the conclusion of the 39th Ordinary General Meeting of Shareholders held on March 22, 2024.

The specific contents considered by the Audit & Supervisory Board included the auditing policies, legality of the business report and accompanying supplemental schedules, as well as the appropriateness of execution of duties by directors, the state of the rollout and operation of the internal control system, and the reasonableness of the methods used by the Independent Auditor, and of the results thus obtained.

Other activities conducted by Audit & Supervisory Board Members were the exchange of opinions with the Members of the Board, etc. of the Company, attendance at important meetings of the Board of Directors, the reading of documents for important resolutions, etc., surveys of operations and the status of assets at the Company and its subsidiaries, the exchange of opinions with Directors and Audit & Supervisory Board Members, etc. of subsidiaries, and checking progress reports and the reported results for audits implemented by the Independent Auditor.

b. Status of internal audit

The internal audit system is an entity independent of the organizations responsible for business execution that reports directly to the President and Chief Executive Officer and is overseen by the Operational Review and Business Assurance Division (18 employees as of December 31, 2023) of the Company. The internal audit system uses an objective position to examine and evaluate systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect the Company's assets and improve management efficiency. The Operational Review and Business Assurance Division has the authority to observe all activities, inspect all records and question all personnel of the entire Group without restrictions in order to fulfill its responsibilities. Moreover, in coordination with the internal audit functions of all subsidiaries, the Operational Review and Business Assurance Division also undertakes the planning and performance of the Group's internal audit systems and policies, and supplements the internal audit functions of subsidiaries.

The Company's Vice President of the Operational Review and Business Assurance has an obligation to report the results of audits to the President and Chief Executive Officer, and reports to the Board of Directors every year.

c. Implementation status of accounting audits

The Company, in order to ensure the Independent Auditor's appropriate audit, secures sufficient time for audit enabling high-quality audit and provide the Independent Auditor with opportunities to contact Members of the Board and Executive Officers, as well as provide appropriate auditing environment enabling sufficient cooperation between the Independent Auditor and Audit & Supervisory Board Members, the internal auditing division and Outside Directors. Further, in the event that an Independent Auditor indicates a deficiency or problem or discovers misconduct, the Company shall appropriately take measures correspondingly.

While Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits. Also, Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor cooperate with the Company's Internal Control Division to ensure appropriate implementation of business by exchanging information when necessary.

i. Name of auditing firm

Deloitte Touche Tohmatsu LLC

ii. Continuous audit period

39 years

iii. Certified public accountants

Yukitaka Maruchi, Koji Ishikawa, Yoichi Matsushita

iv. Assistants for the audit work

Certified public accountants: 20 persons, People who have passed the Certified Public Accountants Examination: 5 persons, Others: 42 persons

v. Policy and reasons for selecting the Independent Auditor

The Audit & Supervisory Board has established the "Standards for Evaluating and Selecting Independent Auditor." The evaluation and selection of Independent Auditor are conducted in accordance with said standards, and are based on a comprehensive judgment, considering the various factors such as independence from the Company, degree of expertise, adequate experience, size and overseas network which enables efficient implementation of accounting services corresponding to the Company's broad range of business, well established auditing system, fair and reasonable audit plans and expenses.

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph 1 of the Companies Act, with the agreement of all of the Audit & Supervisory Board Members, the Audit & Supervisory Board shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, the Audit & Supervisory Board shall decide the content of proposal and submit such proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

vi. Evaluation of the Independent Auditor by the Audit & Supervisory Board

The Audit & Supervisory Board of the Company conducts evaluations of the Independent Auditor. Evaluation items are established in relation to the independence and expertise of the Independent Auditor, as well as the appropriateness and reasonableness of their audit activities. The materials required to evaluate each item are obtained from the relevant departments within the Company and from the Independent Auditor, and through reports, in order to assess audit quality.

d. Audit fees

i. Audit fees paid to certified public accountants

(Millions of yen)

Classification	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
The Company	350	85	365	100
Consolidated subsidiaries	118	-	122	-
Total	468	85	487	100

Note: Fees paid to Deloitte Touche Tohmatsu LLC.

Details of non-audit services for the Company are as follows.

Fiscal year ended December 31, 2022

Non-audit services for which fees are paid by the Company to certified public accountants include the advisory services relating to sustainability management and IT field, and the issuance of the comfort letter in relation to the bond issuing.

Fiscal year ended December 31, 2023

Non-audit services for which fees are paid by the Company to certified public accountants include the advisory services relating to the strengthening of the state of overseas security governance, etc., and the issuance of the comfort letter in relation to the bond issuing.

ii. Audit fees paid to certified public accountants and organizations that belong to the same network (excluding i.)

(Millions of yen)

Classification	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
The Company	-	492	-	144
Consolidated subsidiaries	916	1,564	1,137	1,574
Total	916	2,056	1,137	1,718

Note: Fees paid to member firms of Deloitte Touche Tohmatsu Limited.

Details of non-audit services for the Company are as follows.

Fiscal year ended December 31, 2022

Non-audit services for which fees are paid by the Company to Deloitte Touche Tohmatsu Limited member firms include consulting services.

Fiscal year ended December 31, 2023

Non-audit services for which fees are paid by the Company to Deloitte Touche Tohmatsu Limited member firms include consulting services.

In addition, details of non-audit services for consolidated subsidiaries are as follows.

Fiscal year ended December 31, 2022

Non-audit services for which fees are paid by consolidated subsidiaries of the Company to Deloitte Touche Tohmatsu Limited member firms include tax consulting.

Fiscal year ended December 31, 2023

Non-audit services for which fees are paid by consolidated subsidiaries of the Company to Deloitte Touche Tohmatsu Limited member firms include tax consulting.

iii. Other important fees for audit attestation services

No items to report.

iv. Policy for determining audit fees

The audit fee is determined through the necessary and sufficient negotiations with auditors based on the audit plan and audit fee estimates provided by them.

More specifically, the audit fee is determined based on the overall information by confirming that the focused audit areas under the audit plan and the scope of group-wide audit and review considering changes in consolidation status are appropriately reflected in the audit hours, and comparing the actual hours to planning in the prior audits.

Consent from the Audit & Supervisory Board is acquired before the determination of the audit fee to ensure the independence of auditors.

v. Reasons for approval of the Independent Auditor's remuneration by the Audit & Supervisory Board:

When the Company concluded an audit contract with Independent Auditor, the Audit & Supervisory Board Members obtained necessary materials and received reports from the Members of the Board, relevant internal departments, and the Independent Auditor, and performed verification to confirm that the amount of remuneration to be paid to the Independent Auditor, the persons in charge of the audits, and other details of the audit contract were appropriate.

Based upon this verification, the Audit & Supervisory Board checked and examined matters including the content of the Independent Auditor's accounting plan, the status of the performance of the auditing duties, and the basis for calculation of the remuneration estimate, and, as a result, determined that approval was fair and reasonable.

(4) Remuneration for Members of the Board and Audit & Supervisory Board Members

- a. Policy concerning the remuneration amount for Members of the Board and Audit & Supervisory Board Members or the remuneration calculation method thereof
 - i. Executive remuneration policy and method for determining remuneration amount

The Board of Directors determines the policies on executive remuneration including the methodology on determination of each Member of the Board's remuneration. These policies are determined after being deliberated and reported by the Advisory Panel on Nomination and Compensation comprised entirely of the Members of the Board who do not serve as Executive Officers, in which more than half of whose members being independent Outside Directors, in order to ensure independence and objectivity.

Based on these policies, the Company's basic concept on executive remuneration is as follows:

- Set the remuneration at an adequate level to retain personnel with superior capabilities.
- Link the remuneration to company performance so as to motivate executives to achieve their performance targets.
- Link the remuneration to company value in the mid- to long-term.
- Ensure transparency by implementing an objective and quantitative framework.

Determination of the amount of remuneration for each Member of the Board is benchmarked based on a survey of remuneration of directors conducted by third parties, based on the remuneration levels of major domestic manufacturers that are expanding overseas with the similar size and profits (benchmark companies). To be more specific, after benchmarking the level of base salary and the percentage of variable remuneration in annual bonuses and mid- and long-term incentives, we decide the amount of remuneration for Members of the Board based on the results of the review by the Advisory Panel on Nomination and Compensation, in line with the methods of calculation as set forth in the internal rules, and within the maximum remuneration approved by the General Meeting of Shareholders. At this point, judged suitable for overseeing the Company's management and consolidated performance to decide the amount of remuneration for Members of the Board by considering the evaluation of their execution of duties, the Representative Director and President is delegated to make such decisions. As to the remuneration for the fiscal year under review, based on the details of the review by the Advisory Panel on Nomination and Compensation, Representative Director and President Masamichi Terabatake has decided the amount of remuneration for Members of the Board relating to base salary, executive bonus, the monetary remuneration claim toward the allotment of restricted stock, and the monetary remuneration claim toward the allotment of performance share units, by following the methods of calculation as set forth in the internal rules; and the Board of Directors judges its details in compliance with the determination policy.

The remuneration of Audit & Supervisory Board Members is also benchmarked in the same way, and is determined by deliberation among the Audit & Supervisory Board Members within the maximum remuneration approved at the General Meeting of Shareholders.

ii. Executive Remuneration Structure

The executive remuneration is made of four components. In addition to the monthly "base salary," there is an "executive bonus," which reflects the Company's business performance in the relevant fiscal year, a "restricted stock remuneration" and "performance share units," which are linked to the mid- to long-term company value of the Company. The Restricted Stock Remuneration Plan and the Performance Share Unit Plan were introduced in 2020 in order to strengthen the efforts to enhance the mid- to long-term company value and to further promote shared value with shareholders.

The composition of remuneration by member category is as follows:

- Remuneration for the Members of the Board who also serve as Executive Officers

For Members of the Board who also serve as Executive Officers (hereinafter referred to as "Eligible Directors"), remuneration consists of "base salary," "executive bonus," "restricted stock remuneration" and "performance share unit remuneration" as they are required to achieve results by executing their duties on a daily basis.

From fiscal 2023, the Company is increasing the ratio of remuneration composition of the mid- to long-term incentives that are composed of "restricted stock remuneration" and "performance share units," seeking to further promote the aggressive management from a mid- to long-term perspective.

The composition ratio of remuneration is as follows.

Composition	Monetary Remuneration	Monetary Remuneration (Performance-Linked)	Stock Remuneration	Stock Remuneration (Performance-Linked)
Ratio (Note 1)	Base Salary 29-34%	Executive Bonus 28-29%	Restricted Stock Remuneration (Note 2)	Performance Share Unit (Note 2)
			38-43%	

- Notes:
1. The composition ratios vary depending on the duties of the Members of the Board. The ranges are indicated in the illustration.
 2. The ratio of restricted stock remuneration and performance share units is about 3 to 1.
 3. Under the Performance Share Unit Plan, 50% is paid as cash towards tax payment.
 4. The above illustration shows the ratio of remuneration composition if the “executive bonus” and “performance share unit remuneration” are paid at the standard amount. The above ratios could fluctuate depending on the Company’s performance, share price, remuneration levels of benchmark companies, etc.

- Remuneration for the Members of the Board who do not serve as Executive Officers (excluding Outside Directors)

For Members of the Board who do not serve as Executive Officers (excluding Outside Directors), remuneration is not linked to business performance but is composed of “base salary” alone, as they are required to make decisions on the JT Group management strategies aimed at enhancing corporate value and to fulfill supervisory functions including monitoring the implementation of mid- to long-term growth strategies, etc.

- Remuneration for the Outside Directors

Remuneration for the Outside Directors is composed of “base salary” alone and is not linked to business performance to ensure their independence. At the Board of Directors of the Company held on February 14, 2022, a resolution was adopted that from the Advisory Panel on Nomination and Compensation held on March 23, 2022, the Chairperson shall be elected from among Independent Outside Directors by themselves, and that the Outside Director who serves as the Chairperson shall receive the remuneration at a level of the amount corresponding to the duty of the Chairperson, in addition to the remuneration Outside Directors receive.

- Remuneration for the Audit & Supervisory Board Members

Remuneration for the Audit & Supervisory Board Members is composed of “base salary” alone in light of their key responsibility to conduct audits.

(Composition of remuneration by member category)

		Base salary	Executive bonus	Restricted stock remuneration	Performance share units
Members of the Board (excluding Outside Directors)	Executive Officer	Applicable	Applicable	Applicable	Applicable
	Not an Executive Officer	Applicable	Not applicable	Not applicable	Not applicable
Outside Directors		Applicable	Not applicable	Not applicable	Not applicable
Audit & Supervisory Board Members		Applicable	Not applicable	Not applicable	Not applicable

iii. Executive Remuneration Details

- Base salary

Executives will be remunerated with monthly base salary as per their responsibilities. Eligible Directors will be individually evaluated for achievement of their performance targets through execution of their

duties that will lead to the Company's sustainable profit growth. Performance targets are set through interviews with the Company's President and Chief Executive Officer at the beginning of the fiscal year and evaluated at the end of the fiscal year. The base salary for the following fiscal year will be set within certain range reflecting the individual performance evaluations. However, an individual performance evaluation will not be applicable for the Company's President and Chief Executive Officer.

- Executive bonus

Executive bonus for Eligible Directors will be paid as monetary remuneration reflecting the performance of a fiscal year. Core revenue at constant FX, adjusted operating profit (AOP) at constant FX, adjusted operating profit on a reported basis, profit results, and an RRP-related index^(Note) will be the key performance indicators (KPI) for the calculation of executive bonus, which will be used to measure the performance of the business itself, which is the foundation of sustainable profit growth, as well as the achievement rate of profit growth, from the viewpoint of providing shared value with the shareholders and setting indices conducive to sustainable growth over the mid to long term. In calculating the amount of executive bonus, 15% accounts for core revenue at constant FX, 35% for AOP at constant FX, 25% for adjusted operating profit on a reported basis and 25% for profit. The ratio that performance on a reported basis accounts for on the KPIs used to determine executive bonus has been set to 50%. Performance-linked payout is based on the KPI achievement in the range of 0% to 190% and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the RRP-related index. In a case where a Member of the Board who is a recipient of executive bonus has carried out certain wrongful behavior, the officer involved will be required to refund a part of the executive bonus already paid.

Note: Qualitative evaluation indicators pertaining to the implementation of strategies and level of achievement related to RRP (Reduced-Risk Products), which is a focus area.

KPIs related to executive bonus that were used to evaluate Group performance in the fiscal year ended December 31, 2023, and actual results, were as follows.

KPIs for Group performance (consolidated)	Fiscal year ended December 31, 2023	
	Target	Result
Core revenue at constant FX	¥2,606.0 billion	¥2,712.5 billion
Adjusted operating profit at constant FX	¥728.0 billion	¥765.7 billion
Adjusted operating profit on a reported basis	¥667.0 billion	¥728.0 billion
Profit attributable to owners of the parent company	¥440.0 billion	¥482.3 billion

- Restricted Stock Remuneration Plan

The Restricted Stock Remuneration Plan is designed to strengthen the shared value with shareholders and to enhance the corporate value over the mid- to long-term. Monetary remuneration claims are provided to Eligible Directors as remuneration associated with restricted stock in each fiscal year based on resolution of the Company's Board of Directors, and each Eligible Director receives allotment of ordinary shares of the Company by providing all the monetary remuneration claims by means of contribution in kind (the allotment is made by means of disposal of treasury shares). In disposal of ordinary shares of the Company due to this Plan, a restricted stock allotment agreement shall be concluded between the Company and each Eligible Director.

The monetary compensation towards the purchase of the Company's restricted stock will be decided based on the closing price of the Company's share at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the restricted stock.

In addition, the allocation of monetary remuneration claims to the Eligible Directors, assumes that such director accepts the compensation as contribution in kind and enters into the restricted stock allotment agreement.

The specific details of the Plan are as follows. Any other matters regarding the Plan shall be determined by the Company's Board of Directors.

- (1) The total amount of monetary remuneration claims and number of shares
The total amount of monetary remuneration claims for all Eligible Directors together shall not exceed ¥600 million per year or the total number of ordinary shares allotted by the Company shall not exceed 300,000 shares per year. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of shares to be allocated after this Restricted Stock Remuneration Plan has been approved in the 35th Ordinary General Meeting of Shareholders (March 19, 2020), the relevant total number shall be adjusted accordingly within a reasonable range.
- (2) Transfer restriction period and details
The restriction period will be 30 years (“Restriction Period”). During this period restrictions will be applied on the allotted shares (“Allotted Shares”), so that each Eligible Director is prohibited to transfer the Allotted Shares, pledge them, mortgage them, or use any arrangement to dispose them.
- (3) Removal of transfer restrictions
In case any Eligible Director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Company’s Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company’s Board of Directors during the Restriction Period, the transfer restrictions will be removed on all the Allotted Shares. In case any Eligible Director loses any position as either Member of the Board, Audit & Supervisory Board Member or Executive Officer due to expiration of the term or reasons deemed reasonable by the Company’s Board of Directors on the payment date, the transfer restrictions effective as of the payment date will be removed on all the restricted stock.
- (4) Revocation of Allotted Shares without any compensation
Allotted Shares will be revoked by the Company if an Eligible Director violates any laws and regulations or falls under any other event specified by the Company’s Board of Directors during the Restriction Period, the Company retains the right to acquire all or part of the Allotted Shares without any compensation.
- (5) Handling in the case of reorganization
During the Restriction Period, if the Company becomes defunct due to merger or organization restructuring, the transfer restrictions for Allotted Shares will be removed following the resolution of the Company’s Board of Directors before the effective date of such reorganization.

- Performance Share Unit Plan

The Performance Share Unit Plan is a performance-linked stock compensation system that aims to strengthen the shared value with shareholders, to enhance the corporate value over the mid- to long-term and to commit to achieving business results over the mid-term. Members of the Board who also serve as Executive Officers are eligible to receive monetary remuneration claims and cash towards the acquisition of ordinary shares after the performance evaluation period (the “Performance Evaluation Period”)^(Note), which is comprised of three fiscal years starting from the fiscal year subject to provision, in accordance with the rate of achievement of performance and other multi-year performance targets during the performance evaluation period. The Advisory Panel on Nomination and Compensation deliberates and decides on the achievement rate of such targets for performance and other items during the Performance Evaluation Period. The remuneration for the performance share units will be disbursed after the Performance Evaluation Period expires, in principle, as monetary remuneration claims and cash towards the acquisition of ordinary shares. Each of the Eligible Directors will receive the allocation of Company’s ordinary shares by paying all of the monetary remuneration claims in kind (the allotment is made by means of disposal of treasury shares).

The monetary compensation towards the purchase of the Company’s ordinary shares will be decided based on the closing price of the Company’s share at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company’s Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company’s Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the performance share units. In addition, since monetary remuneration claims and cash to deliver the Company’s ordinary shares are granted according to the above achievement rate of performance, the allocation of the monetary remuneration claims and cash to the Eligible Directors, the amount of the claims and cash to deliver the Company’s ordinary shares, and the number of shares

delivered are not decided by the expiration of the Performance Evaluation Period.

Note: The initial year for offering was set as 2020, with a Performance Evaluation Period of three fiscal years, from the fiscal year ended December 31, 2020, to the fiscal year ended December 31, 2022. For 2021, Performance Evaluation Period is three fiscal years, from the fiscal year ended December 31, 2021, to the fiscal year ending December 31, 2023. For 2022, Performance Evaluation Period is three fiscal years, from the fiscal year ended December 31, 2022, to the fiscal year ending December 31, 2024. From the fiscal 2023 forward, to the extent approved by the General Meeting of Shareholders, we will implement the performance-linked stock compensation plan, with respective years set as the year for offering with a new Performance Evaluation Period of three consecutive fiscal years starting thereof.

The specific details of the Plan are as follows. Any other matters regarding the Plan shall be determined by the Company's Board of Directors.

(1) The total amount of monetary remuneration claims and cash and number of shares

The total amount of monetary remuneration claims and cash for all Eligible Directors together shall not exceed the amount obtained by multiplying fixed number of base share units^(Note 1) not exceeding 200,000 shares per fiscal year by share price at the time of delivery^(Note 2), or the total number of ordinary shares allotted by the Company shall not exceed 100,000 shares. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of shares to be allocated has been approved in the 35th Ordinary General Meeting of Shareholders (March 19, 2020), the relevant total number shall be adjusted accordingly within a reasonable range.

- Notes: 1. Number of base share units (determined by the Board of Directors based on the duties, etc., of respective Eligible Directors) x ratio of provision (within a range of 0% to 200% based on the degree of achievement of targets)
2. The share price will be set as the closing price of the Company's ordinary shares at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors for the allotment of shares of the Company on the basis of the Plan after the Performance Evaluation Period expires. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors.

(2) Share allotment and cash calculation methodology

The Company determines performance indicators and others such as performance-linked figures for the Plan which are necessary to specifically calculate the number of shares to be distributed, reviewed by the Advisory Panel on Nomination and Compensation of the Company. Profit has been set as the KPI for the Performance Evaluation Periods that began from fiscal 2020 and fiscal 2021 from the perspective of providing shared value with shareholders. For the Performance Evaluation Period that began from fiscal 2022, the Company has decided to introduce an ESG-related index on top of profit, in order for the Company and shareholders to seek an agreement on a mutual perspective of evaluating and being evaluated, and for the Performance Evaluation Periods that began from fiscal 2023 and fiscal 2024, the Company has decided to set the same KPI. In fiscal 2022, fiscal 2023 and fiscal 2024, the Company has adopted its progress on initiatives to realize net zero as an ESG-related index, specifically the target attainment rates to reduce Greenhouse Gas emissions.

In the specific calculation, the number of shares of the Company to be distributed to each Eligible Director is calculated based on the formula in i) below (however, any fraction of less than one share shall be rounded down), and the amount of cash to be paid as funds for tax payment to each Eligible Director is calculated based on the formula in ii) below. In the case of retirement or new appointment or alike during the Performance Evaluation Period, the number of shares of the Company or the amount of cash to be delivered to the Eligible Director, or his/her heir, may be adjusted reasonably as stipulated by the Company's Board of Directors. If the number of the ordinary shares of the Company allotted to Eligible Directors calculated by the formula i) is greater than the maximum aggregate number of the ordinary shares of the Company to be allotted to Eligible Directors, it shall be deducted in a reasonable manner, such as a proportional distribution, as laid down by the Board of Directors of the Company, within the range not exceeding the maximum aggregate number.

- i) Number of Company shares to be distributed to each Eligible Director
 Number of base share units^(Note 1) x ratio of provision^(Note 2) x 50%
- ii) Amount of monetary benefits to be paid to each Eligible Director
 (Number of base share units^(Note 1) x ratio of provision^(Note 2) – number of ordinary shares of the Company calculated in i) above) x share price at the time of delivery^(Note 3)

- Notes: 1. The number is determined by the Company's Board of Directors in accordance with duties of each Eligible Director and other factors.
2. Performance-linked payout is set to be in the range of 0% to 200% based on the KPI (i.e., profit) achievement in the Performance Evaluation Periods that began from 2020 and 2021.
 In the Performance Evaluation Periods that began from 2022, 2023 and 2024, performance-linked payout is set to be in the range of 0% to 190% based on the KPI (i.e., profit) achievement and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the ESG-related index.
3. The share price will be set as the closing price of the Company's ordinary shares at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors for the allotment of shares of the Company on the basis of the Plan after the Performance Evaluation Period expires. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors.

(3) Pre-requisites for distribution

The Company shall provide the monetary remuneration claims and cash to Eligible Directors, and Eligible Directors are required to purchase the Company's ordinary shares with all the monetary remuneration claims received as contribution in kind, after the Performance Evaluation Period expires and the following conditions for distribution of Company's ordinary shares are met.

- i) Remaining in his/her term of office as Member of the Board, Executive Officer or any other positions separately specified by the Board of Directors during the fiscal year subject to provision
- ii) Non-existence of certain illegal acts
- iii) Other requirements considered necessary, which are stipulated by the Board of Directors

(4) Handling in the case of reorganization

During the Performance Evaluation Period, if the Company becomes defunct due to merger or organization restructuring, the Company's Board of Directors may, prior to the effective date of the said organizational restructuring, decide to pay towards performance share units in accordance with the duration from the commencement date of the Performance Evaluation Period to the date of approval for the said organizational restructuring. However, in lieu of the aforementioned allocation of the Company's ordinary shares, cash will be reasonably calculated by the Company's Board of Directors as the amount equivalent to the said ordinary shares, within the limit of the remuneration for the Performance Share Unit Plan.

iv. Overview of the Resolutions on Total Executive Remuneration at the Ordinary General Meeting of Shareholders

At the 35th Ordinary General Meeting of Shareholders (held on March 19, 2020), approval was obtained for an upper limit to remuneration, consisting of base salary and executive bonus for the Company's Members of the Board (10 persons as of the filing date), of ¥1.1 billion per year for all Members of the Board (including ¥80 million per year for Outside Directors), and at the 37th Ordinary General Meeting of Shareholders (held on March 23, 2022), following an increase of one in the number of Outside Directors, approval was obtained for an increase in the upper limit to remuneration of ¥100 million for all Outside Directors. At the 38th Ordinary General Meeting of Shareholders (held on March 24, 2023), approval was also obtained for the revision of the amount of base salary at a level of not exceeding ¥800 million per year for all Members of the Board (including ¥160 million per year for Outside Directors), and for the revision of the upper limit to the percentage to profit (profit attributable to owners of the parent company) of 0.3% for executive bonus.

In addition, at the 35th Ordinary General Meeting of Shareholders (held on March 19, 2020), approval was obtained for the adoption of the Restricted Stock Remuneration Plan and Performance Share Unit Plan for those Members of the Board who also serve as Executive Officers (3 persons as of the filing date), after abolishing the previous stock option plan, and for upper limits of remuneration of ¥210 million per year for the Restricted Stock Remuneration Plan (equivalent to 115,200 shares), and ¥130 million per year (equivalent to 76,800 shares) for the Performance Share Unit Plan, respectively. At the 38th Ordinary General Meeting of Shareholders (held on March 24, 2023), approval was also obtained for upper limits of remuneration of ¥600 million per year for the Restricted Stock Remuneration Plan (equivalent to 300,000 shares), and the amount obtained by multiplying fixed number of base share units^(Note 1) not exceeding 200,000 shares per fiscal year by share price at the time of delivery^(Note 2) (equivalent to 100,000 shares) for the Performance Share Unit Plan.

- Notes: 1. Number of base share units (determined by the Board of Directors based on the duties, etc., of respective Eligible Directors) x ratio of provision (within a range of 0% to 200% based on the degree of achievement of targets)
2. The share price will be set as the closing price of the Company's ordinary shares at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors for the allotment of shares of the Company on the basis of the Plan after the Performance Evaluation Period expires. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors.

		Remunerations
Base salary		Up to ¥800 million (of which, ¥160 million for Outside Directors)
Executive bonus		Up to 0.3% of profit (profit attributable to owners of the parent company)
Restricted stock remuneration	Total amount of monetary remuneration claims to Eligible Directors	Up to ¥600 million
	Number of shares distributed to Eligible Directors	Up to 300,000 shares
Performance share units	Total amount of monetary remuneration claims to Eligible Directors and cash for the purpose of paying taxes	Up to the amount obtained by multiplying fixed number of base share units (up to 200,000 shares) with share price at offering
	Number of shares distributed to Eligible Directors	Up to 100,000 shares

At the 34th Ordinary General Meeting of Shareholders (held on March 20, 2019), approval was obtained for an upper limit to remuneration for the Company's Audit & Supervisory Board Members (5 persons as of the filing date) of ¥240 million per year for all Audit & Supervisory Board Members.

v. Details of the activities of the Board of Directors and the Advisory Panel on Nomination and Compensation in relation to determining executive remuneration, etc.

Details of activities related to determining executive remuneration were as follows.

Name	Number of meetings	Details of activities
Advisory Panel on Nomination and Compensation	5	Discussion for the nomination of the proposed Members of the Board and Audit & Supervisory Board Members, and their skills matrix; confirmation regarding the level of remuneration; confirmation regarding the pool of executive candidates; discussion on the enhancement of cooperation with the Advisory Panel on Nomination and Compensation that helps strengthen the supervisory function of the Board of Directors; and review of the key performance indicators (KPIs) for the executive bonuses and performance share units
Board of Directors	3	Revision of remuneration, etc. for Members of the Board; decisions related to the payment of restricted stock remuneration and performance share units; appointment of the planned Member of the Board candidates and Audit & Supervisory Board Member candidates, and other matters

b. Total amount of remuneration and other payments, total amount of remuneration and other payments by type, and number of Members of the Board and Audit & Supervisory Board Members to be paid, by member category for the fiscal year ended December 31, 2023

Category	Total amount of remuneration and other payments (Millions of yen)	Total amount of remuneration and other payments by type (Millions of yen)				Number to be paid (Person)
		Base salary	Executive bonus	Restricted stock remuneration	Performance share units	
Members of the Board (excluding Outside Directors)	1,364	473	417	273	202	7
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	82	82	-	-	-	4
Outside Directors and Outside Audit & Supervisory Board Members	168	168	-	-	-	10
Total	1,614	722	417	273	202	21

- Notes:
1. For executive bonus, the amounts planned to be paid are shown.
 2. For performance share units, the amount to be recorded as expenses for the fiscal year under review is listed.
 3. Executive bonus and performance share units of the above fall under performance-linked remuneration and others.
 4. Restricted stock remuneration and performance share units of the above fall under non-monetary remuneration and others.
 5. The above list includes two Members of the Board, two Audit & Supervisory Board Members, and three Outside Directors and Outside Audit & Supervisory Board Members who retired on March 24, 2023.

- c. Total amount of consolidated remuneration and other payments for individuals whose consolidated remuneration and other payments amount to ¥100 million or more for the fiscal year ended December 31, 2023

Name	Category	Company	Amount of consolidated remuneration and other payments by type (Millions of yen)				Total (Millions of yen)
			Base salary	Executive bonus	Restricted stock remuneration	Performance share units	
Masamichi Terabatake	Representative Director	Filing company	156	235	161	134	687
Kiyohide Hirowatari	Representative Director	Filing company	67	100	60	30	257
Kei Nakano	Representative Director	Filing company	46	81	51	31	209

Note: Same as (Notes) 1-4 for the Notes to the above “(ii) Total amount of remuneration and other payments, total amount of remuneration and other payments by type, and number of Members of the Board and Audit & Supervisory Board Members to be paid, by member category for the fiscal year ended December 31, 2023.”

(5) Share Ownership

a. Basic concept and criteria for investment stock category

The Company categorizes stocks that are held exclusively for the purpose of profiting through fluctuations in share prices or from the receipt of dividends as “investment stocks held purely for the purpose of financial investment,” and all others as “investment stocks held for purposes other than financial investment” (strategic shareholdings).

b. Investment stocks held for purposes other than financial investment

i. Shareholding policy, methods used to verify the reasonableness of shareholdings, and details of verification by the Board of Directors, etc. in relation to the suitability of holding individual issues

The Company has drawn up a policy regarding strategic holdings of listed stocks as well as criteria for the exercise of voting rights, as follows, and operates them appropriately.

- The Company maintains strategic shareholdings only in cases where it has concluded that they will contribute to mid- to long-term sustainable profit growth and to increases in corporate value.
- Such shareholdings are subject to detailed investigations, such as whether the purpose of holding each issue is appropriate, and whether the benefits and risks associated with the shareholding are reasonable in the light of capital costs, and the suitability of holding is subject to verification by the Board of Directors every year.
- In cases where, as a result of this verification, a stock is recognized to be lacking the rationale for holding, the stock is sold as and when appropriate.
- The Company exercises its voting rights in relation to strategic shareholdings after coming to a comprehensive judgment regarding the purpose of the shareholding and whether the value of the stock held is impaired.

ii. Number of issues and balance sheet amount

(Fiscal year ended December 31, 2023)

	Number of issues (Issue)	Balance sheet amount (Millions of yen)
Unlisted stocks	45	1,413
Stocks other than unlisted stocks	6	12,912

(Issues for which the number of shares increased in the fiscal year ended December 31, 2023)

	Number of issues (Issue)	Total acquisition cost associated with the increase in the number of shares (Millions of yen)	Reason for increase in the number of shares
Unlisted stocks	2	320	Mainly for establishment and strengthening of cooperative relationships for the pursuit of seeds in the medium to long term
Stocks other than unlisted stocks	-	-	-

(Issues for which the number of shares decreased in the fiscal year ended December 31, 2023)

	Number of issues (Issue)	Total sales proceeds associated with the decrease in the number of shares (Millions of yen)
Unlisted stocks	9	89
Stocks other than unlisted stocks	3	688

iii. Number of shares for each specified investment stock and stock deemed to be held, and information related to balance sheet amount, etc.

Specified investment stocks

Issue	Fiscal year ended December 31, 2023	Fiscal year ended December 31, 2022	Purpose of the shareholding, outline of business alliance, quantitative effects of the shareholding, and the reason for increase in number of shares	Shares of the Company held
	Number of shares (Share)	Number of shares (Share)		
	Balance sheet Amount (Millions of yen)	Balance sheet Amount (Millions of yen)		
Seven & i Holdings Co., Ltd.	852,000	852,000	Dealings with the Company are ongoing, expressed in such ways as cooperation with the sales and sales promotion activities of the tobacco business in Japan, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
	4,767	4,822		
DOUTOR-NICHIRETS Holdings Co., Ltd.	1,320,000	1,320,000	Dealings with the Company are ongoing, expressed in such ways as cooperating with the tobacco business in Japan in the area of setting up environments divided into smoking and non-smoking zones, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
	2,876	2,269		
Japan Airport Terminal Co., Ltd.	400,000	400,000	Dealings with the Company are ongoing, expressed in such ways as cooperating with the tobacco business in Japan in the area of setting up environments divided into smoking and non-smoking zones, and in selling tobacco products in duty- free stores in airports and in urban locations. Shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
	2,484	2,612		
Central Japan Railway Company	–	100,000	Dealings with the Company have been ongoing, expressed in such ways as cooperating with the tobacco business in Japan in the area of setting up environments divided into smoking and non-smoking zones, and shares were held for the purpose of maintaining and strengthening the transactional and cooperative relationship, but as a result of the verification process conducted by the Board of Directors, all shares have been sold.	Yes
	–	1,621		

Issue	Fiscal year ended December 31, 2023	Fiscal year ended December 31, 2022	Purpose of the shareholding, outline of business alliance, quantitative effects of the shareholding, and the reason for increase in number of shares	Shares of the Company held
	Number of shares (Share)	Number of shares (Share)		
	Balance sheet Amount (Millions of yen)	Balance sheet Amount (Millions of yen)		
Yoshimura Food Holdings K.K.	552,500	1,052,500	The two companies exchange human resources and a variety of information with a view to enhancing corporate value, and shares are held for the purpose of maintaining and strengthening the stable long-term cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
	576	682		
NIPPON EXPRESS HOLDINGS, INC.	173,040	173,040	As a service provider that collaborates with the tobacco business in Japan in the area of distribution, dealings with the Company for the transportation of product are ongoing, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	Yes
	1,387	1,305		
Daicel Corporation	602,000	602,000	As a supplier for the tobacco products of the tobacco business in Japan and overseas, dealings with the Company for the procurement of materials are ongoing, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	Yes
	822	575		
Tokyo Automatic Machinery Works, Ltd.	–	27,400	As a supplier of tobacco production machinery to the tobacco business in Japan, dealings with the Company in relation to the procurement and maintenance of machinery and parts have been ongoing, and shares were held for the purpose of maintaining and strengthening the transactional and cooperative relationship, but as a result of the verification process conducted by the Board of Directors, all shares have been sold.	Yes
	–	48		

Note: The approach used to verify each individual shareholding is as described in “b. Investment stocks held for purposes other than financial investment, i. Shareholding policy, methods used to verify the reasonableness of shareholdings, and details of verification by the Board of Directors, etc. in relation to the suitability of holding individual issues” above.

Stocks deemed to be held

No items to report for the fiscal years ended December 31, 2022 and 2023.

c. Investment stocks held purely for the purpose of financial investment

No items to report for the fiscal years ended December 31, 2022 and 2023.

V. Accounting

1. Preparation Policy of the Consolidated and Nonconsolidated Financial Statements

- (1) The consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the “Company”) are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the Ordinance on CFS).
- (2) The nonconsolidated financial statements of the Company are prepared based on the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the Ordinance on FS). The Company is categorized as a company allowed to file specified financial statements, and prepares the nonconsolidated financial statements in accordance with the provisions of Article 127 of the Ordinance on FS.
- (3) Figures stated in the consolidated and nonconsolidated financial statements are rounded to the nearest million yen.

2. Audit Certification

In accordance with the provisions of Article 193-2 (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the nonconsolidated financial statements for the year ended December 31, 2023 were audited by Deloitte Touche Tohmatsu LLC.

3. Special Effort to Ensure the Appropriateness of Consolidated Financial Statements, and Development of a System for Fair Preparation of Consolidated Financial Statements, in accordance with IFRS

The Company is making special effort to ensure the appropriateness of the consolidated financial statements and developing a system for the appropriate preparation of consolidated financial statements in accordance with IFRS. The content thereof is as follows:

- (1) In order to develop a system, which is capable of responding to changes of accounting standards adequately, we strive to accumulate expert knowledge by assigning employees with sufficient knowledge on IFRS, and participating in organizations, such as the Financial Accounting Standards Foundation and attending their seminars.
- (2) In order to prepare appropriate consolidated financial statements in accordance with IFRS, we established the IFRS Group Accounting Guidelines, and we comply with them. The IFRS Group Accounting Guidelines are revised and updated as needed after obtaining press releases and standards issued by the International Accounting Standards Board, understanding the latest standards and examining their impact on our results.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2022 and 2023

	2022	(Millions of yen) 2023
Assets		
Current assets		
Cash and cash equivalents (Note 7)	866,885	1,040,206
Trade and other receivables (Note 8)	477,239	535,302
Inventories (Note 9)	691,906	832,611
Other financial assets (Note 10)	37,677	58,633
Other current assets (Note 11)	649,181	789,888
Subtotal	2,722,889	3,256,639
Assets held for sale (Note 12)	702	2,921
Total current assets	2,723,591	3,259,561
Non-current assets		
Property, plant and equipment (Notes 13, 15)	775,957	821,499
Goodwill (Note 14)	2,446,063	2,616,440
Intangible assets (Note 14)	246,442	206,982
Investment property (Note 16)	9,495	9,338
Retirement benefit assets (Note 22)	57,792	65,856
Investments accounted for using the equity method	56,943	56,726
Other financial assets (Note 10)	140,366	156,316
Deferred tax assets (Note 17)	91,430	89,379
Total non-current assets	3,824,487	4,022,536
Total assets	6,548,078	7,282,097

	2022	(Millions of yen) 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	540,089	592,802
Bonds and borrowings (Note 19)	137,308	233,333
Income tax payables	37,470	29,647
Other financial liabilities (Note 19)	40,065	44,470
Provisions (Note 20)	26,610	18,634
Other current liabilities (Note 21)	781,093	1,008,390
Subtotal	1,562,635	1,927,276
Liabilities directly associated with assets held for sale	29	-
Total current liabilities	1,562,664	1,927,276
Non-current liabilities		
Bonds and borrowings (Note 19)	821,003	908,926
Other financial liabilities (Note 19)	41,735	40,678
Retirement benefit liabilities (Note 22)	244,116	279,443
Provisions (Note 20)	26,490	45,527
Other non-current liabilities (Note 21)	195,248	127,170
Deferred tax liabilities (Note 17)	40,061	40,586
Total non-current liabilities	1,368,653	1,442,329
Total liabilities	2,931,317	3,369,605
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,400	736,478
Treasury shares (Note 23)	(490,183)	(489,194)
Other components of equity (Note 23)	104,309	290,550
Retained earnings	3,089,909	3,192,323
Equity attributable to owners of the parent company	3,540,435	3,830,156
Non-controlling interests	76,326	82,336
Total equity	3,616,761	3,912,491
Total liabilities and equity	6,548,078	7,282,097

B. Consolidated Statement of Income
Years Ended December 31, 2022 and 2023

(Millions of yen)

	2022	2023
Revenue (Notes 6, 25)	2,657,832	2,841,077
Cost of sales (Notes 14, 22)	(1,090,989)	(1,225,974)
Gross profit	1,566,843	1,615,103
Other operating income (Note 26)	20,262	30,027
Share of profit in investments accounted for using the equity method	8,009	8,332
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(941,538)	(981,052)
Operating profit (Note 6)	653,575	672,410
Financial income (Notes 28, 33)	31,147	44,414
Financial costs (Notes 22, 28, 33)	(91,272)	(95,222)
Profit before income taxes	593,450	621,601
Income taxes (Note 17)	(149,277)	(136,292)
Profit for the period	444,174	485,310
Attributable to		
Owners of the parent company	442,716	482,288
Non-controlling interests	1,458	3,021
Profit for the period	444,174	485,310
Earnings per share		
Basic (Yen) (Note 30)	249.45	271.69
Diluted (Yen) (Note 30)	249.36	271.63

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

(Millions of yen)

	2022	2023
Operating profit	653,575	672,410
Amortization cost of acquired intangibles arising from business acquisitions	71,392	58,836
Adjustment items (income)	(15,865)	(18,651)
Adjustment items (costs)	18,677	15,407
Adjusted operating profit (Note 6)	727,779	728,002

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2022 and 2023

(Millions of yen)

	2022	2023
Profit for the period	444,174	485,310
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 (Notes 29, 33)	1,741	2,414
Remeasurements of defined benefit plans (Notes 22, 29)	49,744	(13,538)
Total of items that will not be reclassified to profit or loss	51,485	(11,123)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	493,986	189,299
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	8,584	4,749
Hedge costs	—	(17)
Total of items that may be reclassified subsequently to profit or loss	502,570	194,031
Other comprehensive income (loss), net of taxes	554,055	182,908
Comprehensive income (loss) for the period	998,229	668,217
Attributable to		
Owners of the parent company	996,687	660,663
Non-controlling interests	1,542	7,554
Comprehensive income (loss) for the period	998,229	668,217

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2022 and 2023

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Hedge costs
As of January 1, 2022	100,000	736,400	(490,899)	1,202	(408,175)	(274)	—
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	493,971	8,584	—
Comprehensive income (loss) for the period	—	—	—	—	493,971	8,584	—
Acquisition of treasury shares (Note 23)	—	—	(1)	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	717	(200)	—	—	—
Share-based payments (Note 32)	—	—	—	—	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	236	—
Total transactions with the owners	—	—	716	(200)	—	236	—
As of December 31, 2022	100,000	736,400	(490,183)	1,001	85,796	8,546	—
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	185,014	4,749	(17)
Comprehensive income (loss) for the period	—	—	—	—	185,014	4,749	(17)
Acquisition of treasury shares (Note 23)	—	—	(1)	—	—	—	—
Disposal of treasury shares (Note 23)	—	78	990	(444)	—	—	—
Share-based payments (Note 32)	—	—	—	—	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	(4,150)	—
Total transactions with the owners	—	78	989	(444)	—	(4,150)	—
As of December 31, 2023	100,000	736,478	(489,194)	557	270,810	9,145	(17)

(Millions of yen)

Equity attributable to owners of the parent company							
	Other components of equity			Retained earnings	Total	Non-controlling interests	Total equity
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
As of January 1, 2022	7,161	—	(400,086)	2,863,843	2,809,258	76,823	2,886,081
Profit for the period	—	—	—	442,716	442,716	1,458	444,174
Other comprehensive income (loss)	1,880	49,535	553,970	—	553,970	85	554,055
Comprehensive income (loss) for the period	1,880	49,535	553,970	442,716	996,687	1,542	998,229
Acquisition of treasury shares (Note 23)	—	—	—	—	(1)	—	(1)
Disposal of treasury shares (Note 23)	—	—	(200)	(516)	0	—	0
Share-based payments (Note 32)	—	—	—	460	460	21	481
Dividends (Note 24)	—	—	—	(266,203)	(266,203)	(1,631)	(267,834)
Changes in the scope of consolidation	—	—	—	—	—	(429)	(429)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	(1)	(1)	(0)	(1)
Transfer from other components of equity to retained earnings	(75)	(49,535)	(49,610)	49,610	—	—	—
Other increase (decrease)	—	—	236	—	236	—	236
Total transactions with the owners	(75)	(49,535)	(49,575)	(216,650)	(265,510)	(2,039)	(267,548)
As of December 31, 2022	8,966	—	104,309	3,089,909	3,540,435	76,326	3,616,761
Profit for the period	—	—	—	482,288	482,288	3,021	485,310
Other comprehensive income (loss)	2,199	(13,571)	178,375	—	178,375	4,533	182,908
Comprehensive income (loss) for the period	2,199	(13,571)	178,375	482,288	660,663	7,554	668,217
Acquisition of treasury shares (Note 23)	—	—	—	—	(1)	—	(1)
Disposal of treasury shares (Note 23)	—	—	(444)	(505)	119	—	119
Share-based payments (Note 32)	—	—	—	505	505	22	526
Dividends (Note 24)	—	—	—	(367,415)	(367,415)	(2,945)	(370,360)
Changes in the scope of consolidation	—	—	—	—	—	(33)	(33)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	(0)	(0)	1,413	1,413
Transfer from other components of equity to retained earnings	(1,111)	13,571	12,460	(12,460)	—	—	—
Other increase (decrease)	—	—	(4,150)	—	(4,150)	—	(4,150)
Total transactions with the owners	(1,111)	13,571	7,866	(379,875)	(370,942)	(1,544)	(372,486)
As of December 31, 2023	10,054	—	290,550	3,192,323	3,830,156	82,336	3,912,491

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2022 and 2023

(Millions of yen)

	2022	2023
Cash flows from operating activities		
Profit before income taxes	593,450	621,601
Depreciation and amortization	199,651	179,652
Impairment losses	27,539	13,710
Interest and dividend income	(26,535)	(42,816)
Interest expense	27,019	28,493
Share of profit in investments accounted for using the equity method	(8,009)	(8,332)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(4,891)	(16,810)
(Gains) losses on sale of investments in subsidiaries	(849)	104
(Increase) decrease in trade and other receivables	26,574	(30,169)
(Increase) decrease in inventories	(93,910)	(136,232)
Increase (decrease) in trade and other payables	(38,251)	40,998
Increase (decrease) in retirement benefit liabilities	(4,156)	455
(Increase) decrease in prepaid tobacco excise taxes	(6,825)	(106,987)
Increase (decrease) in tobacco excise tax payables	24,989	102,787
Increase (decrease) in consumption tax payables	(11,461)	23,249
Other	(28,608)	41,534
Subtotal	675,728	711,238
Interest and dividends received	25,530	41,189
Interest paid	(23,728)	(26,324)
Income taxes paid	(193,731)	(159,088)
Net cash flows from operating activities	483,799	567,014
Cash flows from investing activities		
Purchase of securities	(37,414)	(113,010)
Proceeds from sale and redemption of securities	18,208	84,363
Purchase of property, plant and equipment	(81,411)	(94,861)
Proceeds from sale of investment property	7,583	19,653
Purchase of intangible assets	(17,997)	(26,353)
Payments into time deposits	(350)	—
Proceeds from withdrawal of time deposits	1,602	—
Proceeds from sale of investments in subsidiaries	2,963	—
Proceeds from sale of investments in associates	63	1,369
Other	4,930	2,710
Net cash flows from investing activities	(101,822)	(126,129)

	(Millions of yen)	
	2022	2023
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(266,175)	(367,331)
Dividends paid to non-controlling interests	(1,536)	(2,594)
Capital contribution from non-controlling interests	27	431
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	(27,610)	143,042
Proceeds from long-term borrowings (Note 31)	1,522	2,890
Repayments of long-term borrowings (Note 31)	(42,849)	(14,909)
Proceeds from issuance of bonds (Notes 19, 31)	69,175	59,795
Redemption of bonds (Notes 19, 31)	(30,000)	(68,194)
Repayments of lease liabilities (Note 31)	(21,009)	(23,613)
Acquisition of treasury shares	(1)	(1)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	(17)
Proceeds from settlement of derivatives (Note 31)	12,281	—
Other	0	0
Net cash flows from financing activities	(306,176)	(270,500)
Net increase (decrease) in cash and cash equivalents	75,801	170,385
Cash and cash equivalents at the beginning of the period	721,731	866,885
Effect of exchange rate changes on cash and cash equivalents	69,353	2,935
Cash and cash equivalents at the end of the period (Note 7)	866,885	1,040,206

Notes to Consolidated Financial Statements
Years Ended December 31, 2022 and 2023

1. Reporting Entity

Japan Tobacco Inc. (hereinafter referred to as the “Company”) is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company’s registered head office and principal business offices are available on the Company’s website (<https://www.jt.com/>).

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the “Group”) are stated in “6. Operating Segments.”

The Group’s consolidated financial statements for the year ended December 31, 2023 were approved on March 22, 2024 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS

The Group’s consolidated financial statements, which satisfy the requirements concerning the “Specified Company applying Designated International Financial Reporting Standards” prescribed in Article 1-2 of the “Regulations for Consolidated Financial Statements,” are prepared in accordance with IFRS pursuant to the provision of Article 93 of the same regulations.

(2) Basis of Measurement

Except for the financial instruments, stated in “3. Material Accounting Policy Information,” and the accounting adjustments, stated in “37. Hyperinflationary Accounting Adjustments,” the Group’s consolidated financial statements are prepared on the historical cost basis.

(3) Functional Currency and Presentation Currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded to the nearest million yen.

3. Material Accounting Policy Information

(1) Basis of Consolidation

The consolidated financial statements include financial statements of the Company and its subsidiaries, and interests in investments in associates and joint arrangements.

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group and the Group has control over the entity if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The acquisition date of a subsidiary is the date on which the Group obtains control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intergroup balances, transactions, income and expenses are eliminated on consolidation.

Comprehensive income for subsidiaries is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B. Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over the entity if it has the power to participate in the financial and operating policy decisions of the investee, but it does not have control or joint control over the investee. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

C. Joint Arrangements

A joint arrangement is a contractual arrangement in which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement, and a joint venture whereby the Group has rights to the net assets of the arrangement only. The Group recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation while a joint venture is accounted for using the equity method.

(2) Business Combination

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and the equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. If the amount of initial accounting for a business combination is not determined by the end of the reporting period in which the combination occurs, the provisional amounts for the items for which the accounting is incomplete are reported and are adjusted during the measurement period, which is one year from the acquisition date. Acquisition-related costs incurred are recognized as expenses. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in retained earnings and no goodwill is recognized with respect to such transaction.

(3) Foreign Currency Translation

Consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group specifies its own functional currency and measures transactions based on it. Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at year end. Differences arising from the translation and settlement are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments designated as hedging instruments for net investment in foreign operations (foreign subsidiaries), financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognized as other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at year end, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. The resulting translation differences are recognized as other comprehensive income. However, the income and expenses of the Company's subsidiaries in the hyperinflationary economy are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date in accordance with the hyperinflationary accounting. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income, and amortized cost. The Group determines the classification at initial recognition. Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied consistently.

All financial assets are measured at fair value plus transaction costs that are attributable to the financial assets, except for the case of being classified in the category of financial assets measured at fair value through profit or loss.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the following classifications:

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other Financial Assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss.

However, changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decline in its fair value compared to its acquisition cost is significant. Dividends on the financial assets are recognized in profit or loss for the year.

(iii) Derecognition

Financial assets are derecognized when the rights to receive benefits from them expire or are transferred, or when substantially all the risks and rewards of the ownership are transferred.

B. Impairment of Financial Assets

With respect to financial assets measured at amortized cost, the Group recognizes an allowance for doubtful accounts for expected credit losses. The expected credit losses are calculated based on historical loss experience or future recoverable amounts.

An allowance for doubtful accounts for trade receivables is always recognized in an amount equal to the lifetime expected credit losses. In principle, with respect to financial assets except for trade receivables, an allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit losses. However, the allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses if a credit risk on the financial asset has increased significantly since initial recognition.

The Group assesses whether a credit risk on a financial asset has increased significantly based on a change of the default risk considering past due information, financial difficulties of obligors or downgrades of the internal credit rating.

The Group assesses a whole or part of the financial asset which is deemed extremely difficult to be collected as a default and recognizes it as a credit-impaired financial asset. If the Group reasonably determines that a whole or part of the financial asset is uncollectible, the carrying amounts of financial assets are written-off directly.

The expected credit losses on trade receivables which are not assessed as credit-impaired financial assets are measured collectively by an asset group consisting of a number of homogeneous counterparties.

An allowance for doubtful accounts for financial assets is recognized in profit or loss. If an event which causes a reduction in the allowance for doubtful accounts occurs, a reversal of an allowance for doubtful accounts is recognized in profit or loss.

C. Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the following classifications:

(a) Financial Liabilities Measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial Liabilities Measured at Amortized Cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition are recognized as profit or loss in the consolidated statement of income.

After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount of an allowance for doubtful accounts calculated in accordance with “B. Impairment of Financial Assets” above, and
- The amount initially measured less cumulative revenue recognized in accordance with IFRS 15 “Revenue from Contracts with Customers.”

(iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired.

D. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

E. Derivatives and Hedge Accounting

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value. Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the gains or losses on the hedging instrument relating to the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized as other comprehensive income in the consolidated statement of comprehensive income.

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of the hedging instruments, the hedged items, the nature of the risks being hedged and how the hedging relationship's effectiveness is assessed. These hedges are assessed on an ongoing basis to determine whether the hedging relationship is effective prospectively, even though it is expected that there is an economic relationship between the hedged item and the hedging instrument, that the effect of credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio due to changes in an economic relationship between the hedged item and the hedging instrument but the risk management objective remains the same, the Group will adjust the hedge ratio so that it meets the qualifying criteria again. The Group discontinues hedge accounting for the portion that does not meet the requirement when the hedging relationship ceases to meet the qualifying criteria even after adjusting the hedge ratio. The Group performs highly effective hedging, and therefore generally expects that no significant ineffective portion should arise.

Hedges that meet the stringent requirements for hedge accounting are classified into the following categories and accounted for in accordance with IFRS 9 "Financial Instruments."

(i) Fair Value Hedge

The gain or loss on the hedging instrument is recognized as profit or loss in the consolidated statement of income. However, changes in the fair value of the hedging instrument are recognized as other comprehensive income in the consolidated statement of comprehensive income if the hedging instrument hedges an equity instrument designated as at fair value through other comprehensive income. Regarding the hedging gain or loss on the hedged item, the carrying amount of the hedged item is adjusted and the change is recognized as profit or loss in the consolidated statement of income. However, changes in the fair value of an equity instrument which the Group elected to present in other comprehensive income are recognized as other comprehensive income.

(ii) Cash Flow Hedge

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income. The time value of the foreign currency options is excluded from the designation of hedging instrument and recognized as hedge costs under other components of equity separately.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

If the hedged future cash flows are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. If the hedged future cash flows are still expected to occur, amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the future cash flows occur.

(iii) Hedge of Net Investment in Foreign Operations

Translation differences resulting from the hedge of net investment in foreign operations are accounted for similarly to a cash flow hedge. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized as profit or loss in the consolidated statement of income. At the time of the disposal of the foreign

operations, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss.

F. Fair Value of Financial Instruments

Fair value of financial instruments that are traded in active financial markets at year end refers to quoted prices or dealer quotations.

If there is no active market, the fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value, and the costs are determined by using the weighted-average method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Leaf tobacco which is stored for more than 12 months before being used for production is included in current assets since it is held within the normal operating cycle.

(7) Property, Plant and Equipment

Property, plant and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 38 to 50 years
- Machinery and vehicles: 10 to 18 years

The estimated useful lives and depreciation method are reviewed at each year end and if there are any changes made to the estimated useful lives and depreciation method, such changes are applied prospectively as changes in estimate.

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized. It is allocated to cash-generating units that are identified according to types of businesses and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

B. Intangible Assets

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost at the initial recognition, and the costs of intangible assets acquired through business combinations are recognized at fair value at the acquisition date. Expenditures on internally generated intangible assets are recognized as an expense in the period when incurred, except for development expenses that satisfy the capitalization criteria.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each year end, and the effect of any changes in estimate would be accounted for on a prospective basis.

The estimated useful lives of major intangible assets with finite useful lives are as follows:

- Trademarks: 10 to 20 years
- Software: 5 years

Intangible assets with indefinite useful lives and intangible assets that are not ready to use are not amortized, but they are tested for impairment individually or by cash-generating unit annually or whenever there is any indication of impairment.

(9) Leases

At the 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 consolidated statement of financial position at the commencement date. The Group recognizes the lease payments associated with short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term.

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

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

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

(11) Impairment of Non-financial Assets

The Group assesses each year whether there is any indication that an asset may be impaired. If any such indication exists, or in cases where the impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases that the recoverable amount cannot be estimated for each asset, it is estimated by the cash-generating unit to which the asset belongs. The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs of disposal or its value in use. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, the Group uses an appropriate valuation model supported by available fair value indicators.

The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

(12) Assets Held for Sale

An asset or asset group for which the value is expected to be recovered through a sales transaction rather than through continuing use is classified into an asset or disposal group held for sale when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs of disposal.

(13) Post-employment Benefits

The Group sponsors defined benefit plans and defined contribution plans as employee retirement benefit plans. The Company is obligated to bear pension expenses for a mutual assistance association incurred with respect to services in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are calculated and included in liabilities related to retirement benefits. For each plan, the Group calculates the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the year on high quality corporate bonds or government bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plans and minimum funding requirements, if necessary). Expected interest costs and interest income are recognized as financial costs.

Remeasurements of defined benefit plans are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as profit or loss in the period when incurred.

The cost for retirement benefits for defined contribution plans is recognized as an expense at the time of contribution.

(14) Share-based Payments

The Group has a share option plan and a restricted stock remuneration plan as an equity-settled share-based payment plan. Share options are estimated at fair value at the grant date and are recognized as an expense over the vesting period in the consolidated statement of income after considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position. Restricted stock remuneration is estimated at fair value at the grant date and is recognized as an expense from the grant date over the vesting period in the consolidated statement of income, and the corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

The Group has a performance share unit plan as a share-based payment plan with cash alternatives. Performance share units are accounted as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred. A portion as an equity-settled share-based payment transaction is estimated at fair value of granted shares of the Company and is recognized as an expense over the vesting period in the consolidated statement of income, and the corresponding amount is recognized as an increase in equity in the consolidated statement of financial position. As for a portion as a cash-settled share-based payment transaction, the services received and liability incurred are estimated at fair value of the liability and are recognized as an expense over the vesting period in the consolidated statement of income, and the corresponding amount is recognized as an increase in liability in the consolidated statement of financial position.

The fair value of the liability is remeasured at the end of reporting period and at the date of settlement with any changes in fair value recognized in profit or loss.

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably. If the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it. Restructuring provisions include only the direct expenditures arising from the restructuring, which meet both of the following criteria:

- necessarily entailed by the restructuring;
- not associated with the ongoing activities of the entity.

(16) Revenue

A. Revenue from Contracts with Customers

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. The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. 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 agent 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.

B. Interest Income

Interest income is recognized using the effective interest rate method.

C. Dividend Income

Dividend income is recognized when the shareholders' right to receive payment is established.

(17) Government Grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.

In the case that the government grants are related to expense items, they are recognized in profit or loss on a systematic basis over the period in which the related costs for which the grants are intended to compensate are recognized. With regard to government grants for assets, the amount of the grants is deducted from the acquisition cost of the assets.

(18) Borrowing Costs

With respect to assets that necessarily take a substantial period of time to get ready for their intended use or sale, the borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the acquisition cost of the assets. Other borrowing costs are recognized as an expense in the period when they are incurred.

(19) Income Taxes

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the year. The current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Deferred income taxes are calculated based on the temporary differences between the tax base for assets and liabilities and the carrying amount at year end. Deferred tax assets are recognized for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction, affect neither accounting profit nor taxable profit or tax loss
- deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized
- taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by year end.

Assets and liabilities are recognized as estimated amounts if uncertain tax position of income taxes arising from interpretation of tax laws and regulations is probable.

The Company and certain subsidiaries apply for the group tax sharing system.

(20) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(21) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of dilutive potential ordinary shares.

(22) Dividends

Dividend distributions to the shareholders of the Company are recognized as liabilities in the period in which the Annual Shareholders' Meeting approves the distribution for year end and the Board of Directors approves the distribution for interim.

(23) Contingencies

A. Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision described in “20. Provisions.”

B. Contingent Assets

The Group discloses contingent assets in the notes to consolidated financial statements if an inflow of future economic benefits to the Group is probable, but not virtually certain at year end.

(24) Adjusted Financial Measures

The adjusted financial measures are calculated by adding certain adjustment items to the non-adjusted financial data or by deducting the items from the non-adjusted financial data.

The adjustment items are determined by management’s judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income and “6. Operating Segments.”

The adjusted financial measures are not defined under IFRS and are not comparable with equivalent indicators for other entities.

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the year ended December 31, 2023.

	IFRS	Description of new standards and amendments
IAS 1	Presentation of Financial Statements	Amendments to require companies to disclose their material accounting policy information rather than their significant accounting policies
IAS 12	Income taxes	Amendments relating to International Tax Reform-Pillar Two Model Rules

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

The impact of the amendment of IAS 12 is described in “17. Income Taxes.”

4. Significant Accounting Estimates and Judgments

Preparation of consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the year end. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the year end. Given their nature, actual results may differ from those estimates and assumptions. The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.

Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

A. Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount has declined below the carrying amount, the Group performs an impairment test.

Such indications include, but are not limited to, significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry or economic trends. With regard to goodwill, an impairment test is conducted at least once a year regardless of whether there are any indicators of impairment.

An impairment test is performed by comparing the carrying amount to the recoverable amount of the asset under assessment. If the recoverable amount is below the carrying amount, impairment losses are recognized. The recoverable amount is calculated based primarily on a discounted cash flow model. Certain assumptions must be made for the useful lives and future cash flows of the assets, the applicable discount rates as well as long-term growth rates. These assumptions are based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating the recoverable amount is described in “13. Property, Plant and Equipment,” “14. Goodwill and Intangible Assets” and “16. Investment Property.” With regard to goodwill, the sensitivity analysis is described in “14. Goodwill and Intangible Assets.”

B. Post-employment Benefits

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan and the Company is legally obligated to bear a part of the pension costs of the plan.

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions make use of estimates and judgments on a number of variables, including discount rates and inflation rate.

The Group obtains advice from external pension actuaries with respect to the appropriateness of their actuarial assumptions including the aforementioned variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, or by the publication or amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and the related sensitivity analysis are described in “22. Employee Benefits.”

C. Provisions

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on best estimates of the expenditure required to settle the obligations, taking into account the pertinent risks and uncertainties which exist at the year end for those obligations.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively; however, they may be affected by the occurrence of unexpected events or changes in conditions which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in “20. Provisions.”

D. Income Taxes

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, the Group reasonably estimates the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. Therefore, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to income taxes are described in “17. Income Taxes.”

E. Contingencies

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the year end and by taking into account the probability of these contingencies and their impact on financial reporting.

The content of contingencies is described in “38. Contingencies.”

F. Other information

For recent situation in Russia and Ukraine, there is no material impact on the accounting estimates and judgments at present.

(Changes in Significant Accounting Estimates)

Previously, the Group used the estimated useful life of 10 to 15 years for tobacco manufacturing machinery. However, in consideration of changes in the business environment, the estimated useful lives of some tobacco manufacturing machines have been revised to 18 years from the current fiscal year based on the economically usable forecast period in line with actual conditions and this change will also be applied prospectively.

As a result of this change, operating income for the year ended December 31, 2023 increased by ¥8,333 million compared with the previous method.

5. New Accounting Standards Not Yet Adopted by the Group

By the date of approval of the consolidated financial statements, new accounting standards, amended standards and new interpretations that have been issued, but have not been early adopted by the Group are as follows.

The implications from adoption of these standards and interpretations are assessed by the Group; however, the Group has evaluated that none of them will have a material impact on our operating results and financial condition.

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 16	Leases	January 1, 2024	Year ending December 2024	Clarifying the accounting for subsequent measurement of the lease liability arising from sale and leaseback transactions
IAS 1	Presentation of Financial Statements	January 1, 2024	Year ending December 2024	Clarifying classification of liabilities into current liabilities or non-current liabilities Amendments to require companies to disclose information relating to non-current liabilities with covenants
IAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 2025	Year ending December 2025	Providing requirements for accounting treatment and disclosure relating to currencies that lack exchangeability
IFRS 7 IAS 7	Financial Instruments: Disclosures Statement of Cash Flows	January 1, 2024	Year ending December 2024	Providing requirements for disclosure relating to supplier finance arrangements
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined	Not yet determined	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture

6. Operating Segments

(1) Outline of Reportable Segments

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

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. The reportable segments of the Group are composed of three segments: “Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.”

The “Tobacco Business” consists of the manufacture and sale of tobacco products in domestic areas and overseas. The “Pharmaceutical Business” consists of the research and development, manufacture, and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods and seasonings.

(2) 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.

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments			Other (Note 2)	Elimination	Consolidated	
	Tobacco	Pharmaceuticals	Processed Food				Total
Revenue							
External revenue	2,417,409	82,908	155,539	2,655,856	1,976	—	2,657,832
Intersegment revenue	332	—	3	335	7,518	(7,853)	—
Total revenue	<u>2,417,741</u>	<u>82,908</u>	<u>155,542</u>	<u>2,656,191</u>	<u>9,495</u>	<u>(7,853)</u>	<u>2,657,832</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>753,996</u>	<u>11,146</u>	<u>3,509</u>	<u>768,651</u>	<u>(40,821)</u>	<u>(52)</u>	<u>727,779</u>
Other items							
Depreciation and amortization (Note 3)	183,828	5,438	7,221	196,486	3,173	(7)	199,651
Impairment losses on other than financial assets	23,020	—	1,229	24,249	3,290	—	27,539
Reversal of impairment losses on other than financial assets	282	—	—	282	—	—	282
Share of profit (loss) in investments accounted for using the equity method	8,193	—	(4)	8,189	(181)	—	8,009
Capital expenditures (Note 4)	83,839	2,420	8,158	94,418	6,626	(0)	101,044

¥2,315,242 million of the external revenue from the tobacco business is core revenue.

Breakdown of core revenue from tobacco business and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	804,874	538,828	971,539	2,315,242
Adjusted operating profit	267,517	219,332	267,147	753,996

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,590,910	94,875	153,854	2,839,638	1,439	—	2,841,077
Intersegment revenue	393	—	31	425	2,783	(3,208)	—
Total revenue	<u>2,591,303</u>	<u>94,875</u>	<u>153,885</u>	<u>2,840,063</u>	<u>4,222</u>	<u>(3,208)</u>	<u>2,841,077</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>749,757</u>	<u>17,409</u>	<u>6,848</u>	<u>774,014</u>	<u>(46,136)</u>	<u>124</u>	<u>728,002</u>
Other items							
Depreciation and amortization (Note 3)	165,491	4,620	7,058	177,169	2,490	(7)	179,652
Impairment losses on other than financial assets	13,613	—	28	13,641	70	—	13,710
Reversal of impairment losses on other than financial assets	486	—	—	486	—	—	486
Share of profit (loss) in investments accounted for using the equity method	8,294	—	58	8,352	(21)	—	8,332
Capital expenditures (Note 4)	105,139	7,339	5,820	118,297	7,064	—	125,361

¥2,478,625 million of the external revenue from the tobacco business is core revenue.

Breakdown of core revenue from tobacco business and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	796,919	603,254	1,078,451	2,478,625
Adjusted operating profit	245,845	231,446	272,466	749,757

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

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

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	753,996	11,146	3,509	768,651	(40,821)	(52)	727,779
Amortization cost of acquired intangibles arising from business acquisitions	(71,392)	—	—	(71,392)	—	—	(71,392)
Adjustment items (income) (Note 6)	6,366	—	2,392	8,758	7,106	—	15,865
Adjustment items (costs) (Note 7)	(9,594)	—	(1,730)	(11,324)	(7,352)	—	(18,677)
Operating profit (loss)	679,375	11,146	4,171	694,693	(41,067)	(52)	653,575
Financial income							31,147
Financial costs							(91,272)
Profit before income taxes							593,450

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	749,757	17,409	6,848	774,014	(46,136)	124	728,002
Amortization cost of acquired intangibles arising from business acquisitions	(58,836)	—	—	(58,836)	—	—	(58,836)
Adjustment items (income) (Note 6)	444	—	867	1,311	17,339	—	18,651
Adjustment items (costs) (Note 7)	(14,265)	—	(24)	(14,289)	(1,117)	—	(15,407)
Operating profit (loss)	677,101	17,409	7,691	702,201	(29,914)	124	672,410
Financial income							44,414
Financial costs							(95,222)
Profit before income taxes							621,601

(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) Depreciation of right-of-use assets included in “Depreciation and amortization” is as follows:

(Millions of yen)

	2022	2023
Tobacco	20,070	21,530
Pharmaceuticals	681	656
Processed Food	602	518
Other	1,411	1,364
Depreciation of right-of-use assets	22,763	24,068

(Note 4) The increase of right-of-use assets is excluded.

(Note 5) Core revenue from tobacco business does not include revenue related to the distribution business and contract manufacturing.

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

	(Millions of yen)	
	2022	2023
Restructuring incomes	2,776	18,207
Other	13,089	444
Adjustment items (income)	15,865	18,651

Restructuring incomes for the years ended December 31, 2022 and 2023 mainly related to gains on sale of real estate. The breakdown of restructuring incomes is described in “26. Other Operating Income.” Other (income) for the year ended December 31, 2022 mainly related to gains on sale of real estate, reversal of liabilities recognized at the time of acquisition and gains on sale of shares of subsidiaries.

(Note 7) The breakdown of “Adjustment items (costs)” is as follows:

	(Millions of yen)	
	2022	2023
Restructuring costs	11,302	4,534
Other	7,375	10,873
Adjustment items (costs)	18,677	15,407

Restructuring costs for the year ended December 31, 2022 mainly related to loss on disposal of real estate and costs of measures to strengthen the operations in the “Tobacco Business.” Restructuring costs included in “Cost of sales” were ¥203 million and ¥(243) million for the year ended December 31, 2022 and 2023, respectively. Restructuring costs included in “Selling, general and administrative expenses” were ¥11,099 million and ¥4,777 million for the year ended December 31, 2022 and 2023, respectively. The breakdown of restructuring costs is described in “27. Selling, General and Administrative Expenses.” Other (costs) for the year ended December 31, 2022 mainly related to impairment losses on trademarks in the “Tobacco Business” and loss on sale of shares of a subsidiary. Other (costs) for the year ended December 31, 2023 mainly related to losses on changes in estimates of asset retirement obligations and impairment loss on trademark in the “Tobacco Business.”

(3) Geographic Information

The regional breakdown of non-current assets as of December 31 is as follows:

Non-current Assets

(Millions of yen)

	2022	2023
Japan	659,541	636,639
Overseas	2,818,416	3,017,621
Consolidated	3,477,957	3,654,260

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

The regional breakdown of external revenue for each year is as follows:

External Revenue

(Millions of yen)

	2022	2023
Japan	705,366	685,373
Overseas	1,952,466	2,155,704
Consolidated	2,657,832	2,841,077

(Note) Revenue is segmented by the sales destination.

(4) Major customers Information

The “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 ¥387,542 million (14.6% of consolidated revenue) for the year ended December 31, 2022 and ¥370,970 million (13.1% of consolidated revenue) for the year ended December 31, 2023.

7. Cash and Cash Equivalents

The breakdown of “Cash and cash equivalents” as of December 31 is as follows:

	2022	2023
Cash and deposits	818,885	787,890
Short-term investments	48,000	252,316
Total	<u>866,885</u>	<u>1,040,206</u>

Cash and cash equivalents are classified as financial assets measured at amortized cost.

The Group’s Iranian subsidiaries’ ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. “Cash and cash equivalents” include ¥79,010 million as of December 31, 2022 and ¥115,779 million as of December 31, 2023 held by the Group’s Iranian subsidiaries.

JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”), the Company’s Canadian subsidiary, is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the “Companies’ Creditors Arrangement Act.” “Cash and cash equivalents” include ¥99,441 million as of December 31, 2022 and ¥143,791 million as of December 31, 2023 held by JTI-Mac.

8. Trade and Other Receivables

The breakdown of “Trade and other receivables” as of December 31 is as follows:

	2022	2023
Notes and accounts receivable	470,511	525,809
Financial assets measured at amortized cost	468,808	520,502
Financial assets measured at fair value through profit or loss	1,703	5,307
Other	9,261	13,398
Allowance for doubtful accounts	(2,533)	(3,905)
Total	<u>477,239</u>	<u>535,302</u>

Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Although trade and other receivables are classified as financial assets measured at amortized cost in principle, some trade receivables that achieved the Group’s business model through the sale are classified as financial assets measured at fair value through profit or loss.

9. Inventories

The breakdown of “Inventories” as of December 31 is as follows:

(Millions of yen)

	2022	2023
Merchandise and finished goods	145,721	189,681
Leaf tobacco (Note)	439,918	519,932
Other	106,267	122,998
Total	<u>691,906</u>	<u>832,611</u>

(Note) Leaf tobacco includes those products that will be used after 12 months from the end of each year, but they are included in inventories since they are held within the normal operating cycle.

10. Other Financial Assets

(1) The breakdown of “Other financial assets” as of December 31 is as follows:

(Millions of yen)

	2022	2023
Derivative assets	24,285	19,187
Equity securities	31,337	34,281
Debt securities	38,185	70,087
Other	90,479	97,823
Allowance for doubtful accounts	(6,243)	(6,430)
Total	178,043	214,949
Current assets	37,677	58,633
Non-current assets	140,366	156,316
Total	178,043	214,949

Other financial assets are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of December 31 are as follows:

(Millions of yen)

Company name	2022	2023
Seven & i Holdings Co., Ltd.	4,841	4,785
DOUTOR · NICHIRETS Holdings Co., Ltd.	2,295	2,909
Mitsubishi Shokuhin Co., Ltd.	1,875	2,891
KATO SANGYO CO., LTD.	1,976	2,587
Japan Airport Terminal Co., Ltd.	2,612	2,484
NIPPON EXPRESS HOLDINGS, INC.	1,305	1,387
Daicel Corporation	812	1,161
Kanemi Co., Ltd.	583	647
Yoshimura Food Holdings K.K.	682	576
MEDIPAL HOLDINGS CORPORATION	386	507

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held and to use them effectively, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition).

The fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income for each year is as follows:

	2022	2023
Fair value	521	2,911
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(75)	(1,111)

(Note) The figure represents the amount transferred to retained earnings.

The cumulative gain or loss recognized in equity as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value compared to its acquisition cost is significant.

11. Other Current Assets

The breakdown of “Other current assets” as of December 31 is as follows:

	2022	2023
Prepaid tobacco excise taxes	455,958	571,162
Prepaid expenses	18,730	20,852
Consumption tax receivables	21,900	21,802
Other	152,594	176,072
Total	649,181	789,888

12. Assets Held for Sale

The breakdown of “Assets held for sale” as of December 31 is as follows:

Breakdown of Major Assets

	2022	2023
Assets held for sale		
Property, plant and equipment	275	2,597
Investment property	389	324
Other	38	—
Total	702	2,921

“Assets held for sale” are mainly idle properties which are currently actively marketed for sale.

With regard to such assets and assets sold, impairment losses of ¥238 million and ¥15 million are recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended December 31, 2022 and 2023, respectively.

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of “Property, plant and equipment” are as follows:

Carrying Amount	(Millions of yen)				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2022	384,742	291,708	38,334	41,059	755,843
Individual acquisition	24,618	31,959	10,067	37,048	103,692
Transfer to investment property	(10,609)	—	—	—	(10,609)
Transfer to assets held for sale	(3,554)	(139)	(99)	—	(3,792)
Depreciation	(34,095)	(65,378)	(13,532)	—	(113,005)
Impairment losses	(2,074)	(15,669)	(355)	(474)	(18,572)
Reversal of impairment losses	1	281	—	—	282
Sale or disposal	(3,152)	(2,084)	(655)	(52)	(5,943)
Exchange differences on translation of foreign operations	28,719	32,903	2,867	6,756	71,245
Other	5,832	22,761	1,333	(33,110)	(3,184)
As of December 31, 2022	390,428	296,342	37,960	51,226	775,957
Individual acquisition	24,228	36,825	12,499	46,361	119,913
Transfer to investment property	(1,365)	—	—	—	(1,365)
Transfer to assets held for sale	(4,220)	—	—	—	(4,220)
Depreciation	(40,959)	(51,527)	(13,818)	—	(106,304)
Impairment losses	(224)	(6,962)	(637)	(441)	(8,264)
Reversal of impairment losses	19	467	—	—	486
Sale or disposal	(1,445)	(2,520)	(508)	(43)	(4,515)
Exchange differences on translation of foreign operations	16,242	23,153	1,605	4,370	45,370
Other	15,774	27,983	4,108	(43,424)	4,441
As of December 31, 2023	398,479	323,761	41,209	58,050	821,499

Acquisition Cost	(Millions of yen)				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2022	716,359	884,552	157,427	41,059	1,799,397
As of December 31, 2022	733,029	961,601	162,161	51,226	1,908,018
As of December 31, 2023	776,746	1,041,282	173,636	58,050	2,049,714

Accumulated Depreciation and Accumulated Impairment Losses	(Millions of yen)				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2022	331,617	592,844	119,092	—	1,043,554
As of December 31, 2022	342,600	665,259	124,202	—	1,132,061
As of December 31, 2023	378,266	717,521	132,427	—	1,228,214

(2) Impairment Losses

The grouping of property, plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflows.

The Group recognized impairment losses of ¥18,572 million in the year ended December 31, 2022, and ¥8,264 million in the year ended December 31, 2023 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2022 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items, etc.

The recoverable amounts of these assets are calculated mainly by the value in use.

Impairment losses recognized in the year ended December 31, 2023 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items, etc.

The recoverable amounts of these assets are calculated mainly by the value in use.

14. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

The schedules of carrying amount, acquisition cost, and accumulated amortization and accumulated impairment losses of “Goodwill” and “Intangible assets” are as follows:

	(Millions of yen)				
Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2022	2,060,965	235,294	27,450	44,409	2,368,117
Individual acquisition	—	—	7,248	10,395	17,644
Amortization (Note)	—	(65,266)	(12,250)	(8,852)	(86,367)
Transfer to assets held for sale	—	—	(43)	(3)	(46)
Impairment losses	—	(5,016)	(464)	(198)	(5,677)
Reversal of impairment losses	—	—	—	—	—
Sale or disposal	—	(2)	(282)	(513)	(796)
Exchange differences on translation of foreign operations	386,443	14,115	1,348	1,224	403,130
Other	(1,345)	19	1,898	(4,071)	(3,500)
As of December 31, 2022	2,446,063	179,145	24,906	42,391	2,692,505
Individual acquisition	—	—	5,989	20,292	26,281
Amortization (Note)	—	(53,969)	(11,570)	(7,726)	(73,266)
Transfer to assets held for sale	—	—	—	(1)	(1)
Impairment losses	—	(5,182)	(194)	—	(5,377)
Reversal of impairment losses	—	—	—	—	—
Sale or disposal	—	(12)	(153)	(182)	(347)
Exchange differences on translation of foreign operations	170,377	11,777	1,009	725	183,887
Other	—	(4)	3,029	(3,285)	(261)
As of December 31, 2023	2,616,440	131,754	23,015	52,213	2,823,422

(Note) The amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

	(Millions of yen)				
Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2022	2,060,965	1,089,212	157,665	120,635	3,428,477
As of December 31, 2022	2,446,063	1,141,901	164,192	120,541	3,872,697
As of December 31, 2023	2,616,440	1,192,456	175,811	125,174	4,109,881

	(Millions of yen)				
Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2022	—	853,918	130,216	76,227	1,060,360
As of December 31, 2022	—	962,756	139,286	78,150	1,180,192
As of December 31, 2023	—	1,060,703	152,796	72,960	1,286,459

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the “Tobacco Business”. The carrying amounts of goodwill from the business as of December 31, 2022 and 2023 were ¥2,420,695 million and ¥2,591,071 million, respectively. The carrying amounts of trademarks from the business as of December 31, 2022 and 2023 were ¥179,143 million and ¥131,753 million, respectively.

The majority of goodwill and trademark in the business was recognized as a result of the acquisitions of RJR Nabisco’s non-U.S. tobacco operations in 1999, Gallaher in 2007 and Natural American Spirit’s in 2016.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly from 2 to 3 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2023, the carrying amount of the majority of goodwill is allocated to the tobacco cash-generating unit of ¥2,591,071 million (¥2,420,695 million for the year ended December 31, 2022) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2022). Details of the result of impairment tests are as follows:

A. Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 4.9% in the fourth year (2022: 5.8%) to 3.7% in the ninth year (2022: 2.5%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 10.3% (2022: 7.1%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 1.9% in the fourth year (2022: 2.6%) to 1.1% in the ninth year (2022: 0.8%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 5.1% (2022: 5.2%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

(4) Impairment Losses

Goodwill is allocated to cash-generating units that are identified according to types of businesses. The grouping of intangible assets for impairment test is the smallest cash-generating unit that independently generates cash inflow. The Group recognized impairment losses of ¥5,677 million for the year ended December 31, 2022, and ¥5,377 million for the year ended December 31, 2023 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2022 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.

The recoverable amounts of these assets are calculated mainly by the value in use.

Impairment losses recognized in the year ended December 31, 2023 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks and software since the recoverable amounts were lower than the carrying amounts.

The recoverable amounts of these assets are calculated mainly by the value in use.

15. Lease Transactions

The Group leases buildings, factory sites, vehicles and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

(1) Addition, Depreciation and Carrying Amount of Right-of-use Assets

The breakdown of addition, depreciation and carrying amount of right-of-use assets is as follows:

Year ended December 31, 2022

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	14,674	5,540	81	20,296
Depreciation	16,517	6,195	52	22,763

As of December 31, 2022

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	51,635	10,825	156	62,617

Year ended December 31, 2023

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	13,526	7,243	65	20,833
Depreciation	17,286	6,723	59	24,068

As of December 31, 2023

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	50,463	12,083	172	62,718

(2) Expense Items Related to Lease

The breakdown of expense items related to lease is as follows:

	(Millions of yen)	
	2022	2023
Financial cost on lease liabilities	1,344	1,697
Expense relating to short-term lease or leases of low-value assets	8,431	8,615
Expense relating to variable lease payments	2,053	1,502
Total cash outflow for leases	22,540	25,504
Gains arising from sale and leaseback transactions	1,059	—

16. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of “Investment property” for each year is as follows:

	2022	2023
	(Millions of yen)	
As of January 1	4,985	9,495
Expenditure after acquisition	4	—
Transfer from property, plant and equipment	10,609	1,365
Transfer to assets held for sale	(2,307)	(1,074)
Transfer to property, plant and equipment	(50)	(105)
Depreciation	(279)	(82)
Impairment losses	(3,051)	(55)
Sale or disposal	(234)	(5)
Exchange differences on translation of foreign operations	286	(200)
Other	(468)	0
As of December 31	9,495	9,338
Acquisition cost as of January 1	9,290	30,811
Accumulated depreciation and accumulated impairment losses as of January 1	4,306	21,316
Acquisition cost as of December 31	30,811	27,031
Accumulated depreciation and accumulated impairment losses as of December 31	21,316	17,693

(2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal standards of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

The fair value of investment property based on the fair value hierarchy as of December 31 is as follows:

As of December 31, 2022

	Level 1	Level 2	Level 3	Total
Investment property	—	26,023	1,076	27,098

As of December 31, 2023

	Level 1	Level 2	Level 3	Total
Investment property	—	20,887	687	21,574

(3) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflows. Impairment tests for idle properties are carried out individually.

The Group recognized impairment losses of ¥3,051 million for the year ended December 31, 2022, and ¥55 million for the year ended December 31, 2023 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized for the year ended December 31, 2022 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at “zero.”

Impairment losses recognized for the year ended December 31, 2023 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at “zero.”

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of “Deferred tax assets” and “Deferred tax liabilities” by major causes of their occurrence for each year are as follows:

Year ended December 31, 2022

	(Millions of yen)				
Deferred Tax Assets	As of January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2022
Fixed assets (Note 2)	88,654	(15,341)	—	3,802	77,115
Retirement benefits	78,830	(4,181)	(14,720)	1,169	61,098
Carryforward of unused tax losses	57,678	19,084	—	6,609	83,371
Other	108,565	8,206	(359)	3,243	119,656
Subtotal	333,728	7,767	(15,079)	14,822	341,239
Valuation allowance	(78,660)	(24,788)	305	(8,025)	(111,167)
Total	255,068	(17,021)	(14,774)	6,798	230,071

	(Millions of yen)				
Deferred Tax Liabilities	As of January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2022
Fixed assets (Note 2)	(71,309)	12,156	—	(15,207)	(74,360)
Retirement benefits	(18,425)	429	(990)	(471)	(19,458)
Other	(114,874)	31,704	4,763	(6,477)	(84,884)
Total	(204,608)	44,289	3,773	(22,155)	(178,702)

Year ended December 31, 2023

(Millions of yen)

Deferred Tax Assets	As of January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2023
Fixed assets (Note 2)	77,115	(4,911)	—	5,691	77,894
Retirement benefits	61,098	(5,062)	3,734	1,721	61,491
Carryforward of unused tax losses	83,371	30,397	—	1,511	115,279
Other	119,656	3,125	5,175	667	128,624
Subtotal	341,239	23,550	8,910	9,590	383,288
Valuation allowance	(111,167)	(30,511)	(3,256)	(1,021)	(145,955)
Total	230,071	(6,961)	5,654	8,568	237,333

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2023
Fixed assets (Note 2)	(74,360)	15,915	—	(13,335)	(71,780)
Retirement benefits	(19,458)	(693)	34	(2,184)	(22,301)
Other	(84,884)	(11,986)	1,468	944	(94,459)
Total	(178,702)	3,235	1,502	(14,575)	(188,540)

(Note 1) “Other” includes exchange differences on translation of foreign operations.

(Note 2) “Fixed assets” include property, plant and equipment, goodwill, intangible assets and investment property.

The deferred tax assets are recognized for the amount considered to be recoverable on deductible temporary differences, carryforward of unused tax losses and tax credits by taking taxable temporary differences and future taxable profits plan into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥77,633 million (including ¥49,058 million, for which the carryforward expires after five years) as of December 31, 2022, and ¥103,755 million (including ¥53,625 million, for which the carryforward expires after five years) as of December 31, 2023. Tax credits, for which the deferred tax assets are not recognized, were ¥6,330 million (including ¥5,474 million, for which the carryforward expires after five years) as of December 31, 2022, and ¥9,949 million (including ¥7,537 million, for which the carryforward expires after five years) as of December 31, 2023.

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax liabilities were not recognized, was ¥187,192 million as of December 31, 2022, and ¥147,461 million as of December 31, 2023.

(2) Income Taxes

The breakdown of “Income taxes” for each year is as follows:

(Millions of yen)

	2022	2023
Current income taxes	176,545	132,566
Deferred income taxes	(27,268)	3,725
Total income taxes	149,277	136,292

Deferred income taxes decreased by ¥2,861 million and increased by ¥3,659 million for the years ended December 31, 2022 and 2023, respectively, due to the effect of changes in tax rates in other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate for each year calculated based on these taxes was 30.43%. Foreign subsidiaries are subject to income taxes at their locations.

	2022	2023
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(11.37)	(12.16)
Non-deductible expenses	2.72	1.53
Non-taxable incomes	(1.12)	(2.99)
Valuation allowance	1.47	2.49
Tax credits	(1.44)	(1.55)
Retained earnings	1.35	0.93
Withholding tax in foreign countries	1.16	1.45
Tax contingencies	0.52	1.41
Other	1.43	0.40
Average actual tax rate	<u>25.15</u>	<u>21.93</u>

(4) Impact of Application of Pillar Two Model Rules

The Group applies temporary exception regarding the requirements of IAS 12 on deferred tax related to the Pillar Two Model Rules. The Group does not recognize and disclose any deferred tax assets and liabilities related to the Pillar Two Model Rules.

Under the Pillar Two Model Rules, JT International Holding B.V., the Group's subsidiary in the Netherlands, which is where the application of the Income Inclusion Rule (IIR) will begin, will file returns and pay taxes under IIR and file a Global Anti-Base Erosion (GloBE) information return as an intermediate parent company for its subsidiaries for the fiscal year 2024. From the fiscal year 2025 onward, the Company, as the ultimate parent company under Japanese regulations, will file returns and pay taxes under IIR and file a GloBE information return in Japan for all subsidiaries.

Regarding the Undertaxed Payment Rule (UTPR), there is no application in the countries where the Group's companies are located in the fiscal year 2024. From fiscal year 2025 onward, since the Company can file returns and pay taxes under IIR for all subsidiaries, it does not expect to file returns and pay taxes under UTPR.

Although additional taxation under the Pillar Two Model Rules has not yet been applied in the current consolidated fiscal year, even if it were to be applied in the current consolidated fiscal year, it would not have a material impact on the Group's average effective tax rate.

18. Trade and Other Payables

The breakdown of “Trade and other payables” as of December 31 is as follows:

	2022	2023
Accounts payable	273,028	299,738
Other payables	89,868	87,723
Other	177,193	205,341
Total	<u>540,089</u>	<u>592,802</u>

Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Bonds and Borrowings (Including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of “Bonds and borrowings” and “Other financial liabilities” as of December 31 is as follows:

(Millions of yen)

	2022	2023	Due
Derivative liabilities	20,990	25,076	—
Short-term borrowings	63,733	208,968	—
Current portion of long-term borrowings	13,575	24,365	—
Current portion of bonds (Note 2)	60,000	—	—
Long-term borrowings (Note 1)	143,674	123,025	2025 - 2080
Bonds (Note 2)	677,329	785,901	—
Lease liabilities	60,328	59,591	—
Other	481	481	—
Total	1,040,110	1,227,407	
Current liabilities	177,373	277,803	
Non-current liabilities	862,737	949,604	
Total	1,040,110	1,227,407	

(Note 1) ¥99,525 million and ¥99,751 million of the long-term borrowings are subordinated loans due in 2080 as of December 31, 2022 and 2023, respectively. The Company may, at its option, repay early all or a portion of the principal on any interest payment date on or after January 31, 2025.

(Note 2) The summary of the issuing conditions of the bonds is as follows:

Company	Name of bond	Date of issuance	(Millions of yen)		(%)	Collateral	Date of maturity
			As of December 31, 2022	As of December 31, 2023	Interest rate		
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	25,000	25,000	0.599	Yes	July 15, 2025
Japan Tobacco Inc.	12th domestic straight bond	September 10, 2018	60,000 (60,000)	—	0.110	Yes	September 8, 2023
Japan Tobacco Inc.	13th domestic straight bond	September 10, 2018	30,000	30,000	0.355	Yes	September 8, 2028
Japan Tobacco Inc.	14th domestic straight bond	September 10, 2018	10,000	10,000	0.758	Yes	September 10, 2038
Japan Tobacco Inc.	15th domestic straight bond	April 20, 2023	—	10,000	0.713	Yes	April 19, 2030
Japan Tobacco Inc.	16th domestic straight bond	April 20, 2023	—	30,000	0.920	Yes	April 20, 2033
Japan Tobacco Inc.	17th domestic straight bond	April 20, 2023	—	20,000	1.630	Yes	April 20, 2043
JT International Financial Services B.V.	Straight bond in USD (Note 5)	September 28, 2018	65,835 [USD 500 mil.]	69,498 [USD 493 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	77,486 [EUR 550 mil.]	85,862 [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR (Note 5)	November 26, 2019	70,259 [EUR 500 mil.]	73,528 [EUR 472 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	62,946 [GBP 400 mil.]	71,144 [GBP 400 mil.]	2.750	No	September 28, 2033
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	70,408 [EUR 500 mil.]	78,011 [EUR 500 mil.]	2.375	No	April 7, 2081 (Note 3)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	70,308 [EUR 500 mil.]	77,862 [EUR 500 mil.]	2.875	No	October 7, 2083 (Note 4)
JT International Financial Services B.V.	Straight bond in USD (Note 5)	September 14, 2021	77,509 [USD 625 mil.]	79,211 [USD 593 mil.]	2.250	No	September 14, 2031
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	52,640 [USD 400 mil.]	56,272 [USD 400 mil.]	3.300	No	September 14, 2051
JT International Financial Services B.V.	Straight bond in USD	October 24, 2022	64,936 [USD 500 mil.]	69,513 [USD 500 mil.]	6.875	No	October 24, 2032
		Total	737,329 (60,000)	785,901 (—)			

(Note 1) The figure in parentheses () represents the amount of the current portion of the bond.

(Note 2) The figure in parentheses [] represents the amount of foreign currency-denominated bond.

(Note 3) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on April 7, 2026 and on each interest payment date thereafter.

(Note 4) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on January 7, 2029 and on each interest payment date thereafter.

(Note 5) The Issuer purchased a portion of the bonds during the current fiscal year.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those to which hedge accounting is applied, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

There are no financial covenants that have a significant impact on the bonds and borrowings of the Group.

(2) Assets Pledged as Collateral for Liabilities

Pursuant to the provisions of Article 6 of the Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

20. Provisions

The breakdown and schedule of “Provisions” for each year are as follows:

Year ended December 31, 2022

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2022	6,505	11,157	3,692	26,371	47,725
Provisions	227	1,596	4,073	24,032	29,929
Interest cost associated with passage of time	43	—	—	—	43
Provisions used	(347)	(4,905)	(3,820)	(1,747)	(10,818)
Provisions reversed	(925)	(2,695)	—	(12,217)	(15,837)
Exchange differences on translation of foreign operations	23	885	—	1,151	2,059
As of December 31, 2022	5,527	6,038	3,946	37,590	53,100
Current liabilities	118	5,445	3,946	17,101	26,610
Non-current liabilities	5,409	593	—	20,488	26,490
Total	5,527	6,038	3,946	37,590	53,100

Year ended December 31, 2023

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2023	5,527	6,038	3,946	37,590	53,100
Provisions	5,881	3,935	4,427	18,066	32,309
Interest cost associated with passage of time	31	—	—	—	31
Provisions used	(314)	(3,824)	(4,105)	(2,313)	(10,555)
Provisions reversed	(49)	(633)	—	(10,783)	(11,466)
Exchange differences on translation of foreign operations	61	481	—	200	741
As of December 31, 2023	11,136	5,996	4,268	42,760	64,161
Current liabilities	154	5,621	4,268	8,591	18,634
Non-current liabilities	10,983	375	—	34,169	45,527
Total	11,136	5,996	4,268	42,760	64,161

A. Asset Retirement Provisions

In order to settle the obligation of restoring and of removing hazardous substances from plant facilities and premises that the Group uses, the probable amount to be paid in the future is recognized based on past performances. These expenses are expected to be paid after one year or more; however, they may be affected by future business plans.

B. Restructuring Provisions

These provisions are mainly related to business integration and measures for the rationalization of the “Tobacco Business.” The timing of the payment may be affected by future business plans.

C. Provisions for Sales Rebates

These provisions are for contracts which reward the customers with discounts when the sales volume or sales amount in a given period exceeds a specified volume or amount and correspond to “Refund liabilities” in IFRS 15 “Revenue from Contracts with Customers.” They are expected to be paid within one year.

21. Other Liabilities

The breakdown of “Other current liabilities” and “Other non-current liabilities” as of December 31 is as follows:

(Millions of yen)

	2022	2023
Tobacco excise tax payables	339,780	454,727
Tobacco special excise tax payables	8,791	8,484
Tobacco local excise tax payables	184,621	178,585
Consumption tax payables	137,552	168,081
Bonus to employees	74,826	83,323
Employees’ unused paid vacations liabilities	19,866	21,025
Other	210,904	221,333
Total	976,341	1,135,560
Current liabilities	781,093	1,008,390
Non-current liabilities	195,248	127,170
Total	976,341	1,135,560

22. Employee Benefits

(1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions, such as points employees have gained in compensation for each year of service, the payment rate, years of service, and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities. Special termination benefits may be provided to employees on their early retirements under certain circumstances.

The funded defined benefit plans are administrated by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group, or the board of the pension fund and the trustee of the plan, are required by law to act in the best interests of the plan participants, and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group's main defined benefit plans expose the Group to actuarial risks, such as investment risk, interest rate risk, inflation risk, and longevity risk.

(i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bonds or government bonds. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

(ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

(iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

(iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity, and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

	(Millions of yen)		
	Japan (Note 3)	Overseas	Total
As of January 1, 2022 (Notes 1, 2)	156,327	589,874	746,201
Current service cost	8,471	11,673	20,144
Past service cost and settlement	44	(1,684)	(1,640)
Interest expense	1,075	9,307	10,382
Contributions by plan participants	—	2,798	2,798
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(511)	(5,222)	(5,733)
Actuarial gains and losses arising from changes in financial assumptions	(10,129)	(165,622)	(175,751)
Actuarial gains and losses arising from experience adjustments	2,006	25,813	27,819
Benefits paid	(14,788)	(27,579)	(42,367)
Exchange differences on translation of foreign operations	—	36,301	36,301
Other	248	3	250
As of December 31, 2022 (Notes 1, 2)	142,743	475,661	618,405
Current service cost	7,776	9,115	16,891
Past service cost and settlement	533	2,061	2,594
Interest expense	2,501	19,434	21,935
Contributions by plan participants	—	3,125	3,125
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	8	(5,519)	(5,511)
Actuarial gains and losses arising from changes in financial assumptions	82	23,727	23,809
Actuarial gains and losses arising from experience adjustments	(2,343)	11,399	9,056
Benefits paid	(11,700)	(30,738)	(42,438)
Exchange differences on translation of foreign operations	—	61,125	61,125
Other	(3)	(15)	(18)
As of December 31, 2023 (Notes 1, 2)	139,597	569,376	708,974

(Note 1) The Group's weighted-average duration of the defined benefit obligations is 7.0 years for Japan and 11.8 years for overseas (2022 : 7.1 years for Japan and 12.0 years for overseas).

(Note 2) The Group's breakdown of the defined benefit obligation by plan participant is as follows:

(Millions of yen)

	As of December 31, 2022			As of December 31, 2023		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	105,042	180,775	285,817	108,150	229,184	337,335
Deferred members	4,216	48,596	52,812	2,917	54,171	57,088
Pensioners	33,486	246,290	279,776	28,530	286,021	314,551
Total	142,743	475,661	618,405	139,597	569,376	708,974

(Note 3) The schedule of mutual pension benefits obligations included in the category of Japan is as follows:

(Millions of yen)

	2022	2023
As of January 1	21,862	17,346
Interest expense	109	243
Remeasurement gains and losses	(1,970)	(855)
Benefits paid	(2,655)	(2,344)
As of December 31	17,346	14,390

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2022	50,193	453,009	503,203
Interest income	349	6,816	7,166
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(547)	(87,969)	(88,516)
Contributions by the employer (Notes 1, 2)	738	6,480	7,218
Contributions by plan participants	—	2,798	2,798
Benefits paid	(4,785)	(21,781)	(26,566)
Exchange differences on translation of foreign operations	—	26,139	26,139
Other	640	—	640
As of December 31, 2022	46,588	385,493	432,081
Interest income	800	15,934	16,734
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(55)	9,942	9,887
Contributions by the employer (Notes 1, 2)	751	7,319	8,070
Contributions by plan participants	—	3,125	3,125
Benefits paid	(4,116)	(23,917)	(28,033)
Exchange differences on translation of foreign operations	—	53,524	53,524
Other	(0)	—	(0)
As of December 31, 2023	43,968	451,419	495,387

(Note 1) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.

(Note 2) The Group plans to pay contributions of ¥8,207 million in the year ending December 31, 2024.

C. Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the consolidated statement of financial position as of December 31 is as follows:

As of December 31, 2022

	(Millions of yen)		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	41,841	334,822	376,663
Fair value of the plan assets	(46,588)	(385,493)	(432,081)
Subtotal	(4,747)	(50,671)	(55,417)
Present value of the unfunded defined benefit obligations	100,902	140,839	241,742
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	96,156	90,168	186,324
Retirement benefit liabilities	102,060	142,056	244,116
Retirement benefit assets	(5,904)	(51,888)	(57,792)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	96,156	90,168	186,324

As of December 31, 2023

	(Millions of yen)		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	39,125	405,680	444,805
Fair value of the plan assets	(43,968)	(451,419)	(495,387)
Subtotal	(4,843)	(45,739)	(50,582)
Present value of the unfunded defined benefit obligations	100,473	163,696	264,169
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	95,630	117,957	213,587
Retirement benefit liabilities	101,671	177,772	279,443
Retirement benefit assets	(6,041)	(59,814)	(65,856)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	95,630	117,957	213,587

D. Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of December 31 is as follows:

(Millions of yen)

	Japan					
	As of December 31, 2022			As of December 31, 2023		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	8,902	—	8,902	8,736	—	8,736
Equity instruments	1,575	—	1,575	2,945	—	2,945
Japan	811	—	811	1,487	—	1,487
Overseas	764	—	764	1,458	—	1,458
Debt instruments	6,410	—	6,410	5,575	—	5,575
Japan	5,208	—	5,208	4,435	—	4,435
Overseas	1,202	—	1,202	1,140	—	1,140
General account of life insurance companies (Note 1)	—	26,631	26,631	—	23,853	23,853
Other	1,983	1,086	3,069	827	2,032	2,860
Total	18,871	27,717	46,588	18,082	25,885	43,968

(Millions of yen)

	Overseas					
	As of December 31, 2022			As of December 31, 2023		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	55,956	—	55,956	64,428	—	64,428
Equity instruments	48,367	—	48,367	60,417	—	60,417
United Kingdom	2,392	—	2,392	3,167	—	3,167
North America	14,729	—	14,729	16,790	—	16,790
Other	31,245	—	31,245	40,460	—	40,460
Debt instruments	71,436	6,131	77,567	89,432	7,159	96,592
United Kingdom	456	—	456	817	—	817
North America	25,658	—	25,658	29,256	—	29,256
Other	45,322	6,131	51,453	59,360	7,159	66,519
Real estate	26,667	38	26,705	31,585	32	31,617
Other (Note 2)	12,060	164,838	176,898	14,196	184,170	198,366
Total	214,486	171,007	385,493	260,058	191,361	451,419

(Millions of yen)

	Total					
	As of December 31, 2022			As of December 31, 2023		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	64,858	—	64,858	73,164	—	73,164
Equity instruments	49,942	—	49,942	63,362	—	63,362
Debt instruments	77,846	6,131	83,977	95,007	7,159	102,167
Real estate	26,667	38	26,705	31,585	32	31,617
General account of life insurance companies (Note 1)	—	26,631	26,631	—	23,853	23,853
Other (Note 2)	14,043	165,923	179,966	15,023	186,202	201,225
Total	233,357	198,724	432,081	278,140	217,247	495,387

(Note 1) A certain interest rate and principal for the general account of life insurance are guaranteed by life insurance companies.

(Note 2) Insurance agreement concluded in the U.K. pension buy in transactions included in “Other” amounted to ¥156,001 million and ¥175,160 million as of the ended December 31, 2022 and 2023, respectively.

The investment strategy for the Group’s major plans is as follows:

(Japan)

The Company’s pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, the Company invests plan assets consistently with the composition ratio by setting a target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed. When reviewing the composition ratio, the Company considers introducing an asset investment which has a high correlation with the liability.

When an unexpected situation occurs in the market environment, it is temporarily allowed to make a weighted adjustment to the risk assets, complying with the Company’s policy.

(Overseas)

The investment strategy for the foreign subsidiaries’ funded pension plans is decided properly by the trustee of the plan and the management of overseas subsidiaries according to local legislation. The Company’s objective for the foreign subsidiaries’ funded pension plans is to manage risks arising from its defined benefit obligation, and meanwhile to achieve a return on assets in excess of the movement in the value of the defined benefit obligation.

E. Matters Related to Actuarial Assumptions

The major items of actuarial assumptions as of December 31 are as follows:

As of December 31, 2022

	Japan		Overseas	
	Males	Females	Males	Females
	(%)			
Discount rate	1.8		3.9	
Inflation rate	—		2.5	
	(years)			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			23.0 (Note 4)	25.2 (Note 4)

As of December 31, 2023

	Japan		Overseas	
	Males	Females	Males	Females
	(%)			
Discount rate	1.7		3.3	
Inflation rate	—		2.4	
	(years)			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			22.9 (Note 4)	25.2 (Note 4)

(Note 1) The average life expectancies underlie the values of the defined benefit obligations on major plans. Assumptions regarding future mortality rate are based on published statistics and mortality tables.

(Note 2) Life expectancy for a pensioner currently aged 60. Regardless of the plan participant's current age, the Group performs actuarial calculations based on the assumption that life expectancy remains the same.

(Note 3) Life expectancy for a pensioner currently aged 65.

(Note 4) Life expectancy at the age of 65 for an active member currently aged 50.

(Note 5) The valuation of defined benefit obligations includes judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of December 31 are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures represent a decrease in pension plan obligations, while positive figures represent an increase.

As of December 31, 2022

			(Millions of yen)
	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(4,390)	(27,402)
	Decrease by 0.5%	4,711	29,503
Inflation rate	Increase by 0.5%	—	19,787
	Decrease by 0.5%	—	(18,240)
Mortality rate	Extended 1 year	2,315	15,722
	Shortened 1 year	(2,222)	(15,705)

As of December 31, 2023

			(Millions of yen)
	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(4,262)	(32,564)
	Decrease by 0.5%	4,553	34,892
Inflation rate	Increase by 0.5%	—	20,822
	Decrease by 0.5%	—	(19,074)
Mortality rate	Extended 1 year	1,989	17,780
	Shortened 1 year	(1,901)	(17,701)

F. Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost for each year is as follows:

Year ended December 31, 2022

	(Millions of yen)		
	Japan	Overseas	Total
Current service cost	8,471	11,673	20,144
Past service cost and gains and losses on settlement	44	(1,684)	(1,640)
Interest expense (income)	726	2,490	3,216
Defined benefit cost through profit or loss	9,241	12,480	21,721
Actuarial gains and losses arising from changes in demographic assumptions	(511)	(5,222)	(5,733)
Actuarial gains and losses arising from changes in financial assumptions	(10,129)	(165,622)	(175,751)
Actuarial gains and losses arising from experience adjustments	2,006	25,813	27,819
Return on plan assets (excluding amounts included in interest income)	547	87,969	88,516
Defined benefit cost through other comprehensive income	(8,087)	(57,063)	(65,149)
Total of defined benefit cost	1,154	(44,583)	(43,428)

Year ended December 31, 2023

	(Millions of yen)		
	Japan	Overseas	Total
Current service cost	7,776	9,115	16,891
Past service cost and gains and losses on settlement	533	2,061	2,594
Interest expense (income)	1,702	3,500	5,201
Defined benefit cost through profit or loss	10,011	14,676	24,687
Actuarial gains and losses arising from changes in demographic assumptions	8	(5,519)	(5,511)
Actuarial gains and losses arising from changes in financial assumptions	82	23,727	23,809
Actuarial gains and losses arising from experience adjustments	(2,343)	11,399	9,056
Return on plan assets (excluding amounts included in interest income)	55	(9,942)	(9,887)
Defined benefit cost through other comprehensive income	(2,199)	19,665	17,466
Total of defined benefit cost	7,812	34,341	42,153

(Note 1) The net amount of interest expense and interest income is included in “Financial costs.” Other expenses are included in “Cost of sales” and “Selling, general and administrative expenses.”

(Note 2) Contributions to the defined contribution plans were ¥11,737 million for the year ended December 31, 2022 and ¥12,486 million for the year ended December 31, 2023 and were not included in the table above.

(2) Other Employee Benefit Expenses

The employee benefit expenses other than post-employment benefits that are included in the consolidated statement of income for each year are as follows:

	2022	2023
Remuneration and salary	269,996	294,712
Bonus to employees	104,293	114,114
Legal welfare expenses	50,053	54,579
Welfare expenses	46,845	51,066
Termination benefits	(149)	837

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2022 and 2023 is 8,000,000 thousand ordinary shares.

B. Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows:

	(Thousands of shares)		(Millions of yen)
	Number of ordinary issued shares	Share capital	Capital surplus
As of January 1, 2022	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2022	2,000,000	100,000	736,400
Increase (decrease)	—	—	78
As of December 31, 2023	2,000,000	100,000	736,478

(Note) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each year end is as follows:

	(Thousands of shares)	(Millions of yen)
	Number of shares	Amount
As of January 1, 2022	225,475	490,899
Increase (decrease) (Note 2)	(329)	(716)
As of December 31, 2022	225,146	490,183
Increase (decrease) (Note 2)	(454)	(989)
As of December 31, 2023	224,692	489,194

(Note 1) The Company adopts share option plans, restricted stock remuneration plans and performance share unit plans and utilizes treasury shares for delivery of shares due to their exercises. Contract conditions and amounts are described in “32. Share-based Payments.”

(Note 2) Purchases of shares less than one unit are 1 thousand shares for the year ended December 31, 2022 and 0 thousand shares for the year ended December 31, 2023. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2022. The number of shares delivered upon exercise of share options are 119 thousand shares for the year ended December 31, 2022 and 260 thousand shares for the year ended December 31, 2023. The number of shares disposed for restricted stock remuneration are 210 thousand shares for the year ended December 31, 2022 and 158 thousand shares for the year ended December 31, 2023. The number of shares disposed for performance share unit remuneration are 37 thousand shares for the year ended December 31, 2023.

(3) Other Components of Equity

A. Subscription Rights to Shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act. Contract conditions and amount are described in “32. Share-based Payments.”

B. Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations are composed of foreign currency translation difference that occurs when consolidating financial statements of foreign subsidiaries prepared in foreign currencies, and the effective portion of net gain (loss) on the hedging instruments designated as hedge of net investment.

C. Net Gain (Loss) on Derivatives Designated as Cash Flow Hedges

The Group uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in the fair value of hedging instruments designated as cash flow hedges.

D. Hedge Costs

Hedge costs are changes in fair value arising from the time value of foreign currency options separated from hedging instruments.

E. Net Gain (Loss) on Revaluation of Financial Assets Measured at Fair Value through Other Comprehensive Income

This is the valuation difference in the fair value of financial assets measured at fair value through other comprehensive income.

F. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit plans comprise actuarial gains and losses, the return on plan assets excluding amounts included in interest income, and any change in the effect of the asset ceiling excluding amounts included in interest income. In addition, actuarial gains and losses are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Remeasurements are recognized as other comprehensive income when they occur and are transferred immediately from other components of equity to retained earnings.

24. Dividends

Dividends paid for each year are as follows:

Year ended December 31, 2022

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 23, 2022)	Ordinary shares	133,089	75	December 31, 2021	March 24, 2022
Board of Directors (July 29, 2022)	Ordinary shares	133,114	75	June 30, 2022	September 1, 2022

Year ended December 31, 2023

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2023)	Ordinary shares	200,558	113	December 31, 2022	March 27, 2023
Board of Directors (July 31, 2023)	Ordinary shares	166,856	94	June 30, 2023	September 1, 2023

Dividends for which the effective date falls in the following year are as follows:

Year ended December 31, 2022

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2023)	Ordinary shares	200,558	113	December 31, 2022	March 27, 2023

Year ended December 31, 2023

		(Millions of yen)	(Yen)		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 22, 2024)	Ordinary shares	177,531	100	December 31, 2023	March 25, 2024

25. Revenue

(1) Disaggregation of Revenue

The disaggregation of “Revenue” for each year is as follows. The amounts are presented after the elimination of intercompany transactions.

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note)	Pharma- ceuticals	Processed Food		
Core revenue from tobacco business	2,315,242	-	-	-	2,315,242
Other	102,167	82,908	155,539	1,976	342,590
Total	<u>2,417,409</u>	<u>82,908</u>	<u>155,539</u>	<u>1,976</u>	<u>2,657,832</u>

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note)	Pharma- ceuticals	Processed Food		
Core revenue from tobacco business	2,478,625	—	—	—	2,478,625
Other	112,285	94,875	153,854	1,439	362,452
Total	<u>2,590,910</u>	<u>94,875</u>	<u>153,854</u>	<u>1,439</u>	<u>2,841,077</u>

(Note) Revenues from RRP in core revenue from the “Tobacco Business” were ¥75,414 million and ¥81,641 million for the year ended December 31, 2022 and 2023, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

A. Tobacco Business

Tobacco business engage in the sale of tobacco products.

The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in the contract with customers, less discounts, rebates and taxes, including consumption tax. In addition, where the Group makes payments to the customer, except in the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount which is consideration promised with the customer, less consideration payable to the customer.

Considerations for transactions are received mainly within one year from the satisfaction of the performance obligations and includes no significant financing components.

The tobacco excise taxes and other transactions in which the Group is involved as an agent are excluded from revenue. The inflow of economic benefits after deducting the tobacco excise taxes and other transactions is presented as "Revenue" in the consolidated statement of income.

B. Pharmaceutical Business

Pharmaceutical business mainly engages in the sale of prescription drugs and licensing.

The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in the contract with customers, less discounts, rebates and taxes, including consumption tax. In addition, where the Group makes payments to the customer, except in the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount of consideration promised with the customer, less consideration payable to the customer.

Revenue from licensing is generated by licensing out the rights to develop and market each compound to licensees in the development stage, and the Group receives upfront income, milestone revenue and sales-based royalties.

Upfront income is recognized at the time the customer obtains control of the license. Milestone revenue is recognized at the time the milestone agreed between the parties such as the progress of development is achieved. Sales-based royalties are measured based on the Group's licensees' sales, and recognized by taking into consideration the timing of occurrence.

Considerations for transactions are received mainly within one year from satisfying their performance obligations and includes no significant financial component.

C. Processed Food Business

Processed Food business engages in the sale of frozen and ambient processed foods and seasonings.

The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax. In addition, where the Group makes payments to the customer, except in the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount of consideration promised with the customer, less consideration payable to the customer.

Considerations for transactions are received mainly within one year from satisfying their performance obligations and includes no significant financial component.

Transactions in which the Group is involved as an agent are excluded from revenue. The inflow of economic benefits after deducting these transactions is presented as "Revenue" in the consolidated statement of income.

(2) Transaction Price Allocated to the Remaining Performance Obligations

The Group uses the practical expedient and does not disclose information on the remaining performance obligations because it has no significant transactions with initial expected contractual terms exceeding one year. There are no significant amounts of considerations from contracts with customers that are not included in transaction prices.

26. Other Operating Income

The breakdown of “Other operating income” for each year is as follows:

	2022	2023
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	8,905	18,952
Other (Note)	11,357	11,076
Total	<u>20,262</u>	<u>30,027</u>

(Millions of yen)

(Note) The amount of restructuring incomes included in each account is as follows:

	2022	2023
Gain on sale of property, plant and equipment, intangible assets and investment property	2,737	17,808
Other	39	398
Total	<u>2,776</u>	<u>18,207</u>

(Millions of yen)

27. Selling, General and Administrative Expenses

The breakdown of “Selling, general and administrative expenses” for each year is as follows:

	(Millions of yen)	
	2022	2023
Advertising expenses	28,905	39,291
Promotion expenses	125,220	140,863
Commission (Note 2)	79,248	79,315
Employee benefit expenses (Note 2)	338,673	365,408
Research and development expenses (Note 1)	70,808	75,098
Depreciation and amortization (Note 2)	114,258	104,887
Impairment losses on other than financial assets (Note 2)	27,539	13,710
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	7,362	4,344
Other (Note 2)	149,526	158,135
Total	941,538	981,052

(Note 1) All research and development expenses are included in “Selling, general and administrative expenses.”

(Note 2) The amount of restructuring costs included in each account is as follows:

	(Millions of yen)	
	2022	2023
Employee benefit expenses	(465)	640
Impairment losses on other than financial assets	4,808	137
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	4,914	1,017
Other	1,843	2,984
Total	11,099	4,777

28. Financial Income and Financial Costs

The breakdown of “Financial income” and “Financial costs” for each year is as follows:

(Millions of yen)

Financial Income	2022	2023
Dividend income		
Financial assets measured at fair value through other comprehensive income	1,519	833
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	25,016	41,983
Other	4,612	1,597
Total	<u>31,147</u>	<u>44,414</u>

(Millions of yen)

Financial Costs	2022	2023
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	25,630	26,762
Other	1,390	1,731
Foreign exchange losses (Note 1)	35,079	51,885
Employee benefit expenses (Note 2)	3,216	5,201
Loss on net monetary position	16,626	6,485
Other	9,331	3,158
Total	<u>91,272</u>	<u>95,222</u>

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.

(Note 2) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

29. Other Comprehensive Income

Amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of “Other comprehensive income” for each year are as follows:

Year ended December 31, 2022

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	(Millions of yen) Net of tax effects
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	2,502	—	2,502	(761)	1,741
Remeasurements of defined benefit plans	65,149	—	65,149	(15,405)	49,744
Total of items that will not be reclassified to profit or loss	67,651	—	67,651	(16,166)	51,485
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	492,213	(112)	492,101	1,885	493,986
Net gain (loss) on derivatives designated as cash flow hedges	8,909	2,172	11,081	(2,496)	8,584
Total of items that may be reclassified subsequently to profit or loss	501,122	2,060	503,182	(612)	502,570
Total	568,773	2,060	570,833	(16,778)	554,055

Year ended December 31, 2023

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
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	3,598	—	3,598	(1,184)	2,414
Remeasurements of defined benefit plans	(17,466)	—	(17,466)	3,929	(13,538)
Total of items that will not be reclassified to profit or loss	(13,868)	—	(13,868)	2,745	(11,123)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	183,272	456	183,728	5,571	189,299
Net gain (loss) on derivatives designated as cash flow hedges	4,419	1,219	5,638	(888)	4,749
Hedge Costs	(20)	—	(20)	3	(17)
Total of items that may be reclassified subsequently to profit or loss	187,671	1,674	189,345	4,685	194,031
Total	173,803	1,674	175,477	7,430	182,908

30. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

(Millions of yen)

	2022	2023
Profit for the period attributable to owners of the parent company	442,716	482,288
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	442,716	482,288

B. Weighted-average Number of Ordinary Shares Outstanding During the Period

(Thousands of shares)

	2022	2023
Weighted-average number of shares during the period	1,774,749	1,775,142

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2022	2023
Profit for the period used for calculation of basic earnings per share	442,716	482,288
Adjustment	—	—
Profit for the period used for calculation of diluted earnings per share	442,716	482,288

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

(Thousands of shares)

	2022	2023
Weighted-average number of ordinary shares during the period	1,774,749	1,775,142
Increased number of ordinary shares under subscription rights to shares	633	415
Weighted-average number of diluted ordinary shares during the period	1,775,383	1,775,557

31. Reconciliation of Liabilities Arising from Financing Activities

Reconciliation of liabilities arising from financing activities for each year is as follows:

Year ended December 31, 2022

	As of January 1, 2022	Cash flows	Non-cash changes			As of December 31, 2022
			Foreign exchange movement	Fair value changes	Other	
Short-term borrowings and commercial paper	70,636	(27,610)	20,707	—	—	63,733
Long-term borrowings (Note)	196,970	(41,327)	1,487	—	119	157,249
Bonds (Note)	651,016	39,175	46,043	—	1,095	737,329
Lease liabilities	60,536	(21,009)	2,865	—	17,936	60,328
Derivatives	—	12,281	(589)	(11,692)	—	—
Total	979,158	(38,490)	70,513	(11,692)	19,150	1,018,639

Year ended December 31, 2023

	As of January 1, 2023	Cash flows	Non-cash changes			As of December 31, 2023
			Foreign exchange movement	Fair value changes	Other	
Short-term borrowings and commercial paper	63,733	143,042	2,193	—	—	208,968
Long-term borrowings (Note)	157,249	(12,019)	1,909	—	250	147,390
Bonds (Note)	737,329	(8,399)	56,911	—	60	785,901
Lease liabilities	60,328	(23,613)	3,897	—	18,980	59,591
Total	1,018,639	99,011	64,911	—	19,290	1,201,850

(Note) Current portion is included.

32. Share-based Payments

(1) Share Option

The Company adopt share option plans. Share options are granted by the resolutions of the Board of Directors based on the approvals at the Annual Shareholders' Meeting.

The outline of the share option plan of the Company is as follows. Due to the introduction of the restricted stock remuneration plan and the performance share unit plan, share option plans are abolished except for share options already allotted and new share options will not be issued after 2020.

A. Share Option Contract Conditions of the Company

Positions of persons granted	:	Directors and Executive Officers
Settlement	:	Issuance of shares
Effective period of granted share option	:	30 years after the date of grant
Vesting conditions	:	None

Conditions related to the exercise of share options are as follows:

(i) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for the rights that become exercisable from the date following the date on which they no longer hold their positions.

(ii) In the case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

B. Changes in the Number of Share Options of the Company

(Shares)

	2022			2023		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	361,000	369,400	730,400	361,000	250,400	611,400
Exercised	—	(119,000)	(119,000)	—	(260,000)	(260,000)
Transferred	—	—	—	(149,200)	149,200	—
Balance as of December 31	361,000	250,400	611,400	211,800	139,600	351,400
Exercisable balance as of December 31	—	31,600	31,600	—	21,200	21,200

(Note 1) The number of share options is presented as the number of underlying shares.

(Note 2) All share options are granted with an exercise price of ¥1 per share.

(Note 3) "Transferred" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the period.

(Note 4) The weighted-average share prices of share options at the time of exercise during the period were ¥2,202 and ¥2,815 for the years ended December 31, 2022 and 2023, respectively.

(Note 5) The weighted-average remaining contract years of unexercised share options at the end of each period were 23.8 years and 23.2 years for the years ended December 31, 2022 and 2023, respectively.

(2) Restricted Stock Remuneration

The Company has the restricted stock remuneration plan, which delivers the Company's ordinary shares which are subject to a certain transfer restriction period, to Directors also serving as Executive Officers and Executive Officers of the Company (hereinafter referred to as "Eligible Directors and Executive Officers"). The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders.

The Company enters into the restricted stocks allotment agreement with the Eligible Directors and Executive Officers and the Company's ordinary shares shall be delivered if the Eligible Directors and Executive Officers, who continue to serve for a stipulated period, pay all of the monetary compensation claims provided by the Company by the method of contribution in kind. The transfer restriction period is 30 years from the grant date. With regard to the allotted restricted stocks (hereinafter referred to as "Allotted Shares") the restricted stock allotment agreement states that each Eligible Directors and Executive Officers is prohibited to transfer Allotted Shares to a third party, pledge them, mortgage them, or use any arrangement to dispose them, and that the Company can acquire Allotted Shares without any compensation on certain conditions and so on. In case any Eligible Directors and Executive Officers who receive allotment retire due to expiration of the term or resign due to reasons deemed reasonable by the Company's Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company's Board of Directors even during the transfer restriction period, the transfer restrictions shall be removed on all Allotted Shares held by him/her.

Details of Restricted Stock Remuneration

	2022	2023
Grant date	May 24, 2022	July 12, 2023
Number of allotted shares	Directors: 88,600	Directors: 85,200
	Executive Officers: 121,600	Executive Officers: 72,500
Fair value at the grant date	¥2,187	¥3,201
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(3) Performance Share Unit Remuneration

The Company has the performance share unit remuneration plan, which varies the number of allotted shares depending on the degree of the achievement of predetermined performance target, for Directors also serving as Executive Officers and Executive Officers of the Company (hereinafter referred to as “Eligible Directors and Executive Officers”). The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders as with the restricted stock remuneration. The Eligible Directors and Executive Officers shall be paid monetary compensation claims and monies for the delivery of the Company’s ordinary shares in accordance with the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period as determined through deliberations by the Advisory Panel on Nomination and Compensation of the Company after the performance evaluation period of 3 consecutive fiscal years on the condition that they continue to serve as Directors, etc. of the Company for a stipulated period. They shall receive the delivery of the Company’s ordinary shares by paying all of such monetary compensation claims by the method of contribution in kind. The number of allotted shares and the amount of cash to be paid are calculated by multiplying basic number of share units determined in accordance with duties of each Eligible Directors and Executive Officers by the payment ratio calculated based on the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period in the range of 0% - 200%.

The fair value in the plan is estimated based on the market price of the Company’s share, which is not revised in consideration of the estimated dividend. The weighted average fair value at the reporting date for the year ended December 31, 2022 is ¥2,661 and for the year ended December 31, 2023 is ¥3,645.

Details of Performance Share Unit Remuneration

	2022	2023
Grant date	—	July 12, 2023
	Directors :	Directors :
Number of allotted shares	—	19,208
	Executive Officers :	Executive Officers :
Fair value at the grant date	—	¥3,201
Calculation methodology of fair value	—	Calculated based on the closing price of the Company’s ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(4) Share-based Payment Expenses

The costs included in “Selling, general and administrative expenses” in the consolidated statement of income are as follows.

	2022	2023
Restricted stock remuneration (equity-settled)	460	505
Performance share unit remuneration (cash-settled)	385	355

(5) Liabilities Arising from Share-based Payment

The liabilities arising from Share-based Payment in the consolidated statement of financial position as of December 31 are as follows.

	2022	2023
Carrying amounts of liability	932	802

33. Financial Instruments

(1) Capital Management

Based on the “4S model” and JT Group Purpose, our resource allocation policy is prioritizing business investments for sustainable profit growth in the mid to long term as well as striking a balance between profit growth through business investments and shareholder returns. On the other hand, the Group maintains a solid financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

The Group manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (the part attributable to the owners of the parent company). The amounts as of December 31 are as follows:

	2022	2023
Interest-bearing debt (Note)	958,311	1,142,259
Cash and cash equivalents	(866,885)	(1,040,206)
Net interest-bearing debt	91,425	102,053
Capital (equity attributable to owners of the parent company)	3,540,435	3,830,156

(Note) Lease liabilities are excluded.

The specific rules for shares of the Company under the Japan Tobacco Inc. Act are as follows:

The Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by the Annual Shareholders' Meeting) (Article 2 (1)).

In cases where the Company intends to solicit persons to subscribe for shares to be issued or subscription rights to shares or where the Company intends to deliver shares (excluding treasury shares), subscription rights to shares (excluding its own subscription rights to shares) or bonds with subscription rights to shares (excluding its own bonds with subscription rights to shares) when exchanging with shares, the Company shall obtain the approval of the Minister of Finance (Article 2 (2)).

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3).

The Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a stable and flexible financial condition for future investment. We monitor credit ratings for financial stability and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environments.

(2) Financial Risk Management

The Group is exposed to financial risks (credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price fluctuation risk) in the process of its management activities and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are regularly reported by the Department having jurisdiction over financial operations to the president and the Board of Directors of the Company.

The Group policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, the Group does not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as notes and accounts receivable, acquired from the operating activities of the Group are exposed to customer credit risk.

The Group holds mainly debt securities for surplus investment and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuer's credit risk.

In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, the Group is exposed to the credit risk of the financial institutions which are counterparties to these transactions.

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Department having jurisdiction over financial operations of the Company regularly monitors the status of the occurrence and collection of bad debts and reports them to the president and the Board of Directors of the Company.

With regard to the investment of cash surpluses and derivatives, the Group invests in debt securities and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks from occurring and based on the Group Financial Operation Basic Policy. In addition, the Department having jurisdiction over financial operations of the Company regularly monitors the performance of these transactions and reports the results to the president and the Board of Directors of the Company. The maximum exposure pertaining to credit risks for financial assets is the carrying amount after considering impairment in the consolidated financial statements.

There is no excessive concentration of the credit risks to certain counterparties.

The Group reviews collectability of trade receivables depending on the credit conditions of counterparties and recognizes allowance for doubtful accounts. The schedule of the allowance for doubtful accounts is as follows.

(Millions of yen)

	Trade receivables	Other financial assets			Total
		Measured at an amount equal to the 12-month expected credit losses	Measured at an amount equal to the full lifetime expected credit losses		
			Non-credit-impaired financial assets	Credit-impaired financial assets	
As of January 1, 2022	1,306	—	91	6,283	7,680
Addition	1,887	—	9	13	1,909
Decrease (intended use)	(286)	—	—	(346)	(632)
Decrease (reversal)	(382)	—	(9)	(29)	(420)
Other	8	—	—	231	239
As of December 31, 2022	2,533	—	90	6,153	8,776
Addition	2,471	—	1	28	2,500
Decrease (intended use)	(246)	—	—	(20)	(266)
Decrease (reversal)	(1,009)	—	(1)	(36)	(1,046)
Other	156	—	—	215	371
As of December 31, 2023	3,905	—	91	6,339	10,335

(Note) There is no significant change in the carrying amounts of financial assets which affects the change in the allowance for doubtful accounts.

(4) Liquidity Risk

The Group raises funds by borrowings, commercial paper and bonds; however, these liabilities are exposed to the liquidity risk that we would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual business plan and the Department having jurisdiction over financial operations of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the president and the Board of Directors of the Company. In order to manage liquidity risk, the Group keeps necessary credit facilities by having commitment lines with several financial institutions, and conducts securitization of receivables.

The financial liability balance (including derivative financial instruments) by maturity as of December 31 is as follows:

As of December 31, 2022

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	(Millions of yen)
Non-derivative financial liabilities									
Trade and other payables	540,089	540,089	540,089	—	—	—	—	—	
Short-term borrowings	63,733	63,733	63,733	—	—	—	—	—	
Current portion of long-term borrowings	13,575	13,575	13,575	—	—	—	—	—	
Long-term borrowings	143,674	144,173	—	23,948	58	60	20,063	100,043	
Current portion of bonds	60,000	60,000	60,000	—	—	—	—	—	
Bonds	677,329	687,737	—	—	102,813	—	—	584,924	
Lease liabilities	60,328	71,007	20,321	14,646	7,630	4,286	3,164	20,959	
Subtotal	1,558,728	1,580,314	697,718	38,594	110,501	4,347	23,227	705,926	
Derivative financial liabilities									
Foreign exchange forward contract	20,990	20,990	19,812	973	204	—	—	—	
Subtotal	20,990	20,990	19,812	973	204	—	—	—	
Total	1,579,719	1,601,304	717,531	39,568	110,705	4,347	23,227	705,926	

As of December 31, 2023

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	(Millions of yen)
Non-derivative financial liabilities									
Trade and other payables	592,802	592,802	592,802	—	—	—	—	—	
Short-term borrowings	208,968	208,968	208,968	—	—	—	—	—	
Current portion of long-term borrowings	24,365	24,365	24,365	—	—	—	—	—	
Long-term borrowings	123,025	123,274	—	2,817	158	20,160	140	100,000	
Current portion of bonds	—	—	—	—	—	—	—	—	
Bonds	785,901	795,539	—	111,096	—	—	99,958	584,485	
Lease liabilities	59,591	71,705	21,802	13,356	7,869	5,193	4,115	19,369	
Subtotal	1,794,652	1,816,653	847,937	127,269	8,027	25,353	104,212	703,855	
Derivative financial liabilities									
Foreign exchange forward contract	25,076	25,076	23,031	2,044	—	—	—	—	
Subtotal	25,076	25,076	23,031	2,044	—	—	—	—	
Total	1,819,728	1,841,729	870,968	129,313	8,027	25,353	104,212	703,855	

The total of commitment lines and withdrawal as of December 31 are as follows:

	2022	2023	(Millions of yen)
Total committed line of credit	529,964	567,655	
Withdrawing	—	135,000	
Unused balance	529,964	432,655	

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.

(ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts for example, when future cash flow is projected or when receivables and payables are fixed, and some of them are designated as cash flow hedges. The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts for example, and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy and under the supervision of the Treasury Committee of the Company, the Group establishes and implements a foreign currency hedge policy taking into consideration the impact on the Group's performance and the current conditions of the foreign exchange market in a comprehensive manner. The Department having jurisdiction over financial operations of the Company regularly reports the performances to the president and the Board of Directors of the Company.

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

	(Millions of yen)	
	2022	2023
Profit before income taxes	(8,715)	(4,836)

(6) Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debts after deducting cash equivalents. Borrowings and bonds with floating rates are exposed to interest rate fluctuation risk.

In order to reduce the interest rate fluctuation risk related to borrowings and bonds, in accordance with the Group Financial Operation Basic Policy and under the supervision of the Treasury Committee of the Company, the Group establishes and implements an interest rate hedging policy taking into consideration the impact on the Group's performance and the current condition of the interest rates in a comprehensive manner. The Department having jurisdiction over financial operations of the Company reports the performances to the president and the Board of Directors of the Company.

Although the Group implements interest rate hedges with high effectiveness, as stated in "3. Material Accounting Policy Information," with respect to the interest rate hedges against the reference yield of the bonds issued previous fiscal year, hedge ineffectiveness occurred as a result of a change in the originally assumed maturity of the bonds after taking the market conditions into consideration at the actual issuance.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of each year end increases by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows:

The analysis is subject to financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

	2022	2023
Profit before income taxes	4,875	3,092

(7) Hedging Transactions

The Group's policy for hedging transactions is stated in "3. Material Accounting Policy Information."

A. Cash Flow Hedges

The details of hedging instruments designated as cash flow hedges are as follows:

As of December 31, 2022

	Contract amount		Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.	
				Assets	Liabilities		
Foreign exchange risk							
Foreign exchange forward contract							
JPY / USD	USD	132 mil.	—	356	672	¥	125.96
EUR / USD	USD	837 mil.	—	1,335	2,948	€	0.95
GBP / USD	USD	379 mil.	—	1,463	594	£	0.81
USD / CHF	CHF	528 mil.	CHF 97 mil.	2,630	117	\$	1.07
USD / PLN	PLN	1,798 mil.	—	2,736	179	\$	0.21
EUR / PLN	PLN	682 mil.	—	—	675	€	0.20

As of December 31, 2023

	Contract amount		Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.	
				Assets	Liabilities		
Foreign exchange risk							
Foreign exchange forward contract							
JPY / USD	USD	113 mil.	—	175	518	¥	134.55
EUR / USD	USD	929 mil.	—	1,070	1,508	€	0.91
GBP / USD	USD	354 mil.	—	100	1,008	£	0.80
USD / CHF	CHF	337 mil.	CHF 28 mil.	3,756	—	\$	1.13
USD / PLN	PLN	1,593 mil.	—	3,330	76	\$	0.24
EUR / PLN	PLN	597 mil.	—	15	1,132	€	0.22

(Note) Carrying amounts of derivatives are presented as "Other financial assets" or "Other financial liabilities" in the consolidated statement of financial position, and the portion with over one year maturity is classified as "Non-current assets" or "Non-current liabilities."

The schedule of net gains (losses) on hedging instruments designated as cash flow hedges is as follows:

(Millions of yen)

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign exchange risk (Note 1)	Interest rate risk	Total
As of January 1, 2022	(274)	—	(274)
Other comprehensive income			
Amount arising (Note 1)	1,528	7,381	8,909
Reclassification adjustments (Note 1)	2,301	(129)	2,172
Tax effects	(560)	(1,936)	(2,496)
Basis adjustments (Note 2)	236	—	236
As of December 31, 2022	3,231	5,316	8,546
Other comprehensive income			
Amount arising (Note 1)	4,058	361	4,419
Reclassification adjustments (Note 1)	1,987	(769)	1,219
Tax effects	(1,087)	198	(888)
Basis adjustments (Note 2)	(4,150)	—	(4,150)
As of December 31, 2023	4,039	5,106	9,145

(Note 1) Regarding foreign exchange risk, the change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument, and the amount, which is reclassified when the hedged item affects profit or loss, is recognized in “Revenue,” “Selling, general and administrative expenses,” “Financial income” or “Financial costs” in the consolidated statement of income. The amount of hedge ineffectiveness is immaterial.

(Note 2) Because of the increase in quantitative significance, the figures are presented separately from the current fiscal year.

The effect of hedging instruments on consolidated statements of profit or loss and comprehensive income is as follows:

Year ended December 31, 2022

(Millions of yen)

	Gains or losses on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in the consolidated statement of income that includes hedge ineffectiveness recognized in profit or loss	Amount reclassified from cash flow hedge reserve to profit or loss	Line item in the consolidated statement of income that includes profit or loss due to reclassification adjustment
Interest rate risk	7,381	4,553	Financial income	(129)	Financial costs

Year ended December 31, 2023

(Millions of yen)

	Gains or losses on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in the consolidated statement of income that includes hedge ineffectiveness recognized in profit or loss	Amount reclassified from cash flow hedge reserve to profit or loss	Line item in the consolidated statement of income that includes profit or loss due to reclassification adjustment
Interest rate risk	361	—	—	(769)	Financial costs

The changes in fair value of the hedging instrument and in value of the hedged item used as the basis for recognizing hedge ineffectiveness are as follows:

Year ended December 31, 2022

	The change in fair value of the hedging instrument	(Millions of yen) The change in value of the hedged item
Interest rate risk	11,934	(7,381)

Year ended December 31, 2023

	The change in fair value of the hedging instrument	(Millions of yen) The change in value of the hedged item
Interest rate risk	—	—

B. Hedge of Net Investment in Foreign Operations

The details of hedging instruments designated as hedge of net investment are mainly as follows:

As of December 31, 2022

	Contract amount		Over one year		Carrying amount (Note)		Average rate, etc.	
					(Millions of yen)			
					Assets	Liabilities		
Bonds in EUR	EUR	1,327 mil.	EUR	1,327 mil.	—	186,408	\$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	—	62,624	\$	1.32
Foreign exchange forward contract								
EUR / USD	USD	306 mil.		—	—	824	€	0.95

As of December 31, 2023

	Contract amount		Over one year		Carrying amount (Note)		Average rate, etc.	
					(Millions of yen)			
					Assets	Liabilities		
Bonds in EUR	EUR	1,331 mil.	EUR	1,331 mil.	—	206,711	\$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	—	70,686	\$	1.32
Foreign exchange forward contract								
JPY / USD	USD	2,220 mil.	USD	570 mil.	4,554	12,521	¥	132.78
USD / RON	RON	675 mil.		—	110	—	\$	0.22

(Note) Carrying amounts of bonds are presented as “Bonds and borrowings” in the consolidated statement of financial position, and the portion with over one year maturity is classified as “Non-current liabilities.” Carrying amounts of derivatives are presented as “Other financial assets” or “Other financial liabilities” in the consolidated statement of financial position, and the portion with over one year maturity is classified as “Non-current assets” or “Non-current liabilities.”

The schedule of net gains (losses) on hedging instrument designated as hedge of net investment in foreign operations is as follows:

	(Millions of yen)	
	2022	2023
As of January 1	7,481	6,809
Other comprehensive income		
Amount arising (Note 1)	(2,557)	(28,822)
Tax effects	1,885	5,571
As of December 31 (Note 2)	6,809	(16,442)

(Note 1) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument.

(Note 2) Net loss arising from the hedging instruments for which hedge accounting is discontinued were ¥7,396 million and ¥18,498 million as of December 31, 2022 and 2023, respectively, which are included in the exchange differences on translation of foreign operations.

(8) Market Price Fluctuation Risk

With respect to securities, the Group regularly assesses the fair value and financial conditions of the issuers, and each relevant department reviews the portfolio held by taking into account the relationship with counterparty entities as necessary.

(9) Fair Value of Financial Instruments

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

A. Financial Instruments Measured at Amortized Cost

The carrying amount and fair value hierarchy of financial instruments measured at amortized cost as of December 31 are as follows:

As of December 31, 2022

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	157,249	—	156,294	—	156,294
Bonds (Note)	737,329	645,061	—	—	645,061

As of December 31, 2023

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	147,390	—	147,627	—	147,627
Bonds	785,901	732,331	—	—	732,331

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

B. Financial Instruments Measured at Fair Value

The fair value hierarchy of financial instruments measured at fair value as of December 31 is as follows:

As of December 31, 2022

	(Millions of yen)			
	Level 1	Level 2	Level 3 (Note 2)	Total
Derivative assets	—	24,285	—	24,285
Equity securities	21,551	—	9,786	31,337
Notes and accounts receivable (Note 1)	—	1,703	—	1,703
Other	579	5,018	12,522	18,119
Total	<u>22,130</u>	<u>31,006</u>	<u>22,308</u>	<u>75,444</u>
Derivative liabilities	—	20,990	—	20,990
Total	<u>—</u>	<u>20,990</u>	<u>—</u>	<u>20,990</u>

As of December 31, 2023

	(Millions of yen)			
	Level 1	Level 2	Level 3 (Note 2)	Total
Derivative assets	—	19,187	—	19,187
Equity securities	22,696	—	11,585	34,281
Notes and accounts receivable (Note 1)	—	5,307	—	5,307
Other	686	4,799	14,976	20,461
Total	<u>23,382</u>	<u>29,293</u>	<u>26,560</u>	<u>79,236</u>
Derivative liabilities	—	25,076	—	25,076
Total	<u>—</u>	<u>25,076</u>	<u>—</u>	<u>25,076</u>

(Note 1) Because of the increase in quantitative significance, the figures are presented separately from the current fiscal year. This change in method of presentation, resulted in a reclassification from Level 2 “Other” in the previous fiscal year.

(Note 2) The schedule of financial instruments that are classified in Level 3 is as follows:

	(Millions of yen)	
	2022	2023
As of January 1	15,529	22,308
Total gain (loss)		
Profit or loss (Note 1)	146	(405)
Other comprehensive income (Note 2)	887	(575)
Purchases	4,945	4,807
Sales	(50)	(320)
Other	851	745
As of December 31	<u>22,308</u>	<u>26,560</u>

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2022 and 2023 are related to financial assets measured at fair value through profit or loss as of the year end. These gains and losses are included in “Financial income” and “Financial costs.”

(Note 2) Gains and losses included in other comprehensive income for the years ended December 31, 2022 and 2023 are related to financial assets measured at fair value through other comprehensive income as of the year end. These gains and losses are included in “Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income.”

34. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders' Meeting). As of December 31, 2023, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

The Group's revenue from CJSC TK Megapolis, the local Russian distribution affiliate, was ¥347,288 million and ¥321,006 million for the years ended December 31, 2022 and 2023, respectively. The Group held trade receivables of ¥61,442 million and ¥65,002 million from CJSC TK Megapolis as of December 31, 2022 and 2023, respectively.

(2) Remuneration for Directors and Audit and Supervisory Board Members

Remuneration for directors and audit and supervisory board members for each year is as follows:

	(Millions of yen)	
	2022	2023
Remuneration and bonuses	1,232	1,132
Share-based payments	374	475
Total	1,606	1,607

35. Subsidiaries, Associates and Others

(The composition of the Group)

The composition of the Group by reportable segment as of December 31 is as follows:

Reportable Segments	2022		2023	
	Number of subsidiaries	Number of entities accounted for using the equity method (Note)	Number of subsidiaries	Number of entities accounted for using the equity method (Note)
Tobacco	177	10	174	14
Pharmaceuticals	2	—	2	—
Processed Food	23	2	22	2
Other	21	2	23	2
Total	223	14	221	18

(Note) No associates or joint ventures are considered to be material to the Group.

There is no significant change in the composition of the Group for the year ended December 31, 2023.

Regarding the restrictions on the ability to use the assets of the Group, please refer to "7. Cash and Cash Equivalents."

36. Commitments

(1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets as of December 31 are as follows:

	2022	2023
Acquisition of property, plant and equipment	36,933	61,017
Acquisition of intangible assets	3,530	5,214
Total	<u>40,463</u>	<u>66,230</u>

(2) Procurement of Domestic Leaf Tobacco

With regard to the procurement of domestic leaf tobacco by the Company, based on the Tobacco Business Act, the Company enters into purchase contracts with domestic leaf tobacco growers every year, and the contracts determine the area under cultivation by type of tobacco and the prices by type and quality of tobacco leaf. Under the contracts, the Company is obligated to purchase all domestic leaf tobacco produced pursuant to such contracts, except for any domestic leaf tobacco not suited for the manufacture of tobacco products.

37. Hyperinflationary Accounting Adjustments

As required by IAS 29, the Group's consolidated financial statements include the financial statements of the subsidiaries in the hyperinflationary economy, restated in terms of the measuring unit current at the end of the reporting period.

For the restatement of the financial statements of the subsidiaries in Sudan, Iran, Turkey and Ethiopia, the Group applies the conversion coefficients derived from the Consumer Price Index of Sudan published by the Central Bank of Sudan, from the Consumer Price Index of Iran published by the Statistical Center of Iran, from the Consumer Price Index of Turkey published by the Turkish Statistical Institute and from the Consumer Price Index of Ethiopia published by the Central Statistical Agency of Ethiopia. Major Consumer Price Indexes are described.

Consumer Price Index and corresponding conversion coefficients of Sudan are presented below.

As the Consumer Price Index has not been announced since March 2023, the Group applies the Consumer Price Index and conversion coefficients as of December 31, 2023 reasonably calculated based on the Consumer Price Index for February 2023 as the most recent data available, along with the consideration of the economic situation of Sudan.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2011 (omission)	182	60,740
31 December 2019	2,339	4,724
31 December 2020	8,639	1,279
31 December 2021	36,131	306
31 December 2022	67,674	163
31 December 2023	110,511	100

Consumer Price Index and corresponding conversion coefficients of Iran are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2015 (omission)	93	845
31 December 2019	194	407
31 December 2020	281	281
31 December 2021	379	208
31 December 2022	563	140
31 December 2023	789	100

Consumer Price Index and corresponding conversion coefficients of Turkey are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2010 (omission)	182	1,022
31 December 2019	441	422
31 December 2020	505	368
31 December 2021	687	271
31 December 2022	1,128	165
31 December 2023	1,859	100

Consumer Price Index and corresponding conversion coefficients of Ethiopia are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2017 (omission)	117	362
31 December 2019	154	274
31 December 2020	182	232
31 December 2021	246	172
31 December 2022	329	128
31 December 2023	422	100

The Company's subsidiaries in the hyperinflationary economy have restated their non-monetary items held at historical cost, such as property, plant and equipment, by applying the conversion coefficients at the acquisition date. Monetary items and non-monetary items held at current cost are not restated as they are considered to be expressed in terms of the measuring unit current at the end of the reporting period.

For the purpose of consolidation, the financial statements of the Company's subsidiaries in the hyperinflationary economy are translated using the spot exchange rates at the end of the reporting period.

38. Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in legal proceedings. Provisions are not accounted for in matters where it is not practicable to reasonably estimate the final outcomes.

The Company and some of its subsidiaries, who are defendants in such legal proceedings, believe that our defenses asserted in these proceedings are based on substantial evidence and implement the system for the response to action with the assistance of external lawyers.

(1) Smoking/Vaping and Health Related Litigation

Some of the Company's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or E-Vapor products, or exposure to tobacco smoke. As of December 31, 2023, there were a total of 21 smoking/vaping and health related cases pending in which some of the Company's subsidiaries were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement such as for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

The major ongoing smoking/vaping and health related cases are as follows:

On March 8, 2019, JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary, filed for protection from its creditors under the Companies' Creditors Arrangement Act (CCAA). The Ontario Superior Court has granted the CCAA application and extended protection in favor of JTI-Mac (hereinafter referred to as "CCAA Proceedings"). All of the below Canadian matters against JTI-Mac have been stayed by the CCAA Proceedings, under which JTI-Mac carries on business in the ordinary course.

A. Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

South Africa Individual Claim (Joselowitz):

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff seeks compensatory and punitive damages, alleging that the Company's indemnitee marketed products which it knew to be dangerous to health, manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.

In addition, there is one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland and one ongoing individual case (which has been stayed by the court order) brought against the Company's subsidiaries in the United States.

B. Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

Canada Quebec Class Action (Cecilia Letourneau):

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥492.3 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥492.3 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of defendants by substantively upholding the first instance judgment and ordering a punitive damage award against the appellants of approximately ¥17.3 billion (approximately CAD 161 million), in which the share of the total damage award against JTI-Mac is approximately ¥1.6 billion (approximately CAD 15 million). The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥1,333.8 billion (approximately CAD 12.4 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥87 billion (approximately CAD 0.8 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of the defendants by substantively upholding the first instance judgment and ordering a compensatory damage award jointly and severally against the defendants of approximately ¥1,450.8 billion (approximately CAD 13.5 billion), in which the share of the total damage award against JTI-Mac is approximately ¥188.6 billion (approximately CAD 1.8 billion), and a punitive damage award of approximately ¥4 million (approximately CAD 0.04 million) per defendants. The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

The Quebec Court of Appeal rendered one judgment for both class actions against the defendants and ordered them to make an initial deposit of approximately ¥124.5 billion (approximately CAD 1.2 billion), in which the share of JTI-Mac is approximately ¥15.6 billion (approximately CAD 145 million). The obligation to pay the initial deposit is stayed by the CCAA Proceedings.

Canada Saskatchewan Class Action (Adams):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Manitoba Class Action (Kunta):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Nova Scotia Class Action (Semple):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada British Columbia Class Action (Bourassa):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Proceedings.

Canada British Columbia Class Action (McDermid):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Ontario Class Action (Jacklin):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

C. Health-Care Cost Recovery Litigation

There are 10 ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by all the Canadian provinces (except three Canadian territories). These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has allegedly incurred and will incur, resulting from "tobacco related wrongs."

Canada British Columbia Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The case is stayed by the CCAA Proceedings.

Canada New Brunswick Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Ontario Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥35,389.2 billion (CAD 330 billion). The case is stayed by the CCAA Proceedings.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Manitoba Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Quebec Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total amount of the claim approximately ¥6,504.9 billion (approximately CAD 60.7 billion). The case is stayed by the CCAA Proceedings.

Canada Alberta Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of at least ¥1,072.4 billion (CAD 10.0 billion). The case is stayed by the CCAA Proceedings.

Canada Saskatchewan Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Prince Edward Island Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Nova Scotia Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Nova Scotia in January 2015 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

(2) Other Legal Proceedings

The Company and some of its subsidiaries are also engaged in other legal proceedings such as commercial and tax disputes.

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates as of December 31, 2023.

39. Subsequent Events

No items to report.

(2) Others

A. Quarterly Information for the Year ended December 31, 2023

(Millions of yen)

	Q1 January 1, 2023 to March 31, 2023	Q2 January 1, 2023 to June 30, 2023	Q3 January 1, 2023 to September 30, 2023	2023 January 1, 2023 to December 31, 2023
Revenue	665,278	1,392,812	2,157,018	2,841,077
Profit before income taxes for the period (year)	183,146	373,430	586,209	621,601
Profit attributable to owners of the parent company for the period (year)	144,684	287,009	442,010	482,288
Basic earnings per share for the period (year) (yen)	81.52	161.70	249.01	271.69

	Q1 January 1, 2023 to March 31, 2023	Q2 April 1, 2023 to June 30, 2023	Q3 July 1, 2023 to September 30, 2023	Q4 October 1, 2023 to December 31, 2023
Basic earnings per share for the quarter(losses) (yen)	81.52	80.18	87.31	22.69

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in “38. Contingencies” in the notes to consolidated financial statements.

2. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2022 and 2023

(Millions of yen)

	2022	2023
Assets		
Current assets		
Cash and deposits	193,376	177,685
Accounts receivable-trade	*2 31,739	*2 33,949
Securities	18,000	—
Merchandise and finished goods	25,424	38,008
Semi-finished goods	84,534	80,783
Work in process	1,815	988
Raw materials and supplies	32,017	38,491
Advance payments-trade	2,440	400
Prepaid expenses	5,040	6,165
Short-term loans receivable from subsidiaries and affiliates	38,649	33,831
Other	*2 26,255	*2 15,967
Allowance for doubtful accounts	(29)	(31)
Total current assets	459,260	426,237
Noncurrent assets		
Property, plant and equipment		
Buildings	69,893	67,108
Structures	2,066	1,891
Machinery and equipment	34,722	27,462
Vehicles	536	305
Tools, furniture and fixtures	9,996	9,652
Land	47,298	46,171
Construction in progress	533	5,994
Total property, plant and equipment	165,044	158,583
Intangible assets		
Patent right	194	163
Right of trademark	49,196	32,783
Software	11,652	8,331
Goodwill	107,313	71,542
Other	7,337	13,668
Total intangible assets	175,692	126,487
Investments and other assets		
Investment securities	22,358	21,753
Shares of subsidiaries and affiliates	1,495,647	1,502,043
Long-term loans receivable from subsidiaries and affiliates	6,069	5,558
Long-term prepaid expenses	7,335	10,593
Deferred tax assets	16,987	24,694
Other	15,030	18,110
Allowance for doubtful accounts	(154)	(108)
Total investments and other assets	1,563,271	1,582,644
Total noncurrent assets	1,904,007	1,867,714
Total assets	2,363,267	2,293,951

(Millions of yen)

		2022		2023
Liabilities				
Current liabilities				
Accounts payable-trade	*2	10,445	*2	7,279
Short-term borrowings		—		158,000
Current portion of bonds	*1	60,000		—
Current portion of long-term borrowings		—		20,000
Lease obligations	*2	230	*2	138
Accounts payable-other	*2	72,620	*2	42,765
National tobacco excise taxes payable		72,925		70,378
National tobacco special excise taxes payable		8,791		8,484
Local tobacco excise taxes payable		82,013		79,077
Income taxes payable		1,863		5,624
Accrued consumption taxes		28,711		27,323
Cash management system deposits received	*3	318,412	*3	300,833
Provision for bonuses		5,675		5,498
Other provisions		—		1,331
Other		20,565		28,933
Total current liabilities		682,250		755,663
Noncurrent liabilities				
Bonds payable	*1	65,000	*1	125,000
Long-term borrowings		140,000		120,000
Lease obligations	*2	152	*2	45
Provision for retirement benefits		101,421		101,387
Other	*2	5,800	*2	12,278
Total noncurrent liabilities		312,374		358,711
Total liabilities		994,623		1,114,374

(Millions of yen)

	2022	2023
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Other capital surplus	—	78
Total capital surplus	736,400	736,478
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	331	326
Reserve for reduction entry	34,780	32,922
Special account for reduction entry	574	914
Retained earnings brought forward	956,333	775,229
Total retained earnings	1,010,794	828,167
Treasury shares	(490,183)	(489,194)
Total shareholders' equity	1,357,011	1,175,451
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6,903	6,545
Deferred gains or losses on hedges	3,728	(2,975)
Total valuation and translation adjustments	10,631	3,569
Subscription rights to shares	1,001	557
Total net assets	1,368,643	1,179,577
Total liabilities and net assets	2,363,267	2,293,951

B. Nonconsolidated Statement of Income
Years Ended December 31, 2022 and 2023

(Millions of yen)

	2022		2023	
Net sales	*5	542,181	*5	537,261
Cost of sales	*5	173,609	*5	191,861
Gross profit		368,572		345,399
Selling, general and administrative expenses	*1,*5	303,998	*1,*5	325,269
Operating income		64,574		20,131
Non-operating income				
Interest income	*5	78	*5	135
Dividends income	*5	204,825	*5	162,991
Other	*5	8,205	*5	11,937
Total non-operating income		213,108		175,064
Non-operating expenses				
Interest expenses	*5	1,686	*5	1,633
Interest on bonds		456		846
Foreign exchange losses		—		5,960
Other	*5	1,806	*5	1,090
Total non-operating expenses		3,948		9,529
Ordinary income		273,734		185,665
Extraordinary income				
Gain on sales of noncurrent assets	*2	6,459	*2	17,001
Gain on sale of businesses	*7	39,005		—
Other		5,504		1,698
Total extraordinary income		50,968		18,699
Extraordinary losses				
Loss on sales of noncurrent assets	*3	478	*3	214
Loss on retirement of noncurrent assets	*4,*5	3,857	*4,*5	2,715
Impairment loss		4,381		4,506
Business restructuring costs	*5,*6	1,642		—
Other		4,290		1,854
Total extraordinary losses		14,647		9,289
Income before income taxes		310,055		195,075
Income taxes-current		17,701		14,905
Income taxes-deferred		8,893		(4,618)
Total income taxes		26,594		10,287
Net income		283,461		184,788

C. Nonconsolidated Statement of Changes in Net Assets
Years Ended December 31, 2022 and 2023

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings				Total retained earnings
		Legal capital surplus	Total capital surplus		Other retained earnings				
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
As of January 1, 2022	100,000	736,400	736,400	18,776	356	37,715	425	935,204	992,476
Cumulative effects of changes in accounting policies								1,117	1,117
Restated balance	100,000	736,400	736,400	18,776	356	37,715	425	936,321	993,593
Changes of items during the period									
Provision of reserve for investment loss on developing new business					331			(331)	—
Reversal of reserve for investment loss on developing new business					(356)			356	—
Provision of reserve for reduction entry						690		(690)	—
Reversal of reserve for reduction entry						(3,624)		3,624	—
Provision of special account for reduction entry							574	(574)	—
Reversal of special account for reduction entry							(425)	425	—
Dividends from surplus								(266,203)	(266,203)
Net income								283,461	283,461
Purchase of treasury shares									
Disposal of treasury shares								(57)	(57)
Net changes of items other than shareholders' equity									
Total changes of items during the period	—	—	—	—	(25)	(2,934)	149	20,012	17,201
As of December 31, 2022	100,000	736,400	736,400	18,776	331	34,780	574	956,333	1,010,794

(Millions of yen)

	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		
As of January 1, 2022	(490,899)	1,337,977	5,833	(316)	5,517	1,202	1,344,696
Cumulative effects of changes in accounting policies		1,117					1,117
Restated balance	(490,899)	1,339,094	5,833	(316)	5,517	1,202	1,345,813
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—			—		—
Reversal of reserve for investment loss on developing new business		—			—		—
Provision of reserve for reduction entry		—			—		—
Reversal of reserve for reduction entry		—			—		—
Provision of special account for reduction entry		—			—		—
Reversal of special account for reduction entry		—			—		—
Dividends from surplus		(266,203)			—		(266,203)
Net income		283,461			—		283,461
Purchase of treasury shares	(1)	(1)			—		(1)
Disposal of treasury shares	717	660			—		660
Net changes of items other than shareholders' equity			1,070	4,045	5,114	(200)	4,914
Total changes of items during the period	716	17,917	1,070	4,045	5,114	(200)	22,831

As of December 31, 2022	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
-------------------------	-----------	-----------	-------	-------	--------	-------	-----------

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings					Total retained earnings
		Legal capital surplus	Other 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	Retained earnings brought forward	
As of January 1, 2023	100,000	736,400	—	736,400	18,776	331	34,780	574	956,333	1,010,794
Cumulative effects of changes in accounting policies									—	—
Restated balance	100,000	736,400	—	736,400	18,776	331	34,780	574	956,333	1,010,794
Changes of items during the period										
Provision of reserve for investment loss on developing new business						326			(326)	—
Reversal of reserve for investment loss on developing new business						(331)			331	—
Provision of reserve for reduction entry							628		(628)	—
Reversal of reserve for reduction entry							(2,487)		2,487	—
Provision of special account for reduction entry								914	(914)	—
Reversal of special account for reduction entry								(574)	574	—
Dividends from surplus									(367,415)	(367,415)
Net income									184,788	184,788
Purchase of treasury shares										
Disposal of treasury shares			78	78					—	—
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	78	78	—	(5)	(1,858)	341	(181,104)	(182,627)
As of December 31, 2023	100,000	736,400	78	736,478	18,776	326	32,922	914	775,229	828,167

(Millions of yen)

	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		
As of January 1, 2023	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
Cumulative effects of changes in accounting policies		—					—
Restated balance	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—			—		—
Reversal of reserve for investment loss on developing new business		—			—		—
Provision of reserve for reduction entry		—			—		—
Reversal of reserve for reduction entry		—			—		—
Provision of special account for reduction entry		—			—		—
Reversal of special account for reduction entry		—			—		—
Dividends from surplus		(367,415)			—		(367,415)
Net income		184,788			—		184,788
Purchase of treasury shares	(1)	(1)			—		(1)
Disposal of treasury shares	990	1,068			—		1,068
Net changes of items other than shareholders' equity			(358)	(6,704)	(7,062)	(444)	(7,506)
Total changes of items during the period	989	(181,560)	(358)	(6,704)	(7,062)	(444)	(189,066)

As of December 31, 2023	(489,194)	1,175,451	6,545	(2,975)	3,569	557	1,179,577
-------------------------	-----------	-----------	-------	---------	-------	-----	-----------

Notes to Nonconsolidated Financial Statements
Years Ended December 31, 2022 and 2023

(Significant Accounting Policies)

1. Basis and Method of Valuation for Securities

(1) Shares of Subsidiaries and Affiliates:

Stated at cost determined by the moving-average method.

(2) Available-for-sale Securities:

A. Securities with a market price:

Stated at fair value based on market prices as of the closing date of the accounting period. (Valuation difference is stated as a component of net assets and the cost of securities sold is calculated by applying the moving-average method.)

B. Securities without a market price:

Stated at cost determined by the moving-average method.

2. Basis and Method of Valuation for Derivatives

Stated based on the fair value method.

3. Basis and Method of Valuation for Inventories

Stated at cost as determined by the average cost method.

(Balance sheet amounts are measured at the lower of cost or net selling value.)

4. Depreciation Methods for Depreciable Assets

(1) Property, Plant and Equipment (Excluding Lease Assets)

The declining-balance method is applied. However, the straight-line method is applied for buildings (excluding accompanying facilities) acquired on or after April 1, 1998 and for accompanying facilities and structures acquired on or after April 1, 2016.

The main useful lives are as follows:

Buildings (excluding accompanying facilities):	38 to 50 years
Machinery and equipment:	10 to 18 years

(2) Intangible Assets (Excluding Lease Assets)

The straight-line method is applied.

The main useful lives are as follows:

Patent right:	8 years
Right of trademark:	10 years
Software:	5 years
Goodwill:	10 years

(3) Lease Assets

For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mainly computed by the straight-line method over the lease period as the useful life assuming no residual value.

5. Policy on Translation of Assets and Liabilities Denominated in Foreign Currency into Japanese Yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing as of the closing date of the accounting period with translation differences treated as gains or losses.

6. Policy on Accounting of Provisions

(1) Allowance for Doubtful Accounts

Provided for possible losses from bad debts at an amount based on the historical default rate for ordinary receivables and the individual recoverability of specific doubtful receivables from customers experiencing financial difficulties.

(2) Provision for Bonuses

Provided based on the estimated payable amount to provide for the payment of bonuses to employees and directors.

(3) Provision for Retirement Benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefit obligations and fair value of plan assets as of the end of this fiscal year. In calculating retirement benefit obligations, the benefit formula basis is used as the method of attributing expected benefit to periods up to the end of this fiscal year.

Past service cost is amortized using the straight-line method over the average remaining years of service of the employees (10 years).

Actuarial gains and losses are amortized from the year following the year in which the gains or losses are recognized using the straight-line method over the average remaining years of service of the employees (10 years).

Also included in the provision for retirement benefits is the portion of public pension expenses for mutual assistance association during certain periods in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees).

7. Policy on accounting of revenue and expense

Revenue from contracts with customers

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 Company mainly engages in the sale of tobacco products and prescription drugs. The Company evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. 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 are excluded from revenue. The amount after deducting the tobacco excise taxes and other transactions is presented as "Net sales" in the nonconsolidated statement of income.

8. Method of Hedge Accounting

Deferral hedge accounting is applied.

For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts; exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

9. Other Significant Accounting Policies**(1) Accounting Treatment relating to Retirement Benefits**

With regard to unrecognized actuarial gains and losses and unrecognized past service cost relating to retirement benefits, different accounting treatments have been applied compared to those in the consolidated financial statements.

(2) Adoption of Group Tax Sharing System

The Company adopted the group tax sharing system.

(Changes in accounting policies)

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter, “Implementation Guidance on Fair Value Measurement Accounting Standard”) has been applied from the beginning of the current fiscal year. In accordance with the transitional treatment set forth in Paragraph 27-2 of the Implementation Guidance on Fair Value Measurement Accounting Standard, this accounting standard has been prospectively applied from the beginning of the current fiscal year.

There was no impact on the financial statements.

(Changes in presentation method)

Foreign exchange gains and losses had previously been included in “Other” under non-operating income or non-operating expenses in nonconsolidated statement of income. However, in the current fiscal year, it is presented separately as “Foreign exchange losses” under non-operating expenses as the amount became material. In the previous fiscal year, the foreign exchange gains included in “Other” under non-operating income was ¥ 469 million.

(Significant accounting estimates)

The following are the estimates and assumptions that have material impacts on the amounts recognized in the nonconsolidated financial statements.

In relation to the recent situation in Russia and Ukraine, there is no material impact on the accounting estimates and judgments at present.

Evaluation of shares of subsidiaries and affiliates

(1) Amounts recorded in the nonconsolidated financial statements for the current fiscal year

Shares of subsidiaries and affiliates ¥1,502,043 million (Previous fiscal year: ¥1,495,647 million)

(2) Information that helps understanding of the content of accounting estimates

Of the shares of subsidiaries and affiliates recorded in the balance sheet at the end of the current fiscal year, the shares of JT International Holding B.V., a subsidiary, amounted to ¥ 1,356,191 million. JT International Group Holding B.V., a former subsidiary, was extinguished due to an absorption-type merger with JT International Holding B.V., on August 23, 2023. Whether or not to recognize impairment of the shares of that company is determined by comparing the carrying amount of those shares to the actual value calculated based on net assets of that company.

In addition, the Company determines whether the actual value of those shares has declined significantly by referring to the result of the impairment test of goodwill allocated to the tobacco cash-generating unit in the consolidated financial statements in accordance with IFRS. (For details of the impairment test, please refer to “14. Goodwill and Intangible Assets (3) Impairment Test for Goodwill” in “Consolidated Financial Statements”.) The assumptions used in the impairment test are based on management’s best estimates and judgment. However, they may be affected by the results of changes in uncertain future economic conditions, and if a review is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(Change in accounting estimates)**(Change in the estimated useful lives of tobacco production machinery)**

The Company had previously used a period of 10 years for the estimated useful lives of tobacco production machinery. However, in consideration of changes in the business environment, the Company has, from the current fiscal year, revised the estimated useful lives for some tobacco production machinery to 18 years based on estimated economically useful lives that are more consistent with actual conditions and applied this change prospectively. As a result, operating profit for the current fiscal year increased by ¥1,173 million compared to the figure calculated using the previous method.

(Accounting Standards Not Yet Adopted)

• “Accounting Standards for Current Income Taxes” (ASBJ Statement No.27 October 28, 2022)

(1) Overview

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No.28, February 16, 2018) (hereinafter, "ASBJ Statement No.28"), etc. were published and the transfer of authority for practical guidelines on tax effect accounting in the Japanese Institute of Certified Public Accountants to the ASBJ was completed. In the process of the relevant deliberations, it was decided that the following issue would be examined again after the publication of ASBJ Statement No.28, etc. The issue was examined and released at this time.

• Classification of tax expenses

(2) Scheduled Date of Adoption

This accounting standard will be applied from the beginning of the fiscal year ending December 31, 2025.

(3) Effects of Adoption

The impact of the adoption on the nonconsolidated financial statements is currently under evaluation.

(Notes to Nonconsolidated Balance Sheet)

*1. Pursuant to Article 6 of the Japan Tobacco Inc. Act, the Company's assets are pledged as general collateral for corporate bonds issued by the Company. Bondholders have the right to receive payment of their own claims for assets of the Company in preference to other general creditors (with the exception of national taxes, local taxes and other obligations of a public nature).

*2. Inter-company receivables and payables excluding those separately presented as of December 31 are as follows:

(Millions of yen)

	2022	2023
Short-term receivables	13,356	14,723
Short-term payables	33,363	10,944
Long-term payables	27	27

*3. "Cash management system deposits received" represents the fund entrusted in the cash management system of domestic group companies.

4. Contingent obligations

Guarantees provided for bank loans, bonds and others of subsidiaries and affiliates as of December 31 are as follows:

Bank loans and others

2022				2023			
(Millions of yen)				(Millions of yen)			
JT International Company Netherlands B.V.	61,759	(EUR	437 million)	JT International Company Netherlands B.V.	69,726	(EUR	445 million)
JT International spol. s r.o.	36,323	(CZK	6,188 million)	JT International Hellas A.E.B.E.	30,682	(EUR	196 million)
			others				
JT International Hellas A.E.B.E.	27,730	(EUR	196 million)	Gallaher Ltd.	28,518	(USD	201 million)
JT International S.A.	23,671	(USD	94 million)				others
		(CHF	57 million)	JT International spol. s r.o.	19,699	(CZK	3,105 million)
			others				others
JT International Group Holding B.V.	15,884	(EUR	90 million)	JT International Germany GmbH	16,100	(EUR	103 million)
			others				
JT International Germany GmbH	12,773	(EUR	90 million)	JT International S.A.	14,359	(CHF	44 million)
JT International Korea Inc.	10,464	(KRW	99,452 million)			(USD	26 million)
						(EUR	20 million)
							others
				PT. Karyadibya Mahardhika	11,247	(IDR	1,220,960 million)
				JT Canada LLC Inc.	10,535	(CAD	98 million)
				JT International Zagreb d.o.o.	10,200	(EUR	65 million)
Other (56 companies)	116,592			Other (42 companies)	91,566		
Total	305,195			Total	302,631		

Bonds

		2022				2023	
		(Millions of yen)				(Millions of yen)	
JT International		(EUR	2,050 million)	JT International		(EUR	2,022 million)
Financial	622,737	(USD	2,025 million)	Financial	670,539	(USD	1,986 million)
Services B.V.		(GBP	400 million)	Services B.V.		(GBP	400 million)
Total	622,737			Total	670,539		

(Note) Guarantee obligations denominated in foreign currencies were translated into yen amounts using the exchange rate as of the closing date of the accounting period.

(Notes to Nonconsolidated Statement of Income)

*1. The main components of “Selling, general and administrative expenses” for each year are as follows:

(Millions of yen)

	2022	2023
Promotion expenses	30,422	26,194
Compensations, salaries and allowances	26,552	25,688
Provision for bonus	3,976	3,802
Employee benefit expenses	6,379	6,206
Commission	46,557	64,595
Depreciation and amortization	61,687	60,574
Research and development expenses	53,528	60,963
Selling expenses ratio	42%	36%
General and administrative expenses ratio	58%	64%

*2. The main component of “Gains on sales of noncurrent assets” for each year is as follows:

(Millions of yen)

	2022	2023
Land	6,254	16,932

*3. The main components of “Losses on sales of noncurrent assets” for each year are as follows:

(Millions of yen)

	2022	2023
Buildings	288	1
Structures	51	17
Tools, furniture and fixtures	28	64

*4. The main components of “Losses on disposal of noncurrent assets” for each year are as follows:

(Millions of yen)

	2022	2023
Buildings	2,545	1,054
Machinery and equipment	438	596

*5. Amounts of transactions with subsidiaries and affiliates for each year are as follows:

(Millions of yen)

	2022	2023
Net sales	40,164	51,022
Purchase of goods	45,908	67,184
Selling, general and administrative expenses	65,286	82,632
Dividends income	204,586	162,733
Amount of non-operating transactions	51,963	15,521

*6. Business restructuring costs for the previous fiscal year are related to costs of measures to strengthen the operations in tobacco business, mainly related to redundancy pay associated with early retirement and impairment losses on non-current assets associated with Kyushu Factory closure.

*7. Gain on sale of businesses for the previous fiscal year is related to sale of China business.

(Securities)

Investments in Subsidiaries and Affiliates as of December 31 are as follows:

2022

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	44,872	3,292
Total	41,580	44,872	3,292

2023

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	54,743	13,162
Total	41,580	54,743	13,162

(Note) Balance sheet amount of investments in subsidiaries and affiliates with no market prices as of December 31 is as follows:

(Millions of yen)

Type	2022	2023
Investments in subsidiaries	1,453,953	1,460,350
Investments in affiliates	113	113

The above are not included in "Investments in subsidiaries and affiliates" because they do not have market prices.

(Tax Effect Accounting)**1. Breakdown of deferred tax assets and deferred tax liabilities by major cause**

As of December 31, 2022 and 2023

(Millions of yen)

	2022	2023
Deferred tax assets		
Provision for retirement benefits	23,526	24,502
Obligations pertaining to mutual assistance pension benefits	6,561	5,376
Investments in subsidiaries	6,919	6,755
Accounts payable to employees who have agreed to early retirement	4,098	1,796
Other	36,863	46,002
Subtotal	77,966	84,432
Less valuation allowance	(18,596)	(18,534)
Total	59,370	65,898
Deferred tax liabilities		
Reserve for reduction entry	(15,213)	(14,400)
Deferred gains or losses on hedges	(11,656)	(11,157)
Valuation difference on available-for-sale securities	(3,019)	(2,863)
Other	(12,494)	(12,785)
Total	(42,383)	(41,204)
Net deferred tax assets/liabilities	16,987	24,694

2. Reconciliation between the effective statutory tax rate and the actual effective tax rate after applying tax effect accounting, if there is a significant difference

As of December 31, 2022 and 2023

(%)

	2022	2023
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.38	0.60
Permanent difference arising from non-taxable items including dividends income	(19.11)	(24.16)
Tax credit of items including research and development expenses	(0.86)	(2.33)
Changes in valuation allowance	(1.89)	(0.03)
Other	(0.37)	0.77
Actual effective tax rate after applying tax effect accounting	8.58	5.27

3. Accounting for corporate tax and local corporate tax or tax effect accounting related to these taxes

Following the adoption of the group tax sharing system, the Company applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021) for the accounting treatment and disclosure of corporate tax and local corporate taxes or tax effect accounting related to these taxes.

(Business combination)

No items to report.

(Significant Subsequent Events)

(The reduction of the amount for legal capital surplus)

The Company resolved at the Board of Directors held on February 13, 2024 to submit a proposal for a reduction in the amount of legal capital surplus to the 39th Ordinary General Meeting of Shareholders held on March 22, 2024, and the proposal was approved at the meeting.

1. Purpose of the reduction in the amount of legal capital surplus

To ensure that future capital policies will be executed in a prompt and flexible manner, the Company will reduce a portion of legal capital surplus and reclassify the reduced amount as other capital surplus in accordance with the provision stipulated in Paragraph 1, Article 448 of the Companies Act.

2. Outline of the reduction in the amount of legal capital surplus

(1) Amount to be reduced in legal capital surplus

Legal capital surplus will be reduced by ¥ 100,000 million, from ¥ 736,400 million to ¥ 636,400 million.

(2) Method of reducing amount of legal capital surplus

The amount of legal capital surplus to be reduced will be reclassified as other capital surplus.

3. Schedule for the reduction in the amount of legal capital surplus

(1) Resolution at the Board of Directors: February 13, 2024

(2) Resolution at the Ordinary General Meeting of Shareholders: March 22, 2024

(3) Creditor objection statement notice: April 8, 2024 (planned)

(4) Creditor objection statement final deadline: May 8, 2024 (planned)

(5) Effective date: June 28, 2024 (planned)

4. Future Outlook

This matter is a transfer between accounts within the Company's net assets and will affect neither the amount of the Company's net assets nor its operating performance.

D. Supplementary Statements

Detailed Schedule of Property, Plant and Equipment and Others

(Millions of yen)

	Type of assets	As of January 1, 2023	Increase in the year ended December 31, 2023	Decrease in the year ended December 31, 2023	Depreciation during the year ended December 31, 2023	As of December 31, 2023	Accumulated depreciation or accumulated amortization as of December 31, 2023
Property, plant and equipment	Buildings	69,893	8,392	258 (201)	10,919	67,108	183,726
	Structures	2,066	79	24 (2)	229	1,891	10,174
	Machinery and equipment	34,722	2,922	4,442 (3,928)	5,740	27,462	172,434
	Vehicles	536	86	27	289	305	1,877
	Tools, furniture and fixtures	9,996	4,617	554 (245)	4,406	9,652	64,045
	Land	47,298	2	1,129	—	46,171	—
	Construction in progress	533	5,759	298	—	5,994	—
	Total property, plant and equipment	165,044	21,855	6,732 (4,375)	21,584	158,583	432,256
Intangible assets	Patent right	194	—	—	31	163	—
	Right of trademark	49,196	—	16	16,397	32,783	—
	Software	11,652	2,245	180 (131)	5,385	8,331	—
	Goodwill	107,313	—	—	35,771	71,542	—
	Other	7,337	6,903	505	68	13,668	—
	Total intangible assets	175,692	9,148	701 (131)	57,652	126,487	—

(Note 1) The figures in parentheses in the “Decrease in the year ended December 31, 2023” column represent decreases due to impairment loss included in the figures above.

(Note 2) Other includes software in progress.

Detailed Schedule of Reserve Allowances

(Millions of yen)

Category	As of January 1, 2023	Increase in the year ended December 31, 2023	Decrease in the year ended December 31, 2023	As of December 31, 2023
Allowance for doubtful accounts	183	2	46	139
Provision for bonuses	5,675	5,498	5,675	5,498
Other provisions	—	1,331	—	1,331

(2) Major Assets and Liabilities

Note is omitted due to the fact that the relevant parts are prepared in the consolidated financial statements.

(3) Others

No items to report.

VI. Outline of Filing Company's Business Concerning Shares

Business year	From January 1 to December 31
Ordinary General Meeting of Shareholders	To be held in March
Record date	December 31
Record dates for dividends from surplus	June 30, December 31
Share unit	100 shares
Purchase/sale of shares less than one unit:	
Office for handling business	(Special accounts) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation Stock Transfer Agency
Shareholder registry administrator	(Special accounts) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation
Forwarding office	—
Handling charge for purchase/sale	No charge
Method of public notice	Public notices will be disclosed by electronic public notice. However, if the Company is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in "The Nikkei" newspaper. Public notices will be posted on the Company's website: https://www.jt.com/
Special benefits for shareholders	None

Note: The Company abolished the Shareholder Benefit Program after the distribution of shareholder benefits products for 2023.

VII. Reference Information on Filing Company

1. Information on Filing Company's Parent Company

The Company does not have a parent company as described by the provisions of Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

Filed to Director-General of Kanto Local Finance Bureau on March 24, 2023

Business year: 38th term (from January 1, 2022 to December 31, 2022)

(2) Internal Control Report

Filed to Director-General of Kanto Local Finance Bureau on March 24, 2023

Business year: 38th term (from January 1, 2022 to December 31, 2022)

(3) Quarterly Securities Reports and Written Confirmations

Filed to Director-General of Kanto Local Finance Bureau on May 2, 2023

First quarter of the 39th term (from January 1, 2023 to March 31, 2023)

Filed to Director-General of Kanto Local Finance Bureau on July 31, 2023

Second quarter of the 39th term (from April 1, 2023 to June 30, 2023)

Filed to Director-General of Kanto Local Finance Bureau on October 31, 2023

Third quarter of the 39th term (from July 1, 2023 to September 30, 2023)

(4) Extraordinary Reports

Filed to Director-General of Kanto Local Finance Bureau on January 5, 2023

Extraordinary Report based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item (ix) of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on March 27, 2023

Extraordinary Report based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item (ix)-2 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on March 30, 2023

Extraordinary Report based on Article 19, paragraph 2, item (xii) (Event Which May Have Serious Effects on the Financial Position, Operating Results and Cash Flow Status) of the Cabinet Office Ordinance on Disclosure of Corporate Information

Filed to Director-General of Kanto Local Finance Bureau on August 23, 2023

Extraordinary Report based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item (iii) of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on August 29, 2023

Extraordinary Report based on Article 19, paragraph 2, item (xii) (Event Which May Have Serious Effects on the Financial Position, Operating Results and Cash Flow Status) of the Cabinet Office Ordinance on Disclosure of Corporate Information

Filed to Director-General of Kanto Local Finance Bureau on December 20, 2023

Extraordinary Report based on Article 19, paragraph 2, item (xii) (Event Which May Have Serious Effects on the Financial Position, Operating Results and Cash Flow Status) of the Cabinet Office Ordinance on Disclosure of Corporate Information

Filed to Director-General of Kanto Local Finance Bureau on January 5, 2024

Extraordinary Report based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item (ix) of the Cabinet Office Order on Disclosure of Corporate Affairs.

(5) Amendment to Shelf Registration Statements

Filed to Director-General of Kanto Local Finance Bureau on January 5, 2023

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

Filed to Director-General of Kanto Local Finance Bureau on March 27, 2023

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

Filed to Director-General of Kanto Local Finance Bureau on March 30, 2023

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

Filed to Director-General of Kanto Local Finance Bureau on August 23, 2023

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

Filed to Director-General of Kanto Local Finance Bureau on August 29, 2023

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

Filed to Director-General of Kanto Local Finance Bureau on December 20, 2023

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

Filed to Director-General of Kanto Local Finance Bureau on January 5, 2024

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

(6) Shelf Registration Supplement and Appendices

Filed to Director-General of Kanto Local Finance Bureau on April 14, 2023

Shelf Registration Supplement pertaining to Shelf Registration Statement (bonds) filed on August 5, 2022.

(7) Securities Registration Statement and Appendices

Filed to Director-General of Kanto Local Finance Bureau on June 19, 2023

Filed to Director-General of Kanto Local Finance Bureau on March 22, 2024

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 22, 2024

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi

Designated Engagement Partner,
Certified Public Accountant: Koji Ishikawa

Designated Engagement Partner,
Certified Public Accountant: Yoichi Matsushita

<Audit of Consolidated Financial Statements>

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Japan Tobacco Inc. and its consolidated subsidiaries (the "Group") included in the Accounting Section, namely, the consolidated statement of financial position as of December 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2023 to December 31, 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Contingencies of Smoking and Health Litigation in Canada	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 38 to the consolidated financial statements "Contingencies," JTI-Macdonald Corp., Japan Tobacco Inc. (the "Company")'s Canadian subsidiary and/or indemnitees are defendants in eight class actions and 10 health-care cost recovery litigation in Canada (collectively, the "Canadian cases"). In two class actions in Quebec (Cecilia Letourneau and Conseil Quebecois sur le tabac et la sante), the Quebec Court of Appeal rendered a judgment ordering JTI-Macdonald Corp. to pay compensation of approximately CAD 1.8 billion (approximately ¥190.3 billion).</p> <p>The judgment of the Quebec Court of Appeal exceeded JTI-Macdonald Corp.'s capacity to pay, and JTI-Macdonald Corp. filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"), which was approved by the Ontario Superior Court, and is continuing as of the end of this fiscal year. Legal proceedings including the execution of the judgment against JTI-Macdonald Corp. have been stayed by the CCAA proceedings.</p> <p>The amount of compensation ordered by the Quebec Court of Appeal and the amount of compensatory and punitive damages sought by plaintiffs in the other Canadian cases are considered significant for the consolidated financial statements, and the Canadian cases also include some cases for which the amount of damages sought by plaintiffs has not been specified.</p> <p>Management is required to determine whether the recognition of provisions is necessary in accordance with the following recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets":</p> <ul style="list-style-type: none"> • The company has a present obligation (legal or constructive) as a result of a past event; • The outflow of resources embodying economic benefits is probable (i.e., more likely than not) to settle the obligation; and • A reliable estimate can be made of the amount of the obligation. <p>Since the determination of whether the recognition of provisions is necessary involves subjective judgments made by management and uncertainty that is difficult to prove, we have determined this matter regarding the Canadian cases to be a key audit matter.</p>	<p>We performed the following audit procedures to address this key audit matter:</p> <ul style="list-style-type: none"> • We inquired of management and the Legal and Compliance Division of the Company to obtain updates on the statuses of the Canadian cases as of the end of this fiscal year, and assessed the appropriateness of management's judgment on whether the recognition requirements for provisions regarding the Canadian cases were met. • We instructed the component auditor to perform the following audit procedures and assessed the appropriateness of component management's judgment on the recognition of provisions based on discussions with the component auditor: <ul style="list-style-type: none"> ✓ Evaluating internal controls over the internal examination and approval process to ensure that the judgments on recognizing provisions are appropriately made; ✓ Inquiring of component management and inspecting the underlying documents that component management prepared to assess the appropriateness of the component management's judgments on the recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets"; and ✓ Sending letters to component legal counsel to confirm the appropriateness of the component management's judgment on whether JTI-Macdonald Corp. has a present obligation (legal or constructive) as a result of a past event and whether the outflow of resources embodying economic benefits is probable to settle the obligation among the recognition requirements for provisions. • We obtained a third-party opinion from an external legal firm to gain assurance that there are no logical contradictions or significant divergences in reasoning to the position adopted by the component's legal counsel.

Evaluation of Goodwill Allocated to Tobacco Cash-Generating Unit	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 14 to the consolidated financial statements "Goodwill and Intangible Assets," the Group allocates goodwill generated by business combinations to the tobacco cash-generating unit and the processed food cash-generating unit.</p> <p>The Group has a goodwill balance of ¥2,591,071 million allocated to the tobacco cash-generating unit at the end of this fiscal year, which is mainly as results of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999, Gallaher Group Plc in 2007 and Natural American Spirit's non-U.S. tobacco operations in 2016.</p> <p>In accordance with International Accounting Standard 36 "Impairment of Assets," goodwill is required to be tested for impairment annually or whenever there is an indication that the asset may be impaired.</p> <p>The recoverable amount of the tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Group sets a growth rate from 4.9% in the fourth year to 3.7% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the impairment test, the value in use sufficiently exceeds the carrying amount of the tobacco cash-generating unit, and management believes that the value in use will not fall below the carrying amount even if the growth rate used in calculating the value in use fluctuates within a reasonable range.</p> <p>The balance of goodwill allocated to the tobacco cash-generating unit is material to the consolidated financial statements, and the three-year business plan used in the impairment test, and the underlying assumptions for the growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards.</p> <p>Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of the goodwill allocated to the tobacco cash-generating unit to be a key audit matter.</p>	<p>In response to this key audit matter, we performed the following procedures for the impairment test of goodwill allocated to the tobacco cash-generating unit:</p> <ul style="list-style-type: none"> • In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we performed the following audit procedures: <ul style="list-style-type: none"> ✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared; ✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and ✓ Inquiring of management on the background and rationality of data used by management to determine the growth rates after the current three-year business plan, as well as testing the growth rates based on available external information, with the assistance of the valuation specialists in our network firm. • We discussed with management regarding the results of the impairment test of goodwill allocated to the tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the nonconsolidated financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with International Financial Reporting Standards.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with International Financial Reporting Standards, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Audit of Internal Control>

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Japan Tobacco Inc. as of December 31, 2023.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Japan Tobacco Inc. as of December 31, 2023, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2023, which were charged by us and our network firms to Japan Tobacco Inc. and its subsidiaries are disclosed in (3) Implementation status of audits of 4. Status of Corporate Governance, which is included in IV. Filing Company of the Annual Securities Report.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 22, 2024

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi

Designated Engagement Partner,
Certified Public Accountant: Koji Ishikawa

Designated Engagement Partner,
Certified Public Accountant: Yoichi Matsushita

<Audit of Nonconsolidated Financial Statements>

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the nonconsolidated financial statements of Japan Tobacco Inc. (the "Company") included in the Financial Section, namely, the nonconsolidated balance sheet as of December 31, 2023, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 39th fiscal year from January 1, 2023 to December 31, 2023, and notes to the nonconsolidated financial statements, including a summary of significant accounting policies, and the supplementary statements.

In our opinion, the accompanying nonconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Nonconsolidated Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the nonconsolidated financial statements of the current period. The matter was addressed in the context of our audit of the nonconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Evaluation of Shares of Subsidiaries	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in "Significant accounting estimates" in notes to the nonconsolidated financial statements, on the Company's balance sheet as of the end of this fiscal year, Shares of subsidiaries and affiliates was ¥1,502,043 million (approximately 65.5% of Total assets), which includes the shares of JT International Holding B.V., one of the subsidiaries, of ¥1,356,191 million.</p> <p>The tobacco business manufactures and sells tobacco products in various countries mainly through JT International S.A. The Company invests in JT International Holding B.V., which consolidates the financial results of the tobacco business, including JT International S.A.</p> <p>The Company considers whether to recognize impairment of shares of JT International Holding B.V. by comparing the carrying amount of JT International Holding B.V. shares with the net assets value calculated using the net assets on the balance sheet of JT International Holding B.V. In addition, the Company determines whether the net assets value of JT International Holding B.V. shares has declined significantly referring to the results of the impairment test of goodwill allocated to the tobacco cash-generating unit.</p> <p>The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, and the Company conducts an impairment test on goodwill allocated to the tobacco cash-generating unit annually based on International Accounting Standard 36 "Impairment of Assets."</p> <p>The recoverable amount of the tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Company sets a growth rate from 4.9% in the fourth year to 3.7% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the consideration, the Company concluded that it was not necessary to recognize an impairment on JT International Holding B.V. shares.</p> <p>The three-year business plan used in the evaluation of JT International Holding B.V. shares, and the underlying assumptions for growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and a fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards.</p> <p>Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of JT International Holding B.V. shares to be a key audit matter.</p>	<p>In response to this key audit matter, we obtained and inspected the results of Company's evaluation of JT International Holding B.V. shares.</p> <p>In addition, we performed the following procedures in relation to the impairment test of goodwill allocated to the tobacco cash-generating unit:</p> <ul style="list-style-type: none"> • In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we performed the following audit procedures: <ul style="list-style-type: none"> ✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared; ✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and ✓ Inquiring of management on the background and rationality of data used by management to determine the growth rates after the current three-year business plan, as well as testing the growth rates based on available external information, with the assistance of the valuation specialists in our network firm. • We discussed with management regarding the results of the impairment test of goodwill allocated to the tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the nonconsolidated financial statements and our auditor's reports thereon.

Our opinion on the nonconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the nonconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the nonconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the nonconsolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the nonconsolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Nonconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the nonconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these nonconsolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the nonconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the nonconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the nonconsolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the nonconsolidated financial statements, including the disclosures, and whether the nonconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the nonconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Fee-Related Information>

Fee-related information is disclosed in independent auditor's report on the consolidated financial statements as of and for the year ended December 31, 2023.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.