LISTING DOCUMENT

NOT FOR GENERAL DISTRIBUTION IN THE UNITED STATES

JAPAN TOBACCO INC.

(incorporated with limited liability in Japan)

$800,000,000 4.850% Senior Notes due 2028
$900,000,000 5.250% Senior Notes due 2030
$800,000,000 5.850% Senior Notes due 2035

Japan Tobacco Inc., a joint stock corporation under the Companies Act of Japan (Act No. 86 of 2005), as amended (the "**Companies Act of Japan**"), pursuant to the Japan Tobacco Inc. Act of Japan (Act No. 69 of 1984), as amended (the "**JT Act**") (the "**Issuer**") is offering (the "**Offering**") $800,000,000 aggregate principal amount of 4.850% senior notes due 2028 (the "**2028 Notes**"), $900,000,000 aggregate principal amount of 5.250% senior notes due 2030 (the "**2030 Notes**"), and $800,000,000 aggregate principal amount of 5.850% senior notes due 2035 (the "**2035 Notes**," and together with the 2028 Notes and the 2030 Notes, the "**Notes**").

Interest on the 2028 Notes will accrue at a rate of 4.850% per annum. The Issuer will pay interest on the 2028 Notes semi-annually in arrear on May 15 and November 15 of each year, commencing on November 15, 2025. The 2028 Notes will mature on May 15, 2028. The Issuer may, at its option, redeem the 2028 Notes, in whole or in part, at any time prior to April 15, 2028, by paying 100% of the principal amount of the 2028 Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest. On or after April 15, 2028, the Issuer may redeem the 2028 Notes in whole or in part by paying 100% of the principal amount of the 2028 Notes so redeemed plus accrued and unpaid interest.

Interest on the 2030 Notes will accrue at a rate of 5.250% per annum. The Issuer will pay interest on the 2030 Notes semi-annually in arrear on June 15 and December 15 of each year, commencing on December 15, 2025. The 2030 Notes will mature on June 15, 2030. The Issuer may, at its option, redeem the 2030 Notes, in whole or in part, at any time prior to May 15, 2030, by paying 100% of the principal amount of the 2030 Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest. On or after May 15, 2030, the Issuer may redeem the 2030 Notes in whole or in part by paying 100% of the principal amount of the 2030 Notes so redeemed plus accrued and unpaid interest.

Interest on the 2035 Notes will accrue at a rate of 5.850% per annum. The Issuer will pay interest on the 2035 Notes semi-annually in arrear on June 15 and December 15 of each year, commencing on December 15, 2025. The 2035 Notes will mature on June 15, 2035. The Issuer may, at its option, redeem the 2035 Notes, in whole or in part, at any time prior to March 15, 2035, by paying 100% of the principal amount of the 2035 Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest. On or after March 15, 2035, the Issuer may redeem the 2035 Notes in whole or in part by paying 100% of the principal amount of the 2035 Notes so redeemed plus accrued and unpaid interest.

The Notes will be the Issuer's senior unsecured and unsubordinated obligations and will rank equally in right of payment with the existing and future senior unsecured and unsubordinated indebtedness of the Issuer (except those obligations preferred by operation of law) and will be senior to any subordinated indebtedness of the Issuer. The Notes will effectively rank junior to any and all secured indebtedness of the Issuer to the extent of the value of the assets securing such indebtedness and effectively subordinated to the liabilities of the Issuer's subsidiaries. Under the JT Act, all holders of bonds, notes and debentures (including the Notes) issued by the Issuer have the preferential right to be paid prior to other unsecured indebtedness of the Issuer, but the rights of such holders are subordinated to the Issuer's obligations in respect of national and local taxes and certain other exceptions provided under the applicable laws and to certain of its other obligations entitled to general preferential rights (*sakidori-tokken*) provided in the Civil Code of Japan (Act No. 89 of 1896), as amended, such as preferential rights of employees to wages.

The Notes may be redeemed by the Issuer, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest, at any time upon the occurrence of specified events relating to tax law imposed by relevant jurisdictions, as set forth in this this listing document. See "*Description of the Notes—Early Redemption and Repurchase*."

The Notes will be issued only in registered form in minimum denominations of $150,000 and integral multiples of $1,000 in excess thereof.

There is currently no trading market for the Notes. Application has been made to admit the Notes to the Official List of the Luxembourg Stock Exchange in its capacity as market operator of the Euro MTF market and to trade them on the Euro MTF market of that exchange. The Euro MTF market is not a regulated market for the purposes of the Markets in Financial Instruments Directive II (Directive 2014/65/EC). See "*Listing and General Information*." The Notes will not be admitted to trading on the Euro MTF Market prior to or on the settlement date. This listing document constitutes a prospectus for the purpose of Part IV of the Luxembourg law dated July 16, 2019 on prospectuses for securities (*Loi du 16 juillet 2019 relative aux prospectus pour valeurs mobilières*) (the "**Luxembourg Prospectus Law**").

Investing in the Notes involves risks. See "*Risk Factors*" beginning on page 9.

Issue Price for the 2028 Notes: 99.864% plus accrued interest, if any, from April 15, 2025;
Issue Price for the 2030 Notes: 99.869% plus accrued interest, if any, from April 15, 2025; and
Issue Price for the 2035 Notes: 99.724% plus accrued interest, if any, from April 15, 2025.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold only to persons reasonably believed to be qualified institutional buyers in accordance with Rule 144A ("Rule 144A") under the Securities Act and outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act ("Regulation S").

The Notes were delivered to investors through the book-entry facilities of The Depository Trust Company, or DTC, and its participants, including Euroclear Bank, S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream, on April 15, 2025.

Joint Bookrunners for the 2028 Notes

Citigroup **J.P. Morgan** **Deutsche Bank Securities** **MUFG** **SMBC Nikko**
BofA Securities **COMMERZBANK** **Mizuho** **Standard Chartered Bank**

Joint Bookrunners for the 2030 Notes

Citigroup **J.P. Morgan** **BofA Securities** **Mizuho** **MUFG**
Deutsche Bank Securities **Goldman Sachs International** **SMBC Nikko** **Standard Chartered Bank**

Joint Bookrunners for the 2035 Notes

Citigroup **J.P. Morgan** **Mizuho** **SMBC Nikko** **Standard Chartered Bank**
BofA Securities **Deutsche Bank Securities** **Goldman Sachs International** **MUFG**

The date of this listing document is April 15, 2025.

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No dealer, salesperson or other individual has been authorized in connection with the offering to give any information or to make any representations not contained in or incorporated by reference into this listing document. If given or made, any such information or representations must not be relied upon as having been authorized by us, any Initial Purchaser or any person affiliated with the Initial Purchasers. No action has been, or will be, taken to permit a public offering of the Notes in any jurisdiction where action would be required for that purpose. Accordingly, the Notes offered hereby may not be offered or sold, directly or indirectly, and this listing document may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither delivery of this listing document nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof, nor shall it constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our affairs since the date hereof.

IN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF US AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE THE FOREGOING AUTHORITIES APPROVED THIS LISTING DOCUMENT OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS LISTING DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE UNDER THE LAWS OF THE UNITED STATES.

We are furnishing this listing document solely for the purpose of enabling prospective investors to consider the purchase of the Notes in connection with an offering not registered under the Securities Act. The information contained in or incorporated by reference into this listing document has been provided by us and other sources identified in this listing document. This listing document is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Any reproduction or distribution of this listing document, in whole or in part, and any disclosure of its contents or use of any information contained in or incorporated by reference into this listing document for any purpose other than considering an investment in the Notes offered hereby is prohibited. Each offeree of the Notes, by accepting delivery of this listing document, will be deemed to have agreed to the foregoing.

No representation or warranty is made by the Initial Purchasers or any of their respective agents, affiliates or advisors as to the accuracy or completeness of the information contained in or incorporated by reference into this listing document and nothing contained in or incorporated by reference into this listing document is, or shall be relied upon as, a promise or representation by the Initial Purchasers or their respective agents, affiliates or advisors.

The Issuer reserves the right to withdraw the offering at any time. The Issuer is making the offering subject to the terms described in this listing document and the purchase agreement relating to the Notes. The Issuer and the Initial Purchasers may, for any reason, reject any offer to purchase the Notes in whole or in part, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed. The Initial Purchasers and certain of their respective affiliates may acquire, for their own accounts, a portion of the Notes.

NOTICE TO U.S. INVESTORS

The Notes have not been and will not be registered under the Securities Act or with any securities authority of any state of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. The Notes have not been and will not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons until 40 days after the later of the commencement of the sale of the Notes and the date of the original issuance of the Notes, except if the Notes are being offered:

- in the United States only to qualified institutional buyers, or QIBs, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; and
- outside the United States in offshore transactions to non-U.S. persons as defined in, and in accordance with, Regulation S.

You are hereby notified that sellers of the Notes may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A.

NOTICE TO INVESTORS WITHIN THE EUROPEAN ECONOMIC AREA

This listing document has been prepared on the basis that any offer of Notes in any member state of the European Economic Area ("**EEA**") will be made pursuant to an exemption under Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**") from the requirement to publish a prospectus for offers of securities. This listing document is not a prospectus for the purposes of the Prospectus Regulation.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive (EU) 2014/65 (as amended, "**MiFID II**") or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

NOTICE TO INVESTORS WITHIN THE UNITED KINGDOM

This listing document has been prepared on the basis that any offer of the Notes in the United Kingdom will be made pursuant to an exemption under assimilated Regulation (EU) 2017/1129 as it forms part of U.K. law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") (the "**U.K. Prospectus Regulation**") from the requirement to publish a prospectus for offers of securities. This listing document is not a prospectus for the purposes of the U.K. Prospectus Regulation.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of assimilated Regulation (EU) No. 2017/565 as it forms part of U.K. law by virtue of the EUWA or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of assimilated Regulation (EU) No. 600/2014 as it forms part of U.K. law by virtue of the EUWA. Consequently, no key information document required by assimilated Regulation (EU) No. 1286/2014 as it forms part of U.K. law by virtue of the EUWA (as amended, the "**U.K. PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the U.K. PRIIPs Regulation.

This listing document is for distribution only to persons who (i) have professional experience in matters relating to investments and who qualify as investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "**Financial Promotion Order**"), (ii) fall within Article 49(2)(a) to (d) of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). This listing document is directed only at Relevant Persons and must not be acted or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this listing document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

NOTICE TO INVESTORS WITHIN JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**") and are subject to the Act on Special Measures Concerning Taxation of Japan (Act No. 26 of 1957), as amended (the "**Special Taxation Measures Act**"). The Notes may not be offered or sold in Japan or to, or for the benefit of, any person resident in Japan, or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any person resident in Japan, for Japanese securities law purposes (including any corporation or other entity organized under the laws of Japan) except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines of Japan. In addition, as part of the initial distribution by the Initial Purchasers, the Notes are not at any time to be directly or indirectly offered or sold to, or for the benefit of, any person other than (i) a beneficial owner that is, for Japanese tax purposes, neither an individual resident of Japan or a Japanese corporation, nor an individual non-resident of Japan or a non-Japanese corporation that in either case is a person having a special relationship with us as described in Article 6, Paragraph (4) of the Special Taxation Measures Act (a "**Specially-Related Person**"); (ii) a Japanese financial institution, designated in Article 3-2-2, Paragraph (29) of the Cabinet Order (Cabinet Order No. 43 of 1957), as amended (the "**Cabinet Order**"), that will hold the Notes for its own proprietary account; or (iii) any other excluded category of persons, corporations or other entities under the Special Taxation Measures Act.

BY SUBSCRIBING FOR THE NOTES, AN INVESTOR WILL BE DEEMED TO HAVE REPRESENTED THAT IT IS (I) A BENEFICIAL OWNER THAT IS, FOR JAPANESE TAX PURPOSES, NEITHER (X) AN INDIVIDUAL RESIDENT OF JAPAN OR A JAPANESE CORPORATION, NOR (Y) AN INDIVIDUAL NON-RESIDENT OF JAPAN OR A NON-JAPANESE CORPORATION THAT IN EITHER CASE IS A SPECIALLY-RELATED PERSON; (II) A JAPANESE FINANCIAL INSTITUTION, DESIGNATED IN ARTICLE 3-2-2, PARAGRAPH (29) OF THE CABINET ORDER THAT WILL HOLD THE NOTES FOR ITS OWN PROPRIETARY ACCOUNT; OR (III) ANY OTHER EXCLUDED CATEGORY OF PERSONS, CORPORATIONS OR OTHER ENTITIES UNDER THE SPECIAL TAXATION MEASURES ACT.

Interest payments on the Notes will generally be subject to Japanese withholding tax unless it is established that the Notes are held by or for the account of a beneficial owner that is (i) for Japanese tax purposes, neither an individual resident of Japan nor a Japanese corporation, nor an individual non-resident of Japan nor a non-Japanese corporation that in either case is a Specially-Related Person, (ii) a designated Japanese financial institution described in Article 6, Paragraph (11) of the Special Taxation Measures Act which complies with the requirement for tax exemption under that paragraph or (iii) a public corporation, a financial institution, a financial instruments business operator or certain other entity which has complied with the requirement for tax exemption under Article 3-3, Paragraph (6) of the Special Taxation Measures Act and which has received such payments through a Japanese payment handling agent as provided in Article 3-3, Paragraph (1) of the Special Taxation Measures Act and Article 2-2, Paragraph (2) of the Cabinet Order.

Interest payments on the Notes paid to an individual resident of Japan, to a Japanese corporation, or to an individual non-resident of Japan or a non-Japanese corporation that in either case is a Specially-Related Person (except for the designated Japanese financial institution and the public corporation, the financial institution, the financial instruments business operator and certain other entity described in the preceding paragraph) will be subject to deduction in respect of Japanese income tax at a rate of 15.315% of the amount of such interest.

NOTICE TO INVESTORS IN CANADA

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 - Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and that are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this listing document (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 - *Underwriting Conflicts* (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Each Canadian purchaser confirms its express wish that all documents evidencing or relating to the sale of the notes and all other contracts and related documents be drafted in the English language. *Chaque acheteur canadien confirme sa volonté expresse que tous les documents attestant de la vente des titres ou s'y rapportant ainsi que tous les autres contrats et documents s'y rattachant soient rédigés en langue anglaise*.

ADDITIONAL INFORMATION

We have agreed that so long as any of the Notes of a series remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, at any time we are not subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from the reporting requirements under the Exchange Act pursuant to Rule 12g3-2(b) under the Exchange Act, provide to each holder of such restricted securities and to each prospective purchaser (as designated by the holder) of such restricted securities, upon request of the holder or prospective purchaser, the information required to be provided by Rule 144A(d)(4)(i) under the Securities Act.

Copies of the fiscal agency agreement and the Notes are available for inspection by noteholders at the registered office of the fiscal agent or may be provided by email to a noteholder following their prior written request to the fiscal agent and provision of proof of holding and identity (in a form satisfactory to the fiscal agent).

Application will be made to list the Notes on the Official List, and to trading on the Euro MTF market of the Luxembourg Stock Exchange. See "*Listing and General Information*." The Luxembourg Stock Exchange takes no responsibility for the contents of this listing document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this listing document. The Issuer will comply with (i) any undertakings that it gives from time to time to the Luxembourg Stock Exchange in connection with the Notes, and will furnish to the Luxembourg Stock Exchange all such information required in connection with the listing of the Notes and (ii) any obligations deriving from the application of Regulation (EC) 596/2014 on market abuse applicable to it.

FORWARD-LOOKING STATEMENTS

This listing document contains forward-looking statements. These statements appear in a number of places in this listing document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "would," "expect," "intend," "outlook," "project," "plan," "aim," "seek," "target," "forecast," "anticipate," "believe," "estimate," "predict," "potential" or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized. Accordingly, prospective purchasers of the Notes should not interpret the forward-looking statements included in this listing document as predictions or representations of future events or circumstances.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- deterioration in economic conditions in areas that matter to us;
- economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in the markets in which we operate;
- fluctuations in foreign exchange rates and the costs of raw materials;
- increases in excise, consumption or other taxes on tobacco products (including RRP) in markets in which we operate, as well as the potential for increased carbon taxes, which could impact our cost of production;
- decrease in demand for our products in our key markets;
- competition in markets in which we operate or into which we seek to expand;
- catastrophes, including natural disasters, pandemics as well as the impact of climate change;
- our ability to realize anticipated results of our acquisitions, joint ventures or other similar investments;
- restrictions on promoting, marketing, packaging, labelling, composition and usage of our products in markets in which we operate;
- changes in pharmaceutical and/or food standard regulations;
- litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products (including RRP); and
- other risk factors discussed under "*Risk Factors*."

Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this listing document. We assume no duty or obligation to update, or to announce publicly any revision to, any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. Other important risks and factors that could cause our actual results to be materially different from those described in the forward-looking statements are discussed in "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Business*" and elsewhere in this listing document.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Unless the context indicates otherwise, references in this listing document to: (i) the "**JT Group**," "**we**," "**our**," "**ours**," "**us**" or similar terms refer to Japan Tobacco Inc. together with its consolidated subsidiaries; (ii) the "**Issuer**" or "**JT**" refers to Japan Tobacco Inc. on an individual and non-consolidated basis; and (iii) "**TableMark**" refers to the operating company TableMark Co., Ltd. and its subsidiaries. References to "**Audit & Supervisory Board**" are to "*kansayaku-kai*" (as defined in the Companies Act of Japan) that performs certain supervisory functions through its monitoring and audit activities within the overall scheme of corporate governance pursuant to the Companies Act of Japan. References to "**Audit & Supervisory Board Member**" are to a member or members of an Audit & Supervisory Board, also referred to in Japanese as "*kansayaku*" (as defined in the Companies Act of Japan). An "associate," as used from time to time in this listing document in reference to our group companies, means an entity with respect to which we have significant influence over its financial and operating policy but which is not our "subsidiary" under IFRS Accounting Standards ("**IFRS**").

In this listing document, all references to "**$**," "**U.S. dollar(s)**" and "**U.S.$**" refer to the currency of the United States; those to "**Sterling**" and "**£**" refer to the currency of the United Kingdom; those to "**Japanese yen**," "**yen**" and "**¥**" refer to the currency of Japan; those to "**CAD**" and "**Canadian dollar(s)**" refer to the currency of Canada; and those to "**euro**" and "**€**" refer to the single currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the E.U., as amended.

Financial Statements

We prepare our financial statements in Japanese yen. We have included elsewhere in this listing document the following financial statements:

- our audited consolidated financial statements as of and for the year ended December 31, 2024, together with the notes thereto, audited by Deloitte Touche Tohmatsu LLC (the Japanese member firm of Deloitte Touche Tohmatsu Limited), and the independent auditor's report thereon, with comparative information as of and for the year ended December 31, 2023; and

- our audited consolidated financial statements as of and for the year ended December 31, 2023, together with the notes thereto, audited by Deloitte Touche Tohmatsu LLC (the Japanese member firm of Deloitte Touche Tohmatsu Limited), and the independent auditor's report thereon, with comparative information as of and for the year ended December 31, 2022.

In this listing document, references to the "**Consolidated Financial Statements for the Year Ended December 31, 2024**" are to our consolidated financial statements for the year ended December 31, 2024 with comparative information for the year ended December 31, 2023 and references to the "**Consolidated Financial Statements for the Year Ended December 31, 2023**" are to our consolidated financial statements for the year ended December 31, 2023 with comparative information for the year ended December 31, 2022.

The financial information as of and for the year ended December 31, 2023 presented in this listing document in respect of intangible assets, other financial assets, other non-current assets, net cash flows from operating activities and net cash flows used in investing activities, which is derived from the comparative columns of the Consolidated Financial Statements for the Year Ended December 31, 2024, has been retrospectively adjusted in order to be presented on a comparable basis with the corresponding financial information as of and for the year ended December 31, 2024. The difference between the originally reported and the retrospectively adjusted amounts is not material and, where applicable, we have indicated that such financial information has been retrospectively adjusted.

Unless otherwise indicated, financial information included in this listing document has been prepared in accordance with IFRS.

Our Reportable Segments

We are mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. We have three reportable segments: "Tobacco Business," "Pharmaceutical Business" and "Processed Food Business."

Non-IFRS Financial Measures

We present in this listing document certain additional financial measures, including Core Revenue, Net Cash, Net Interest-bearing Debt, Adjusted Operating Profit, Adjusted Operating Margin, Leverage Ratio and Liquidity, that are not required or defined under IFRS. These measures help explain the underlying performance of each business or are used for internal performance management. We believe that they are useful information for investors to assess our performance.

In particular, the adjusted items referred to in this listing document 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 of our performance and that they reflect the way of managing our business appropriately.

These measures may not be comparable to similarly titled measures used by other companies and are not measurements under IFRS or any other body of generally accepted accounting principles, and thus should not be considered substitutes for financial information prepared in accordance with IFRS. Due to the limitations inherent in non-IFRS measures, investors should not solely rely on non-IFRS measures in assessing our performance and financial condition.

Core Revenue

Core Revenue is defined as revenue from our tobacco business excluding revenue from distribution, contract manufacturing and other peripheral businesses. We believe Core Revenue demonstrates the revenue derived from the core activities of our tobacco business.

The table below sets forth a reconciliation of our revenue to Core Revenue for the years ended December 31, 2022, 2023 and 2024.

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Revenue[(1)]	**2,657.8**	**2,841.1**	**3,149.8**
Tobacco business	2,417.4	2,590.9	2,896.6
Revenue from distribution, contract manufacturing and other peripheral businesses	*(102.2)*	*(112.3)*	*(117.9)*
Core Revenue	*2,315.2*	*2,478.6*	*2,778.6*

(1) Tobacco excise taxes and other transactions in which we are involved as an agency are excluded from revenue.

Net Cash

Net Cash is defined as cash and cash equivalents less interest-bearing debt. We believe that Net Cash is a useful measure of a company's financial position as it gives an indication of the company's cash position without taking into consideration incurred indebtedness.

The following table sets forth a reconciliation of cash and cash equivalents to Net Cash for the years ended December 31, 2022, 2023 and 2024.

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Cash and cash equivalents	866.9	1,040.2	1,084.6
Interest-bearing debt	(958.3)	(1,142.3)	(1,726.8)
Net Cash	**(91.4)**	**(102.1)**	**(642.2)**

Net Interest-bearing Debt

Net Interest-bearing Debt is defined as interest-bearing debt less cash and cash equivalents.

The following table sets forth a reconciliation of interest-bearing debt to Net Interest-bearing Debt for the years ended December 31, 2022, 2023 and 2024.

	As of December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Interest-bearing debt[(1)]	958.3	1,142.3	1,726.8
Cash and cash equivalents	(866.9)	(1,040.2)	(1,084.6)
Net Interest-bearing Debt	**91.4**	**102.1**	**642.2**

(1) Lease obligations are excluded.

Adjusted Operating Profit

We define Adjusted Operating Profit as the sum of operating profit, amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs)**.** Adjustment items include impairment losses on goodwill, restructuring income and costs and certain other adjustment items. We believe that Adjusted Operating Profit provides a comparison of our business performance excluding the effect of one-off costs and impairments.

The table below sets forth a reconciliation of our operating profit to Adjusted Operating Profit for the years ended December 31, 2022, 2023 and 2024.

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Operating profit	653.6	672.4	323.5
Amortization cost of acquired intangibles arising from business acquisitions	71.4	58.8	55.7
Adjustment items (income)	(15.9)	(18.7)	(15.6)
Adjustment items (costs)	18.7	15.4	388.3
Adjusted Operating Profit	**727.8**	**728.0**	**751.9**

The table below sets forth a reconciliation of our operating profit from our tobacco business to Adjusted Operating Profit from our tobacco business for the years ended December 31, 2022, 2023 and 2024.

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Operating profit	679.4	677.1	354.6
Amortization cost of acquired intangibles arising from business acquisitions	71.4	58.8	55.7
Adjustment items (income)	(6.4)	(0.4)	(5.6)
Adjustment items (costs)	9.6	14.3	387.1
Adjusted Operating Profit	**754.0**	**749.8**	**791.8**

Adjusted Operating Margin

Adjusted Operating Margin is defined as Adjusted Operating Profit divided by revenue, as set forth in the table below. We believe that Adjusted Operating Margin reflects pricing strategy and efficiency of operations. For a reconciliation of operating profit to Adjusted Operating Profit, see "*—Adjusted Operating Profit*" above.

	For the year ended December 31,		
	2022	**2023**	**2024**
	(yen in billions, except percentages)		
Adjusted Operating Profit	727.8	728.0	751.9
Revenue	2,657.8	2,841.1	3,149.8
Adjusted Operating Margin	**27%**	**26%**	**24%**

Leverage Ratio

We define Leverage Ratio as interest-bearing debt divided by Adjusted Operating Profit, as set forth in the table below. We believe that Leverage Ratio demonstrates our ability to generate the income needed to be able to settle our loans and borrowings as they fall due. For a reconciliation of operating profit to Adjusted Operating Profit, see "*—Adjusted Operating Profit*" above.

	As at December 31,		
	2022	**2023**	**2024**
	(yen in billions, except ratios)		
Interest-bearing debt	958.3	1,142.3	1,726.8
Adjusted Operating Profit	727.8	728.0	751.9
Leverage Ratio	**1.32x**	**1.57x**	**2.30x**

Liquidity

We define Liquidity as cash and cash equivalents plus undrawn committed facilities. We believe that Liquidity demonstrates the near-term availability of cash, also taking into account liquid assets, to us.

The following table sets forth a reconciliation of cash and cash equivalents to Liquidity for the years ended December 31, 2022, 2023 and 2024.

	As at December 31,		
	2022	**2023**	**2024**
	(yen in billions)		
Cash and cash equivalents	866.9	1,040.2	1,084.6
Undrawn committed facilities	530.0	432.7	600.4
Liquidity	**1,396.8**	**1,472.9**	**1,685.0**

Non-Financial Operating Measures

This listing document includes non-financial operating measures to track the performance of our business. These measures are not a measure of financial performance under IFRS and have not been reviewed or audited by an outside auditor, consultant or expert. These measures are derived from management information systems. Such information may not be comparable to similar information provided by other companies.

Our key non-financial operating measures are as follows:

- *Total volume*: the volume of tobacco- and nicotine-based products excluding contract-manufactured products, waterpipe,[1] RRP devices and related accessories.

- *Combustibles volume*: the shipment volume of combustibles, excluding contract-manufactured products, oral, waterpipe,[2] HTP and e-vapor.

- *RRP volume*: RRP sales volume in cigarette-stick equivalent, which excludes RRP devices, RRP-related accessories, etc.

Constant Currency

We present in this listing document certain financial information from our income statement using constant-currency translations of non-yen amounts into yen to assist in the comparison of our period-to-period performance. Such constant-currency financial information has been calculated by applying the same foreign exchange rates between local currencies and U.S. dollars as well as the exchange rates between Japanese yen and U.S. dollars as in the equivalent period in the previous fiscal year. Our results on a constant-currency basis are calculated to exclude amounts of revenue and profit that have increased due to hyperinflation in certain markets. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting our Results of Operations—Other factors affecting our results of operations—Hyperinflationary accounting adjustments*."

The measures presented on a constant-currency basis should not be considered in isolation or as an alternative to the measures presented on a reported basis, our income statement or the notes thereto, and should not be construed as a representation that the relevant currency could be or was converted into Japanese yen at that rate or at any other rate. We do not evaluate our results and performance on a constant-currency basis without also evaluating our financial information prepared at actual foreign exchange rates in accordance with IFRS. Financial measures in this listing document are presented on an actual basis except where noted as being presented on a constant-currency basis.

Rounding

In this listing document, where information is presented in millions or billions of yen, amounts of less than one million or one billion, as the case may be, have been rounded unless otherwise specified. Where information is presented in millions of dollars, amounts of less than one million have been rounded unless otherwise specified. All percentages have been rounded to the nearest percent, one-tenth of one percent or one-hundredth of one percent, as the case may be. In some cases, figures presented in tables in this listing document may not total due to such rounding.

Market, Economic and Industry Data

Unless the source is otherwise stated, the market, economic and industry data in this listing document constitute our internal estimates, using underlying data from independent third parties. We obtained market data and certain industry forecasts used in this listing document from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications that we believe are reliable. Although we have no reason to believe any of this information is inaccurate in any material respect, we have not independently verified and cannot assure the accuracy of any data provided by or derived from such third-party sources.

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[1] Commencing January 1, 2025, total volume will include waterpipe.
[2] Commencing January 1, 2025, combustibles volume will include waterpipe.

GLOSSARY

The following defined terms used in this listing document have the meanings indicated below:

Term	Meaning
"CAGR"	Compound annual growth rate
"cigarettes"	Also known as Ready-Made Cigarettes
"combustibles"	Includes all tobacco products excluding contract-manufactured products, waterpipe, HTP, oral and e-vapor
"combustibles industry volume"	Industry volume of combustibles by number of sticks
"E.U."	The European Union
"e-vapor"	Products which consumers use by electronically heating a nicotine-based liquid that contains no tobacco leaf. Two milliliters of liquid volume is equivalent to 20 sticks of cigarettes
"FCTC"	Framework Convention on Tobacco Control of the World Health Organization
"fine cut tobacco"	Loose tobacco products also known as rolling tobacco. These can be used for both roll-your-own cigarettes, i.e., using rolling papers, and make-your-own cigarettes, i.e., by filling a filter tube with cut tobacco
"FSSC"	Food Safety System Certification
"GFB"	Our global flagship brands, namely Winston, Camel, MEVIUS and LD
"Global Travel Retail"	Denomination of the Duty-Free markets across our global tobacco footprint. The performance of these markets is included in the EMA cluster
"heated tobacco products" or "HTP"	Products that contain tobacco leaf and create a tobacco-enriched vapor by electronically heating the tobacco, either directly or indirectly, without any combustion
"heated tobacco sticks" or "HTS"	High-temperature heated tobacco products. One stick is equivalent to a stick of cigarettes
"HTS volume"	HTS sales volume, which excludes RRP devices, RRP-related accessories, etc.
"industry volume"	Industry volume of combustibles and HTS by number of sticks
"infused tobacco capsules" or "Infused"	Low-temperature heated tobacco products. One pack of consumables is equivalent to 20 sticks of cigarettes
"ISO"	International Organization for Standardization

"JT Act"...	Japan Tobacco Inc. Act of Japan (Act No. 69 of 1984), as amended
"Luxembourg Prospectus Law"	The Luxembourg Law dated July 16, 2019 on prospectuses for securities
"oral"	Products delivering nicotine in the form of a closed pouch. These pouches can contain tobacco, which are known as snus. Without tobacco, these consumables are referred to as nicotine pouches. To deliver nicotine and flavor, these pouches are inserted between the consumer's lip and gum. One pouch of snus or nicotine pouches is equivalent to a stick of cigarettes
"reduced-risk products" or "RRP"	Products with the potential to reduce the risks associated with smoking. In our portfolio, these products include heated tobacco sticks (HTS), infused tobacco capsules (Infused), e-vapor and oral
"Torii"	Torii Pharmaceutical Co., Ltd.
"U.K."	United Kingdom
"U.S."	United States

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information and financial statements and related notes contained elsewhere in this listing document. Prospective investors should carefully consider the information set forth under the caption "Risk Factors" and all other information set forth in or incorporated by reference into this listing document.

Overview

We are a leading global tobacco company and our products are sold in over 130 markets around the world, selling two of the top ten global brands of combustibles by sales volume.[3] The core of our tobacco brand portfolio is made up of our global flagship brands, which address consumer needs globally. Our global flagship brands include leading brands in cigarettes and fine cut tobacco, such as Winston, Camel, MEVIUS and LD. Our product portfolio is strengthened by our RRP[4], for which consumer demand is increasing. These brands include Ploom, Logic, Nordic Spirit and With. We also engage in the pharmaceutical and processed food businesses with the aim of complementing the profit growth of the wider JT Group.

As of December 31, 2024, we had 268 consolidated subsidiaries and 53 associates accounted for using the equity method. For the years ended December 31, 2024 and December 31, 2023, we had revenue of ¥3,149.8 billion and ¥2,841.1 billion and Adjusted Operating Profit of ¥751.9 billion and ¥728.0 billion, respectively.

The Issuer

Japan Tobacco Inc. is a joint stock corporation under the Companies Act of Japan (Act No. 86 of 2005), as amended, pursuant to the Japan Tobacco Inc. Act of Japan (Act No. 69 of 1984), as amended. The registered office of the Issuer is at 1-1, Toranomon 4-chome, Minato-ku, Tokyo 105-6927, Japan. The LEI of the Issuer is 353800Z0ENYBQO0XRJ31.

3 Excluding China National Tobacco Corporation.
4 Products with the potential to reduce the risks associated with smoking.

SUMMARY OF THE OFFERING

This summary highlights information presented in greater detail elsewhere in this listing document. This summary is not complete and does not contain all the information you should consider before investing in the Notes. You should carefully read this entire listing document before investing in the Notes, including "Risk Factors," the audited consolidated financial statements and related notes contained elsewhere in this listing document. Certain defined terms used in this summary are defined under "Description of the Notes."

Issuer	Japan Tobacco Inc., a joint stock corporation under the Companies Act of Japan (Act No. 86 of 2005), as amended, pursuant to the Japan Tobacco Inc. Act of Japan (Act No. 69 of 1984), as amended (the "**JT Act**"), having its registered office at 1-1, Toranomon 4-chome, Minato-ku, Tokyo 105-6927, Japan. The LEI of the Issuer is 353800Z0ENYBQO0XRJ31.
Securities Offered	$800,000,000 4.850% Senior Notes due 2028 (the "**2028 Notes**"), $900,000,000 5.250% Senior Notes due 2030 (the "**2030 Notes**") and $800,000,000 5.850% Senior Notes due 2035 (the "**2035 Notes**," and together with the 2028 Notes and the 2030 Notes, the "**Notes**").
Fiscal Agency Agreement	The Notes will be issued under a fiscal agency agreement between the Issuer and Citibank, N.A., London Branch, as fiscal agent, paying agent, transfer agent and notes registrar (the "**fiscal agent**"). The fiscal agency agreement is more fully described under "*Description of the Notes*."
Issue Price	For the 2028 Notes: 99.864% plus accrued interest, if any, from April 15, 2025. For the 2030 Notes: 99.869% plus accrued interest, if any, from April 15, 2025. For the 2035 Notes: 99.724% plus accrued interest, if any, from April 15, 2025.
Maturity Date	For the 2028 Notes: May 15, 2028. For the 2030 Notes: June 15, 2030. For the 2035 Notes: June 15, 2035.
Ranking of the Notes	The Notes will be the Issuer's senior unsecured and unsubordinated obligations and will rank equally in right of payment with the existing and future senior unsecured and unsubordinated indebtedness of the Issuer (except those obligations preferred by operation of law) and will be senior to any subordinated indebtedness of the Issuer. The Notes will effectively rank junior to any and all secured indebtedness of the Issuer to the extent of the value of the assets securing such indebtedness and effectively subordinated to the liabilities of the Issuer's subsidiaries. Under the JT Act, all holders of bonds, notes and debentures (including the Notes) issued by the Issuer have the preferential right to be paid prior to other unsecured indebtedness of the Issuer, but the rights of such holders are subordinated to the Issuer's obligations in respect of national and local taxes and certain other exceptions provided under the applicable laws and to certain of its other obligations entitled to general

preferential rights (*sakidori-tokken*) provided in the Civil Code of Japan (Act No. 89 of 1896), as amended, such as preferential rights of employees to wages. See "*Description of the Notes—Status of the Notes*."

Minimum Denomination — The Notes will be in denominations of $150,000 and integral multiples of $1,000 in excess thereof.

Payments of Principal and Interest on the Notes — Interest on the 2028 Notes will accrue at a rate of 4.850% per annum. The Issuer will pay interest on the 2028 Notes semi-annually in arrear on May 15 and November 15 of each year, commencing on November 15, 2025. The 2028 Notes will mature on May 15, 2028.

Interest on the 2030 Notes will accrue at a rate of 5.250% per annum. The Issuer will pay interest on the 2030 Notes semi-annually in arrear on June 15 and December 15 of each year, commencing on December 15, 2025. The 2030 Notes will mature on June 15, 2030.

Interest on the 2035 Notes will accrue at a rate of 5.850% per annum. The Issuer will pay interest on the 2035 Notes semi-annually in arrear on June 15 and December 15 of each year, commencing on December 15, 2025. The 2035 Notes will mature on June 15, 2035.

Interest on the Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal will be repaid at maturity at a price of 100% of the principal amount of the Notes. If any date for payment of principal or interest (or additional amounts, if any) falls on a day that is not a business day, then payment of principal or interest (or additional amounts, if any) need not be made on such date but may be made on the next succeeding business day. Any payment made on such next succeeding business day shall have the same force and effect as if made on the due date, and no interest shall accrue with respect to such payment for the period after such date. See "*Description of the Notes—Early Redemption and Repurchase*."

Optional Redemption — The Issuer may, at its option, redeem the 2028 Notes, in whole or in part, at any time prior to April 15, 2028, by paying 100% of the principal amount of the 2028 Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest. On or after April 15, 2028, the Issuer may redeem the 2028 Notes in whole or in part by paying 100% of the principal amount of the 2028 Notes so redeemed plus accrued and unpaid interest.

The Issuer may, at its option, redeem the 2030 Notes, in whole or in part, at any time prior to May 15, 2030, by paying 100% of the principal amount of the 2030 Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest. On or after May 15, 2030, the Issuer may redeem the 2030 Notes in whole or in part by paying 100% of the principal

	amount of the 2030 Notes so redeemed plus accrued and unpaid interest. The Issuer may, at its option, redeem the 2035 Notes, in whole or in part, at any time prior to March 15, 2035, by paying 100% of the principal amount of the 2035 Notes so redeemed plus the applicable "make-whole" amount and accrued and unpaid interest. On or after March 15, 2035, the Issuer may redeem the 2035 Notes in whole or in part by paying 100% of the principal amount of the 2035 Notes so redeemed plus accrued and unpaid interest.
Optional Tax Redemption	Each series of the Notes may, at the option of the Issuer, be redeemed, in whole but not in part, at 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest up to but excluding the redemption date, and additional amounts, if any, upon the occurrence of specified events relating to tax law imposed by relevant jurisdictions. See "*Description of the Notes—Early Redemption and Repurchase*."
Use of Proceeds	We intend to use the net proceeds of the sale of the Notes for general corporate purposes, including refinancing for the acquisition of Vector Group Ltd. See "*Use of Proceeds*."
Global Notes..	The Notes will be initially represented by one or more global notes in fully registered form without interest coupons. The global notes will be deposited upon issuance with the custodian for DTC and registered in the name of DTC or its nominee. Beneficial interests in the global notes may be held only through DTC (or any successor clearing system that holds the global notes) and its participants, including Euroclear and Clearstream. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by the depositary and its participants. The sole holder of the Notes represented by a global note will at all times be DTC or its nominee (or a successor of DTC or its nominee), and voting and other consensual rights of holders of the Notes will be exercisable by beneficial owners of the Notes only indirectly through the applicable rules and procedures of the depositary and its participants from time to time in effect. Beneficial interests in the global notes may not be exchanged for definitive notes except in the limited circumstances described under "*Book-Entry; Delivery and Form; Summary of Provisions relating to Notes in Global Form—Exchanges between Regulation S Global Notes and Rule 144A Global Notes*."
Transfer Restrictions...	The Notes have not been registered under the Securities Act and are subject to certain restrictions on transfer. See "*Transfer Restrictions*."
Governing Law	The fiscal agency agreement and the Notes are governed by and construed in accordance with the laws of the State of New York.

Rating	The Notes have been rated A2 by Moody's Japan K.K., and A+ by S&P Global Ratings Japan Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and Trading	There is currently no trading market for the Notes. Application has been made to admit the Notes to the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market. There is no assurance that such listing will be maintained.
Fiscal Agent, Paying Agent, Transfer Agent and Notes Registrar	Citibank, N.A., London Branch
Securities Codes	For the 2028 Notes sold under Rule 144A: Common Code: 305734993 CUSIP: 471105 AC0 ISIN: US471105AC03 For the 2028 Notes sold under Regulation S: Common Code: 305715638 CUSIP: J27869 BB1 ISIN: USJ27869BB13 For the 2030 Notes sold under Rule 144A: Common Code: 301246790 CUSIP: 471105 AD8 ISIN: US471105AD85 For the 2030 Notes sold under Regulation S: Common Code: 301246838 CUSIP: J27869 BC9 ISIN: USJ27869BC95 For the 2035 Notes sold under Rule 144A: Common Code: 305735205 CUSIP: 471105 AE6 ISIN: US471105AE68 For the 2035 Notes sold under Regulation S: Common Code: 305735221 CUSIP: J27869 BD7 ISIN: USJ27869BD78

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following tables present a summary of our consolidated financial information derived from the Consolidated Financial Statements for the Year Ended December 31, 2024 and the Consolidated Financial Statements for the Year Ended December 31, 2023, included elsewhere in this listing document. You should read these data together with our audited consolidated financial statements and related notes included elsewhere in this listing document, as well as the sections "*Presentation of Financial and Certain Other Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Consolidated Statement of Income Data

The following table sets forth certain of our statement of income information for each of the periods presented:

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Revenue[1]	2,657.8	2,841.1	3,149.8
Cost of sales	(1,091.0)	(1,226.0)	(1,407.5)
Gross profit	1,566.8	1,615.1	1,742.3
Other operating income	20.3	30.0	31.2
Share of profit in investments accounted for using the equity method	8.0	8.3	12.9
Selling, general and administrative expenses	(941.5)	(981.1)	(1,462.9)
Operating profit	653.6	672.4	323.5
Financial income	31.1	44.4	69.5
Financial costs	(91.3)	(95.2)	(159.2)
Profit before income taxes	593.5	621.6	233.8
Income taxes	(149.3)	(136.3)	(51.2)
Profit for the period	**444.2**	**485.3**	**182.6**
Attributable to:			
Owners of the parent company	*442.7*	*482.3*	*179.2*
Non-controlling interests	*1.5*	*3.0*	*3.4*

(1) Tobacco excise taxes and other transactions in which we are involved as an agency are excluded from revenue.

Consolidated Statement of Financial Position Data

The following table sets forth certain of our statement of financial position information as at each of the dates presented.

	As of December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Assets			
Current assets			
Cash and cash equivalents	866.9	1,040.2	1,084.6
Trade and other receivables	477.2	535.3	569.0
Inventories	691.9	832.6	957.3
Other financial assets	37.7	58.6	120.2
Other current assets	649.2	789.9	826.8
Subtotal	2,722.9	3,256.6	3,557.8
Assets held for sale	0.7	2.9	19.8
Total current assets	2,723.6	3,259.6	3,577.6

Non-current assets			
Property, plant and equipment	776.0	821.5	907.7
Goodwill	2,446.1	2,616.4	2,914.3
Intangible assets(1)	246.4	200.8	486.5
Investment property	9.5	9.3	3.7
Retirement benefit assets	57.8	65.9	89.6
Investments accounted for using the equity method	56.9	56.7	50.4
Other financial assets(1)	140.4	155.3	151.9
Other non-current assets(1)	-	7.2	5.5
Deferred tax assets	91.4	89.4	183.6
Total non-current assets	3,824.5	4,022.5	4,793.2
Total assets	**6,548.1**	**7,282.1**	**8,370.7**
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	540.1	592.8	659.5
Bonds and borrowings	137.3	233.3	178.7
Income tax payables	37.5	29.6	24.6
Other financial liabilities	40.1	44.5	60.0
Provisions	26.6	18.6	195.9
Other current liabilities	781.1	1,008.4	1,029.9
Subtotal	1,562.6	1,927.3	2,148.6
Liabilities directly associated with assets held for sale	0.0	-	-
Total current liabilities	1,562.7	1,927.3	2,148.6
Non-current liabilities			
Bonds and borrowings	821.0	908.9	1,548.1
Other financial liabilities	41.7	40.7	49.2
Retirement benefit liabilities	244.1	279.4	277.2
Provisions	26.5	45.5	253.9
Other non-current liabilities	195.2	127.2	120.4
Deferred tax liabilities	40.1	40.6	124.5
Total non-current liabilities	1,368.7	1,442.3	2,373.4
Total liabilities	2,931.3	3,369.6	4,522.0
Equity			
Share capital	100.0	100.0	100.0
Capital surplus	736.4	736.5	736.7
Treasury shares	(490.2)	(489.2)	(488.6)
Other components of equity	104.3	290.6	381.6
Retained earnings	3,089.9	3,192.3	3,036.9
Equity attributable to owners of the parent company	3,540.4	3,830.2	3,766.6
Non-controlling interests	76.3	82.3	82.1
Total equity	3,616.8	3,912.5	3,848.7
Total liabilities and equity	**6,548.1**	**7,282.1**	**8,370.7**

(1) The amounts as of December 31, 2023 have been retrospectively adjusted in order to be presented on a comparable basis with the corresponding figures as of December 31, 2024, while the amounts as of December 31, 2022 have not been retrospectively adjusted as the effect of such adjustment is not material. For more information, see "*Presentation of Financial and Certain Other Information*."

Consolidated Statement of Cash Flows Data

The following table sets forth certain of our statement of cash flows information for each of the periods presented:

	For the year ended December 31,		
	2022	2023	2024
		(yen in billions)	
Net cash flows from operating activities[1]	483.8	566.3	630.0
Net cash flows used in investing activities[1]	(101.8)	(125.4)	(439.8)
Net cash flows used in financing activities	(306.2)	(270.5)	(94.9)
Net increase / (decrease) in cash and cash equivalents	75.8	170.4	95.3
Cash and cash equivalents at the beginning of the period	721.7	866.9	1,040.2
Effect of exchange rate changes on cash and cash equivalents	69.4	2.9	(51.0)
Cash and cash equivalents at the end of the period	**866.9**	**1,040.2**	**1,084.6**

(1) The amounts for the year ended December 31, 2023 have been retrospectively adjusted in order to be presented on a comparable basis with the corresponding figures for the year ended December 31, 2024, while the amounts for the year ended December 31, 2022 have not been retrospectively adjusted as the effect of such adjustment is not material. For more information, see "*Presentation of Financial and Certain Other Information*."

RISK FACTORS

Any investment in the Notes involves risk. Prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment decision with respect to the Notes. If any of the following risks actually occurs, it could have a material adverse effect on our business, financial condition, results of operations and future prospects, and the market or economic value of the Notes may be adversely affected.

The risks discussed below are those that we believe are material, but these risks and uncertainties may not be the only risks that we face. Additional risks that are not known to us at this time, or that are currently believed to be not material, could also have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the Notes.

Risks Relating to Our Business

Our businesses have been and may continue to be adversely affected by global economic conditions.

There have been and continue to be uncertainties in the business environment in which we operate, such as the risk of the global economy contracting or economic growth slowing down. Within this, we recognize that continuing to provide new value and satisfaction to consumers for continuous profit growth is important and we are 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 and we are unable to appropriately respond, our business performance could be negatively affected due to factors such as consumers ceasing to use our products, a decline in revenue and the loss of opportunities for growth.

Economic downturns may put pressure on our revenue from our tobacco business due to the weakening of consumer spending power and thus demand, as well as shifts in smokers' purchases to other brands, different categories or illicit products. Tobacco demand could decrease depending on economic conditions, other societal conditions, growing health awareness, trends in regulations and price rises due to tax increases and other factors, although the trends in demand will vary from market to market. These trends may in turn undermine our strategy to grow our revenue in tobacco operations. Any of these factors may adversely affect our business, financial condition and operating results.

Due to the geographical scope of our operations, our business, financial condition and operating results may be adversely affected by economic, regulatory and political changes or instability in many markets.

Our products are sold in over 130 markets around the world and we have a growing presence in international markets. With effect from January 1, 2022 and in line with the consolidation of our business management structure in the tobacco business, our clusters in the whole tobacco business, including the Japan market, are organized into three regional clusters, namely: Asia (including Japan), Western Europe and EMA (Eastern Europe, the "MENEAT" (Middle East, Near East, Africa and Türkiye) group of markets, the Americas and Global Travel Retail[5]). Some of the markets in which we operate face the threat of civil unrest and could be subject to regime changes. In others, nationalization, terrorism, conflict and the threat of war may have a significant impact on the business environment. As a result, political, economic and governmental instability in such markets could materially and adversely affect our business, financial condition and operating results.

Changes in the economic, political or regulatory environment of the markets in which we operate could disrupt our supply chain and/or our distribution capabilities. In addition, such changes could lead to loss of property or equipment that is critical to our business in certain markets and difficulty in staffing and managing our operations, which could adversely affect our operating results. The introduction or escalation of trade disputes can have an impact on tariffs, duties or other barriers imposed on importers of goods between territories, which may directly or indirectly affect our financial condition and operating results by increasing the prices of our products, weakening consumer spending power or otherwise causing economic instability, in the affected countries or globally. For example, in April 2025, the U.S. government introduced new or significantly higher tariffs on all imports of goods into the United States. The global financial markets plummeted in response and a number of trading partners warned of retaliatory tariffs on U.S. imports. On April 9, 2025, the day the tariffs were

[5] Global Travel Retail is the new denomination reflecting the combination of the duty-free markets from the previous Japanese-domestic tobacco and international tobacco businesses. The performance of these markets is included in the EMA cluster.

scheduled to take effect, the U.S. government announced a 90-day pause for all countries affected,[6] except Canada, China and Mexico, leading to extreme volatility in the global financial markets. The long-term effects of these tariffs, including the ongoing market instability, are difficult to predict at this stage as the situation remains volatile and continues to evolve day-to-day. While we intend to continue to pursue geographic expansion to achieve long-term growth of our businesses, the realization of any of the foregoing risks may adversely affect our business, financial condition and operating results.

Our businesses may be adversely affected by the Russia-Ukraine war.

In the year ended December 31, 2024, Russia represented approximately 10% of our consolidated revenue and 25% of our consolidated Adjusted Operating Profit.

The situation in Ukraine has triggered a number of national and international sanctions and export controls being imposed by the E.U., the United States, the United Kingdom, Japan and Switzerland on Russia, which could potentially impact our operations. Although the impact of these sanctions on our operations has been manageable, this continues to be monitored and assessed regularly and could ultimately have a detrimental effect on our operations.

Assessing the potential impact of the Russia-Ukraine war on our operations in both Russia and Ukraine remains complicated as the situation is fluid and unprecedented. Potential risks that could affect our operations involve supply chain disruptions and associated negative effects on consumer demand and foreign exchange, as well as the applicable sanctions and export controls that have been, and may continue to be, imposed. Further, we operate one factory in Ukraine and four manufacturing facilities in Russia. A shortage of raw material procurement in any of these facilities could result in production being stopped. Another potential risk relates to impairment of assets due to any severe damage to the factory facilities, which could have an adverse impact on our business. Consumer demand could be impacted due to distribution disruptions and inflationary pressure reducing consumers' disposable income. As a Japanese company, our assets and business in Russia are also at risk of nationalization or expropriation by the local government, which would place them under the management of a state-appointed administrator. On March 10, 2022, we announced an immediate suspension of all centrally-funded investments and marketing activities in Russia, as well as the suspension of the planned launch of our latest heated tobacco product, Ploom X. Although the proportion of our consolidated revenue and Adjusted Operating Profit attributable to Russia has remained relatively stable since 2022, these suspensions and/or any future sanctions could negatively affect our revenues in the future.

We are also exposed to risks relating to foreign exchange. For example, a 1% deviation from an exchange rate of ¥100 to 64.5 Russian rubles would result in an impact of approximately ¥3.0 billion on our forecast Adjusted Operating Profit for the year ending December 31, 2025. Such a deviation may adversely affect our business, financial condition and operating results.

Given the challenging and unpredictable environment, we continue to evaluate various options for our Russia business.

Fluctuations in currency and exchange rates affect our business, financial condition and operating results.

We conduct a significant portion of our business in currencies other than yen, such as the Russian ruble, Sterling, Taiwanese dollar, euro, Turkish lira, Iranian rial, Swiss franc, U.S. dollar and the local currencies of other countries in which we operate. Currency fluctuations may, therefore, adversely affect our operating results.

Each of our companies measures transactions in its own functional currency. We enter into transactions denominated in currencies other than the functional currencies in which each of our companies operate, exposing us to foreign exchange risk to the extent that the amounts and proportions of various currencies in which our sales and assets are denominated differ from the amounts and proportions of various currencies in which our costs and liabilities are denominated. For example, for our tobacco business we pay a substantial amount in U.S. dollars for non-Japan origin tobacco leaf, while our tobacco sales are denominated in local currencies. As a result, a strong U.S. dollar against such other currencies could adversely affect our margins on a local currency basis. While we enter into hedging transactions, such as derivatives or issuing debt in currencies other than yen, to partially offset

[6] The newly-introduced baseline tariff of 10% on all imports of goods into the United States remains in effect.

the currency fluctuation risk in our business transactions, hedging will not completely eliminate those risks and we remain exposed to the effects of currency fluctuations.

Furthermore, we are subject to currency translation risks. While we prepare our consolidated financial statements in Japanese yen, our subsidiaries outside Japan prepare their financial statements in various other currencies, including the Russian ruble, euro, Sterling, Taiwanese dollar, U.S. dollar and Swiss franc. Therefore, changes in such foreign currencies' exchange value against the yen affect our reported earnings. In general, a devaluation of such foreign currencies relative to the yen would have a net negative impact on our overall reported operating results. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We seek to hedge this risk with foreign-currency debt, a portion of which is designated as net-investment hedges. Moreover, if we liquidate, sell or impair a significant value of any of our companies that we originally acquired in a currency other than yen, the applicable gain or loss that will be recorded in our consolidated financial statements will include the accumulated translation adjustment of the currency fluctuations between the local currency and the yen.

We also hold 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 our performance and financial position as these fluctuations affect our interest income and interest expenses and the price of financial assets and financial liabilities.

In addition, our business performance and financial position may be affected in the event that the value of our retirement benefit assets and liabilities fluctuate due to the fluctuation of foreign exchange markets or interest rate levels.

Any of the factors set out above may adversely affect our business, financial condition and operating results.

Increases in excise, consumption or other taxes on tobacco products (including RRP) in markets in which we operate may adversely affect sales of our products and profitability.

Increases in tobacco-related taxes around the world are considered as a source of public finance and a measure to promote public health. If an increase occurs in the tax applicable to tobacco products (including RRP), in most cases it is difficult for us to absorb such tax increases through improved operational efficiency. We thus typically seek to increase the retail price of our tobacco products. However, it may be difficult to fully pass the cost of such tax increases onto consumers without undermining sales volume and ultimately our profitability. Reflecting part or all of a tax increase through an increase in the retail price may reduce consumption or cause demand to shift toward lower-priced products, different categories or to illicit products such as contraband and counterfeit products, while absorbing a tax increase without a retail price increase would directly reduce our profitability. Therefore, in order to maintain our profitability, any retail price increase typically needs to be greater than the amount of the applicable tax increase to offset these adverse reactions on the part of consumers. In considering any price increase, we must therefore consider market conditions, including the potential impact on demand and the expected reactions of competitors based on historical patterns.

Our ability to effectively adjust to an increase in tobacco-related tax would be particularly limited if such increase was implemented at a timing or frequency that we did not expect, by a margin wider than we expected in a particular market, or in a jurisdiction we did not anticipate.

In recent years, we have experienced tobacco-related tax increases across multiple jurisdictions, including in Japan, E.U. countries, Russia, the Philippines, Türkiye and the United Kingdom. Further excise tax increases have been announced for the coming years in various markets, including Russia, the Philippines and the United Kingdom.

In the E.U., after increases in recent years and following an evaluation of Council Directive 2011/64/EU that lays down the E.U. rules for the taxation of manufactured tobacco products by setting the structure and minimum rates, the E.U. is currently reviewing further increases of the minimum excise tax rates and plans to introduce a common E.U. framework for taxation of RRP. This may result in further increases in the minimum excise rates for cigarettes and other tobacco and nicotine products.

In Japan, the sale of tobacco products is subject to national and local tobacco excise taxes and national tobacco special excise tax calculated on the basis of sales volume, as well as consumption tax calculated based on the price of the products. The 2025 Tax Reform Proposals, which were approved by the Cabinet of Japan in

December 2024, seek to raise the excise taxes (a) on HTP to the same level as those on cigarettes in two phases from April 2026 to October 2026, and (b) on all types of tobacco products by ¥1.5 per cigarette equivalent in three phases from April 2027 to April 2029.

All such increases in taxes on tobacco and nicotine products may adversely affect our business, financial condition and operating results.

Any decrease in demand for tobacco products in key markets may negatively and disproportionately affect our operating results.

While our products are sold in over 130 markets around the world, a decrease in demand for tobacco products in one or more key markets may disproportionately affect our business, financial condition and operating results. Demand for tobacco products in a particular market may decline due to various factors unique to each geographic region or jurisdiction, such as an economic contraction, rising health awareness, increases in tobacco prices, tightening regulations, higher demand for RRP or a combination of any of these or other factors. Demand contraction in any such key markets may negatively and disproportionately affect our operating results.

In 2025, combustibles industry volume is expected to decline by approximately 3.0% in our top 30 markets. Combustibles industry volume contraction continues, although continued market share gains in combustibles and continued RRP volume growth is expected to partially offset the decline.

Global competition from other tobacco manufacturers may reduce our market share and adversely affect our business, financial condition and operating results.

We compete in various markets across the world with global tobacco manufacturers such as Philip Morris International Inc., British American Tobacco p.l.c. and Imperial Brands PLC, as well as other local manufacturers. Our market share in each market can fluctuate in the short term due to one-time factors including the release of new products by us or our competitors or special promotion efforts related thereto. Market share can also fluctuate due primarily to the level of competition, regulation, pricing strategy, changes in smokers' preference, social interests in health, brand equity or economic conditions in each market. Any decline in our market share due to these or other factors in significant markets may adversely affect our business, financial condition and operating results. Additionally, markets in which we operate sometimes experience events such as a brand repositioning or a price cut in pursuit of market share gains. Such initiatives may negatively impact our profit margins in individual markets, thereby adversely affecting our business, financial condition and operating results.

Moreover, in recent years we have strengthened investments in RRP and, moving forward, intend to continue to do so, with an aim to turn this category into the future growth driver of our tobacco business. Any challenges we face in our strategy to drive growth in this category, whether as a result of competition or otherwise, may adversely affect our business, financial condition and operating results.

Our business, financial condition and operating results may be adversely affected by instabilities in the procurement of raw materials.

We have a global manufacturing footprint and procure 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, the balance between supply and demand, the impact on the supply chain arising from an increase in country risk, fluctuations in exchange rates and prices (including due to inflation) and supplier issues. Furthermore, there is the risk that increases in transport costs will be further exacerbated going forward due to increasing wage costs in the logistics industry, caused by labor shortages, and rising crude oil prices. In the event that we are unable to stably secure the necessary amount of raw materials, or in the event that raw material procurement costs and costs to transport products continue to rise, our business performance, financial condition and/or operating results may be adversely affected due to being unable to guarantee the stable supply of products and other factors, or if such supply is obtained, it may be at a higher cost.

Our business, financial condition and operating results may be adversely affected by environmental or human rights issues or violations of laws and regulations in the supply chain.

Our tobacco business and the processed food business in particular focus on their supply chains, and appropriately maintaining and managing the supply chain is a significant matter for our business activities. In recent years, we have expanded our business in various countries and regions in the world and so our supply chain has increased and become more complex. The occurrence of environmental or human rights issues or legal or regulatory violations in our supply chain may adversely affect our business, financial condition and operating results, as a result of diminished public trust or other factors.

Our actual results may vary significantly from forecasts and estimates set forth herein.

This listing document includes certain estimates and forecasts (including, without limitation, estimates and forecasts in respect of certain financial metrics for the year ending December 31, 2025) and other forward-looking information. Such estimates, forecasts and other forward-looking information are based on assumptions that we believe are reasonable, but which may turn out to be incorrect or different than expected, including as a result of significant business and economic uncertainties and risks, such as those described in this section "*Risk Factors*." Many of these factors are not within our control and some of the assumptions with respect to future business decisions and strategies are subject to change. Should one or more of these or other uncertainties or risks materialize, actual results may vary materially from those estimated or anticipated and such differences may be material and may affect the market price of the Notes. In particular, since the challenges of operating in Russia currently are unprecedented, we are unable to reasonably estimate the ongoing impact of doing so on our financial results as of the date of this listing document. For more information, see "*—Risks Relating to Our Business—Our businesses may be adversely affected by the Russia-Ukraine war*." There can be no assurance that our actual results will not vary significantly from forecasts and estimates set forth in this listing document. Accordingly, prospective investors are cautioned not to place undue reliance on any such estimates, forecasts and other forward-looking information.

Any acquisitions or similar investments which do not yield the anticipated synergies and results, or the resultant goodwill recorded on our balance sheet becoming impaired, could adversely affect our business, financial condition and operating results.

In the past, we have made a number of tobacco business-related acquisitions aiming for medium- to long-term growth, through reinforcing our business foundations, geographic expansion, portfolio expansion and RRP development. These include:

Business foundation reinforcement and geographic expansion

- Acquisitions of the non-U.S. tobacco operations of RJR Nabisco, Inc. in 1999 for approximately ¥944 billion and Gallaher Group Plc, an international tobacco company, in 2007 for approximately ¥1,720 billion.

- Acquisitions of Haggar Cigarette & Tobacco Factory Ltd. (North Sudan) and Haggar Cigarette & Tobacco Factory Ltd. (South Sudan) in November 2011; Arian Tobacco Industry in Iran in September 2015; 40% and 30.95% of the shares of National Tobacco Enterprise Ethiopia S.C in July 2016 and December 2017, respectively; assets related to the tobacco business of Mighty Corporation in the Philippines in September 2017; and Indonesian kretek cigarette company PT. Karyadibya Mahardhika and its distributor PT. Surya Mustika Nusantara in October 2017.

- In 2018, we acquired Donskoy Tabak companies in Russia and the tobacco business of the Akij Group in Bangladesh.

- In October 2024, we completed the acquisition of Vector Group Ltd., the fourth largest tobacco company in the United States, for approximately $2.3 billion.

- In addition to our tobacco business-related acquisitions, we acquired Katokichi Co., Ltd. (since renamed TableMark Co., Ltd.), a food company, in 2008 for approximately ¥109 billion and 53.5% of the outstanding shares of Torii Pharmaceutical Co., Ltd. in December 1998 to broaden our business foundation.

Portfolio expansion

- Acquisition of Gryson N.V., a Belgium-based fine cut tobacco manufacturing company, in August 2012.

- Acquisition of Natural American Spirit’s business outside the United States in January 2016 for approximately ¥591 billion.

Geographic expansion and portfolio expansion

- Acquisition of Nakhla (Al Nakhla Tobacco Company S.A.E. and Al Nakhla Tobacco Company—Free Zone S.A.E.), a leading manufacturer of water pipe tobacco based in Egypt and one of the world’s first manufacturers of water pipe tobacco, in March 2013.

RRP product development

- Acquisitions of Zandera Ltd., a leading e-vapor manufacturer in the United Kingdom, in June 2014; Ploom Inc.’s intellectual property rights related to patents and trademarks for the Ploom tobacco vapor device in February 2015; and Logic Technology Development LLC, a leading U.S. e-vapor company, in July 2015.

- In October 2022, we announced a global partnership with Altria in the area of RRP, including the set-up of a joint venture in the United States to exclusively distribute our proprietary Ploom heated tobacco stick device.

We regularly consider acquisitions of and investments in other companies, joint ventures or similar arrangements in connection with our tobacco operations and execute such transactions in the ordinary course of our business whenever appropriate conditions are met. To the extent that any acquisition, joint venture or similar investment does not generate the synergies or operational and financial results expected, we may be required to expend additional financial or managerial resources. Our ability to realize the anticipated benefits of any acquisition, joint venture or similar investment will depend upon a number of factors including, but not limited to, the following:

- our ability to integrate operations, personnel, technologies and organizations in different geographical locations or from different cultural backgrounds;

- continued demand for, and our ability to manufacture and sell, the products of acquired or allied businesses;

- our ability to prevent disruption of ongoing businesses;

- our ability to retain key personnel of the acquired businesses and maintain employee morale;

- our ability to extend our financial and management controls and reporting systems and procedures to acquired businesses;

- our ability to minimize the diversion of management attention from ongoing business concerns;

- our ability to build an effective brand and product portfolio; and

- our ability to link sales and market strategies of different product lines.

There can be no assurance that our expansion strategy will successfully yield the anticipated results or that it will not adversely affect our business, financial condition and operating results.

We have been diversifying our sources of cash flow and seeking to improve profitability by investing in or acquiring companies that we believe have the potential to help us achieve these goals. As a result of past acquisitions, we have recorded a large amount of goodwill. As of December 31, 2024, the recorded amount of goodwill was ¥2,914.3 billion, constituting 34.8% of our total assets on a consolidated basis. Acquisitions and other types of investments will continue to be an option to achieve sustainable profit growth, and we will continue to look for those opportunities. Additional investments and acquisitions may result in further goodwill. Additionally, as of December 31, 2024, our recorded amount of intangible assets was ¥486.5 billion, constituting 5.8% of our total assets on a consolidated basis. Among intangible assets, the carrying amount for trademarks as of December 31, 2024 was ¥137.6 billion, constituting 28.3% of total intangible assets.

We consider the goodwill to fairly reflect the business value and synergy effects of our acquisitions and the intangible assets to represent their then-current fair value. However, if our acquisitions or investments fail to generate the anticipated benefits due to factors such as changes in the business environment or the competitive situation, or if there is an increase in the applied discount rates, we may be obliged to post an impairment loss, which may adversely affect our business, financial condition and operating results.

Restrictions and other regulatory mandates on promotion, marketing, packaging, labelling, composition and usage of our products in any market in which we operate might reduce the demand for our products, increase our costs and adversely affect our business, financial condition and operating results.

As a company that supplies tobacco and nicotine products, we are subject to substantial regulations globally that place various restrictions on the promotion, marketing, packaging, labelling, composition and usage of tobacco products (including RRP). In particular, the regulation of RRP products is internationally inconsistent, with some regulators treating them differently to conventional combustible tobacco products, often based on the acceptance that such products offer the potential of harm reduction, some treating them the same as combustible tobacco products and some simply banning RRP, or some categories of RRP, altogether. This inconsistency is compounded by widely varying standards of enforcement, which in some markets result in illegal or prohibited products being widely available.

Examples of regulations that may affect the sale of our products include the Tobacco Business Act of Japan, as amended (the "**Tobacco Business Act**") and related regulations contain restrictions on the sale of tobacco products, including restrictions on advertising activities and a requirement that tobacco product packages contain warnings about the health risks associated with the consumption of tobacco products. Ministry of Finance of Japan guidelines and Tobacco Institute of Japan (being an organization of tobacco manufacturers and importers, of which we are a member) voluntary rules further restrict tobacco advertising and promotion. Indoor smoking restrictions are another area where we are experiencing increasing regulation. The Health Promotion Act, enacted in 2003, restricted the use of tobacco products in public areas and an increasing number of local governmental and private organizations have also restricted tobacco usage. In addition, the Amendment to the Health Promotion Act, enacted in July 2018, imposed a blanket ban on indoor tobacco usage in public facilities, which has been fully effective since April 2020. In respect of certain types of facilities, such as restaurants that are not part of larger chains, the relevant facility manager still retains discretion as to whether to apply the ban. However, there may be more legislative action in relation to passive smoking in the future, which further restricts smoking in public facilities.

Outside of Japan, there is a similar trend toward increasingly restrictive regulation on the promotion, marketing, packaging, labelling, composition and use of our products since the World Health Organization's Framework Convention on Tobacco Control (the "**FCTC**") came into force in February 2005. The purpose of the FCTC is to reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke. Its provisions include, among other things, price and tax measures to reduce the demand for tobacco, non-price measures to reduce the demand for tobacco (including protection from exposure to tobacco smoke) and regulation of the contents and emissions of tobacco products, disclosure to government authorities and the public of certain information on tobacco products, packaging and labelling of tobacco products and their advertising, promotion and sponsorship, and measures aimed at the reduction of tobacco supply (including the prevention of illicit trade and further restrictions on sales to minors). In September 2018, the Protocol to Eliminate Illicit Trade in Tobacco Products to the FCTC (the "**Protocol**") entered into force. The Protocol introduced additional obligations for the parties to the Protocol to control the tobacco supply chain by introducing, *inter alia*, requirements for licensing and for tracking and tracing of tobacco products.

The parties to the FCTC (which include Japan and the E.U.) are obliged to develop, implement, periodically update and review comprehensive multisectoral national tobacco control strategies, plans and programs, as well as formulate, adopt and periodically update and review strategies, plans and programs for tobacco regulation. However, the content, scope and method of specific controls undertaken by the parties are ultimately legislated by each respective nation, catered to that nation's circumstances. Examples of specific controls adopted by the parties to FCTC include the Australian Tobacco Plain Packaging Act which provides for strict standardized requirements applicable to packaging, including its color, location, font size and style of the product's name and display of graphical health warnings, even though the FCTC does not stipulate the introduction of such requirements. A number of other countries have adopted or are considering similar measures, including similar restrictions on RRP.

In the E.U., the Tobacco Products Directive (2014/40/EU) (the "**Directive**") has been in force since May 2014. The Directive enhances and includes additional measures on how tobacco and nicotine products can be manufactured, presented and sold. These measures include requirements as to packaging and labelling, such as pictures and health warnings covering 65% of the front and back of packaging for conventional tobacco products; restrictions on pack shape and size; a ban on sales of cigarettes and fine cut tobacco with characterizing flavors and on ingredients which increase the toxicity and/or addictiveness of tobacco products; regulation of other nicotine-containing products (for example, e-vapor) and smokeless tobacco products in a manner similar to that of cigarettes; a continued ban on oral tobacco products, or snus; a prior notification requirement for novel tobacco products; and the mandated development of a tracking and tracing system and security features to ensure that only compliant products are sold in the E.U. All E.U. Member States have now implemented the Directive into national law. The prohibition on the sale of cigarettes and fine cut tobacco with characterizing flavors has been extended to heated tobacco products via secondary legislation. The Directive is in the process of being revised and new, stricter rules are expected to take effect in 2027. The tobacco control regime in the United Kingdom remains closely aligned following its exit from the E.U. as the domestic regulations implementing the Directive were retained in U.K. law.

We expect that the level of restrictions on the sale, promotion, marketing, packaging, labelling, composition and usage of our products will continue to increase globally and any such increases may adversely affect our business, financial condition and operating results. While the content, scope and method of the restrictions in each country will vary in accordance with implementation under each country's national law, the general tightening of such regulations might have contributed to, and might continue to contribute to, diminishing brand value and reducing demand for tobacco and nicotine products. Tightening of tobacco-related regulations can also cause us to incur additional regulatory compliance costs under certain circumstances. Furthermore, any change in marketing methods could substantially increase our marketing expenses and also lower our market share if we cannot react to such changes in a timely and appropriate manner.

We are also increasingly subject to emerging, non-tobacco specific environmental, social and governance regulations worldwide, ranging from recyclability and reusability of packaging, to supply chain due diligence, which could have an impact both on our supply chain operations and on the design of our products.

Increases in the illegal trade of tobacco products could adversely affect our business, financial condition and operating results.

One of the most serious issues in the tobacco industry is the increase in 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. Factors such as increasing levels of taxation and inflation, economic downturn and increased cost of living, lack of law enforcement, appropriate penalties and weak border control may also encourage consumers to switch from our products to illegal cheaper tobacco products and are providing greater rewards for counterfeiters and smugglers. As historical evidence shows, illicit trade in a market tends to increase after a steep tax increase.

Illicitly traded products can significantly damage the credibility of our brands. Growth in illicit trade, such as smuggling and counterfeiting of our tobacco products, may adversely affect our business, financial condition and operating results. This includes damage to our reputation and/or the need for substantial expenses for the development of further countermeasures to eliminate illicit trade. Counterfeit products and other illicit products could also harm consumers, damage goodwill and potentially lead to misplaced claims against us.

Substantial costs could be incurred in connection with litigation.

Some of JT's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco or e-vapor products, or exposure to tobacco smoke. As of the date of this listing document, there are a total of 135 smoking and health related cases pending in which one or more of our members were named as a defendant, including cases for which JT or our relevant member may have certain indemnity obligations pursuant to an agreement, such as in relation to JT's acquisition of RJR Nabisco, Inc.'s overseas (non-U.S.) tobacco operations. The increase in the number of cases pending compared to the financial year ended December 31, 2023 relates to the acquisition of Vector Group Ltd. For further information, see "*Business—Tobacco Business—Acquisition of Vector Group Ltd.*"

We are unable to predict the outcome of any pending or future lawsuits. If any of these actions result in a decision that is unfavorable to us, our business could be materially affected by, for example, the payment of a substantial amount of monetary compensation. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against JT and/or its subsidiaries, forcing them to bear litigation costs and materially affecting our business performance. In addition, JT and/or some of its subsidiaries may become party to cases unrelated to smoking or health, such as if any problems arise regarding product quality that lead to JT and/or some of its subsidiaries becoming the target of claims seeking product liability. Such litigation cases may negatively affect our business performance or the manufacture, sale, and import and export of our products, should our outcomes prove unfavorable. The material litigation to which we are party is described further in "*Business—Legal Proceedings*."

Claims of intellectual property infringement could require us to spend substantial time and costs and adversely affect our ability to develop and commercialize products.

Our commercial success depends in part on our ability to avoid infringing patents, trademarks and other proprietary rights of third parties, and on our ability to avoid breaching the terms of any license agreements that we have entered into with third parties with regard to the technologies and/or brands of those third parties. Other parties may have filed, and may in the future file, applications for patents covering substance composition, techniques and methodologies relating to products and technologies that we have developed or intend to develop or use, or for trademarks covering brands owned or used by us.

If patents or trademarks in use by us are issued to third parties, we may have to rely on licenses from such third parties, which may not be available on commercially reasonable terms on a timely basis, or at all. Claims by third parties that our use of any technologies, substances or brands infringes their patents or trademarks, regardless of their merit, could require us to incur substantial costs, including the diversion of management and technical personnel, to defend ourselves against any of these claims or enforce our intellectual property rights. In the event that a claim of infringement is brought against us and such claim is successful (in whole or in part), we may be required to pay damages and obtain one or more licenses from third parties. We may not be able to obtain these licenses on a timely basis, at a reasonable cost or at all. Defense of any lawsuit or failure to obtain any of these licenses could adversely affect our ability to develop and commercialize products.

Catastrophes, including natural disasters, IT infrastructure failures and cyber-crime may disrupt our businesses and limit our growth.

We have sales in over 130 markets in the world and are working to further strengthen and expand our global business base, as well as to rationalize our manufacturing footprint to strengthen our competitiveness in the tobacco business in particular. Recently, new infectious diseases have emerged, including Covid-19, and natural disasters, such as earthquakes, tsunamis, typhoons and floods, have occurred in several markets where we operate. Future large-scale natural disasters or human-made disasters, such as suspension of utilities, political instability, fires or bombings, the spread of infectious diseases or other such unforeseen emergencies, may adversely affect our business, financial condition and operating results. Such effects may be caused by supply interruptions or shortages due to problems at suppliers or distributors; declines in demand; or employees suffering damage in a disaster.

In the operation of our business, we utilize various types of information technology to efficiently perform our business and operations. With the advancement of digital technology, cyber-attacks through illicit access or computer viruses are becoming more complex and sophisticated. Any damage to systems or leaks of confidential information that occur as a result of unforeseen circumstances, such as disasters or cyber-attacks on us or our suppliers, may adversely affect our business, financial condition and operation results due to the 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.

Climate change and the transition to a net zero carbon society may adversely affect our business, financial condition and operating results.

Climate change associated with global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change; and biodiversity loss. These impacts could cause issues such as disruptions in our supply chain and changes in the environmental conditions where our key raw materials (including tobacco) are grown, which could lead to deteriorating quality and increased prices and sourcing costs for those raw materials. This may adversely affect our manufacturing operations, financial condition and operating results.

Additionally, the transition to a “net zero” carbon society, with the aim of mitigating climate-related impacts, increases the likelihood of carbon taxes being levied on energy generated from fossil fuels, which (if passed onto end-users, such as us) could result in an increase in operating costs and thus adversely affect our business, financial condition and operating results.

If we are unable to adequately protect our intellectual property, third parties may be able to use similar technology, which could adversely affect our ability to compete in the market.

We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies and products are covered by valid and enforceable patents or trademarks or are effectively maintained as trade secrets. We apply for patents covering our technologies and products as and when we deem appropriate. However, these applications may be challenged or may fail to result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design their products around our patents. Our patents may be challenged, invalidated or fail to provide us with any competitive advantages. Government action may also affect the value of our intellectual property if, for example, any regulation under the disclosure regime were to force us to reveal trade secrets.

We also rely on trademarks and brand names to distinguish our products from those of our competitors. Although we devote resources to protecting our trademarks to the extent that we deem to be appropriate, these protective actions may not be sufficient to prevent unauthorized usage or imitation by others, which could harm our reputation, brand or competitive position. The trademarks for which we apply may not be acceptable to regulatory authorities, and our trademarks may be challenged by third parties.

In addition, the laws of some countries do not protect intellectual property rights to the same extent as the laws of the major industrialized nations, and many companies have encountered significant problems in protecting and defending such rights in some jurisdictions.

Our obligation under the Tobacco Business Act to purchase substantially all domestically produced tobacco leaf may adversely impact our competitive position in Japan compared to international competitors which use only non-Japan origin tobacco leaf.

The Tobacco Business Act requires us to enter annually into purchase contracts in advance with each Japanese domestic tobacco grower who intends to cultivate tobacco leaf for sale to us. We must purchase all tobacco leaf produced pursuant to such contracts except for tobacco leaf that is not suitable for tobacco products. Before conclusion of the contracts, we must consult with the Leaf Tobacco Deliberative Council (*hatabako shingi kai*), a deliberative body composed of representatives of domestic tobacco growers and academic appointees appointed by us and approved by the Minister of Finance of Japan, as to the aggregate cultivation area for specific varieties of tobacco leaf and the prices for tobacco leaf by variety and grade. The Council must deliberate and provide its opinion as to the appropriate prices of tobacco leaf based on the level which would allow continued domestic production of tobacco leaf by taking into account economic conditions such as production cost and commodity prices. We are legally required to respect the opinion of the Council.

Domestically produced tobacco leaf is not re-dried at the time of purchase, while non-Japan origin tobacco leaf is already re-dried when we purchase it. Without taking into account this difference, domestically produced tobacco leaf in general can be approximately three times more expensive than non-Japan origin tobacco leaf due to high domestic production costs (depending on sourcing location). As such, continuing with the purchase of substantially all domestically produced tobacco leaf may adversely impact our competitive position in Japan compared to international competitors that use only non-Japan origin tobacco leaf.

Any claims relating to hazardous materials, including radioactive and bacteriological materials, used in our business or to which our products may become exposed may adversely affect our business, financial condition and operating results.

Our research and development and manufacturing processes may involve the controlled use of hazardous materials, including radioactive and bacteriological materials, and may produce hazardous waste. National and local laws and regulations around the world impose substantial potential liability for the improper use, manufacture, storage, handling and disposal of hazardous materials. We cannot completely eliminate the risk of accidental contamination or discharge and any resultant injury from these materials or waste. Real estate properties that we have owned or used in the past or that we own or use now or in the future may contain detected or undetected contamination resulting from our activities or the activities of prior owners or occupants at those sites. We may be sued for any injury or contamination that results from our use or the use by third parties of these materials. We do not maintain insurance coverage for any such injury or contamination. Any claims relating to hazardous materials used in our business or to which our products may become exposed may adversely affect our business, financial condition and operating results.

In addition, our reputation may be harmed by publicity related to any alleged or actual contamination or injury. We may incur significant expenses for compliance with environmental laws and regulations or for implementation of any voluntary measures related to hazardous materials. In addition, current or future environmental regulations may impair our research, development and production efforts.

Economic sanctions laws are complex, and penalties could be serious in the event of a violation. Moreover, a change in existing economic sanctions could deprive us of access to, or require us to limit or reconfigure, our business in affected markets.

We conduct business in countries that are subject to economic sanctions. While we make every effort to comply with economic sanctions, sanctions laws are complex and their application in a given circumstance can sometimes be difficult to determine. If a relevant authority determines that there has been a violation of applicable sanctions laws by us and/or our subsidiaries, penalties could be material, including substantial fines and possibly incarceration for individuals responsible if their actions are intentionally in violation of applicable law.

Furthermore, existing economic sanctions could change, and thus deprive us of access to or limit our involvement with, or require us to stop, limit or reconfigure, our business in affected markets. Revenues attributable to dealings with Iran, Cuba and Belarus represented approximately 3% of our revenue for the year ended December 31, 2024. Revenues attributable to dealings with Russia represented approximately 10% of our revenues for the year ended December 31, 2024. For information about our operations in Russia, see "*Risk Factors—Risks Relating to Our Business—Our businesses may be adversely affected by the Russia-Ukraine war*."

We are aware of initiatives by governmental entities and institutional investors, including pension funds, in the United States to prohibit transactions with or require divestment of entities doing business with countries subject to economic sanctions. We are also aware that our reputation could suffer due to our association with countries subject to economic sanctions.

Changes to tax legislation or its interpretation or increases in effective tax rate may affect our business.

We operate in multiple jurisdictions and our profits are taxed according to the tax laws of such jurisdictions. Our effective tax rate may be affected by changes in tax laws or interpretations of tax laws in any given jurisdiction or by changes in treaties or other arrangements between or among jurisdictions. Depending on how any future tax rules are implemented and applied by the individual states they could have an adverse effect on our tax position, but it is not currently possible to say whether there will in fact be an adverse effect or what any such effect might be in relation to future tax changes.

Changes in fiscal regulations or the interpretation of tax laws by the courts or the tax authorities in jurisdictions in which we operate may also adversely affect our business. For further information on the risk of increases in excise, consumption or other taxes on tobacco products (including RRP) in markets in which we operate, see "*Risk Factors—Risks Relating to Our Business—Increases in excise, consumption or other taxes on tobacco products (including RRP) in markets in which we operate may adversely affect sales of our products and profitability*."

We may be subject to tax audits or other action by tax authorities.

We do business in many different jurisdictions and are potentially subject to tax liabilities in multiple tax jurisdictions. We continually assess tax laws relating to us but cannot be certain of a tax authority's application and interpretation of the tax law. We may be subject to tax audits, which may result in additional tax and interest payments, and to unforeseen material tax claims, including penalties.

We may from time to time dispose of businesses or assets, which could adversely affect our business, financial condition and operating results.

We may from time to time dispose of businesses or assets. Dispositions may involve risks associated with the potential disruption of our ongoing business, and the anticipated benefits and cost savings of these transactions may not be realized fully, or at all, or take longer to realize than anticipated, all of which could adversely affect our business, financial condition and operating results. In addition, dispositions may involve our continued financial involvement in a divested business, such as through continuing equity ownership, transition service agreements, guarantees, indemnities or other current or contingent financial obligations.

Failure to hire and maintain a pool of talented employees may adversely affect our business, financial condition and operating results.

We are aware of the negative reputation of the tobacco business, which creates challenges for us to recruit and retain talented people. Should we be unable to sufficiently fulfil our employment needs, future business operations may become difficult, which could adversely affect our business, financial condition and operating results.

A delay in or cancellation of new drug development, a suspension of sales or a product recall in our pharmaceutical business may adversely affect our business, financial condition and operating results.

Our pharmaceutical business engages in research and development so as to swiftly provide original and new drugs to patients around the world. New drug development requires us to invest significant amounts of time and money, and the hurdles to discovering new drugs become higher every year. In some cases, development is delayed or cancelled 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 adversely affect our business, financial condition and operating results by failing to achieve the expected investment returns, or by delaying said returns, amongst other effects.

In addition, although the developed pharmaceuticals undergo stringent examinations before being approved by the governmental agencies with jurisdictions in various countries around the world, a suspension of sales or a product recall could subsequently occur if unexpected side effects or other issues are discovered after the product goes on sale. Such a situation could result in expenses related to the suspension of sales or product recall, a drop in revenue, declining public trust in us or claims being brought against us, any of which may adversely affect our business, financial condition and operating results.

Increasingly stringent pharmaceutical regulations may adversely affect our business, financial condition and operating results.

Our 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 factors such 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, we 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 the reform of drug price standards, our revenue may decline. Either of these cases may adversely affect our business, financial condition and operating results.

Changes in or termination of agreements with licensing partners or contract manufacturers in our pharmaceutical business may adversely affect our business, financial condition and operating results.

Our pharmaceutical business has been making steady progress in research and development and our aim is for that division to contribute to our sustainable profit growth. We license out our compounds with the aim of maximizing their value. Moreover, the manufacture of each of our pharmaceutical business products is contracted to external manufacturers. Whilst we seek to maintain close relationships with these companies, in the event that agreements with these partners are changed or terminated, or in the event that the partnership suffers from delays, the returns expected at the point at which the agreement was concluded may not be achieved, or returns may be delayed, which would adversely affect our business, financial condition and operating results.

Problems related to food safety or quality in our processed food business, or changes in related food safety regulations, may adversely affect our business, financial condition and operating results.

The aim of our 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. Any problems related to food safety or quality that exceed those anticipated by us may result in a decline or impairment of public trust in us and costs related to product recalls and demands for compensatory damages, each of which could adversely affect our business, financial condition and operating results.

Our 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 Labelling Act, and we operate a thorough program of compliance to seek to ensure conformity with all these legal restrictions. The introduction or modification of any legal restrictions may incur additional compliance costs or restrict existing business activities, which would adversely affect our business, financial condition and operating results.

Risks Relating to the Notes

The market for the Notes offered by this listing document may have limited liquidity.

Application has been made for admission of the Notes to list on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange, but there is no assurance that such listing will be maintained. The Initial Purchasers have advised us that they currently intend to make a market in the Notes following the offering. However, the Initial Purchasers have no obligation to make a market in the Notes and they may stop at any time. Furthermore, there can be no assurance as to the liquidity of any markets that may develop for the Notes or the prices at which you will be able to sell your Notes, if at all.

Future trading prices of the Notes will depend on many factors, including:

- prevailing interest rates;
- our financial condition and results of operations;
- the then-current ratings assigned to the Notes;
- the market for similar securities; and
- general economic conditions.

Any trading markets that develop would be affected by many factors independent of and in addition to the foregoing, including the outstanding amount of the Notes of a series and the level, direction and volatility of market interest rates generally.

The Notes are unsecured obligations.

The Notes are unsecured obligations and repayment of the Notes may be compromised if, among other things, we enter into bankruptcy, liquidation, rehabilitation or other winding-up proceedings. If any of these events occurs, then our assets may be insufficient to pay amounts due on the Notes.

Under the JT Act, holders of debt securities issued by the Issuer which are classified as "*shasai*" under the laws of Japan have the preferential right (*ippan-tanpo*) to be paid prior to other unsecured indebtedness of the Issuer, but the rights of such holders are subordinated to the Issuer's obligations in respect of national and local taxes and certain other exceptions provided under applicable law and to certain other obligations of the Issuer entitled to general preferential rights (*sakidori-tokken*) provided in the Civil Code of Japan (Act No. 89 of 1896), as amended.

The fiscal agency agreement and the Notes contain only very limited restrictions on our ability to pledge our assets. Moreover, the fiscal agency agreement provides that the fiscal agent and the Issuer may, without the consent of the holders of the Notes of the applicable series and without regard to the interests of particular noteholders, agree to certain modifications of any of the provisions of the Notes of the applicable series or the fiscal agency agreement.

The fiscal agency agreement and the Notes do not contain any financial covenants and contain only very limited restrictions on our ability to pledge assets to secure other indebtedness (and the negative pledge covenant included in the fiscal agency agreement and the Notes only prohibits the Issuer from pledging its assets to secure bonds or similar investment securities intended to be quoted or traded on a stock exchange or over-the-counter securities market, with maturity exceeding one year, excluding securities denominated in Japanese yen, the majority of which are initially distributed in Japan). These or other actions by us could adversely affect our ability to pay amounts due on the Notes. Furthermore, claims of the creditors of our subsidiaries will generally have priority with respect to the assets of such subsidiaries over the claims of the holders of the Notes. Accordingly, the Notes will be effectively subordinated to the creditors of our subsidiaries.

Moreover, the fiscal agency agreement provides that the fiscal agent and the Issuer may, without the consent of the holders of the Notes of the applicable series and without regard to the interests of particular noteholders, agree to certain modifications of any of the provisions of the Notes of the applicable series or the fiscal agency agreement. See "*Description of the Notes—Modification and Waiver*." The terms of the Notes also provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by a subsidiary of the Issuer. See "*Description of the Notes—Issuer Substitution*."

The Notes may be redeemed prior to maturity.

The terms of the Notes may provide for early redemption at the option of the Issuer. Such right of termination is often provided for notes issued in periods of high interest rates. If the market interest rates decrease, the risk to noteholders that Issuer will exercise its right of termination increases. As a consequence, the yields received upon redemption may be lower than expected, and the redeemed face amount of the Notes may be lower than the purchase price for the Notes paid by the noteholder. As a result, the noteholder may not receive the total amount of the capital invested. In addition, investors that choose to reinvest monies they receive through an early redemption may be able to do so only in securities with a lower yield than the redeemed Notes.

We may incur substantially more debt in the future.

We may incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may be secured by some or all of our assets. The terms of the Notes will not limit the amount of indebtedness we may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that we face, including but not limited to the risks enumerated in this "*Risk Factors*" section.

Integral multiples of less than the specified denomination.

The denominations of the Notes are $150,000 and integral multiples of $1,000 in excess thereof. Therefore, it is possible that the Notes may be traded in amounts in excess of $150,000 that are not integral multiples of $150,000. In such a case, a noteholder who, as a result of trading such amounts, holds a principal amount of less than $150,000 of the Notes of a series will not receive a definitive note in respect of such holding (should definitive notes be printed) and would need to purchase a principal amount of Notes of such series such that it holds an amount equal to one or more denominations. If definitive notes are issued, relevant noteholders should be aware that definitive notes which have a denomination that is not an integral multiple of $150,000 may be illiquid and difficult to trade. Except in circumstances set out in the relevant global note, investors will not be entitled to receive definitive notes.

The ratings of the Notes could be lowered.

The Notes have been rated A2 by Moody's Japan K.K. and A+ by S&P Global Ratings Japan Inc. In addition, other rating agencies may assign credit ratings to the Notes without solicitation from or provision of information by us. Such ratings are limited in scope and do not address all material risks relating to an investment in the Notes; they reflect only the view of each rating agency at the time the rating is issued. There is no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. A downgrade or potential downgrade in these ratings or the assignment of new ratings that are lower than existing ratings could reduce the population of potential investors in the Notes and adversely affect the price and liquidity of the Notes. A rating is based upon information furnished by us or obtained by the rating agency from its own sources and is subject to revision, suspension or withdrawal by the rating agency at any time.

Japanese insolvency laws may be less favorable to you than bankruptcy and insolvency laws in other jurisdictions.

The Issuer is a joint stock corporation under the Companies Act of Japan, pursuant to the JT Act, and as such any insolvency proceedings applicable to such a company are in principle governed by Japanese law. The insolvency laws of Japan may not be as favorable to your interests as creditors as the laws of the United States or other jurisdictions with which you may be familiar.

You may be unable to recover damages in civil proceedings for U.S. securities laws violations.

The Issuer is incorporated under the laws of Japan. It is anticipated that some or all of the directors and executive officers of the Issuer will be non-residents of the United States and that a majority of the Issuer's assets will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or its directors and executive officers, or to enforce any judgments obtained in U.S. courts predicated upon civil liability provisions of U.S. securities laws. In addition, we cannot assure you that civil liabilities predicated upon the federal securities laws of the United States will be enforceable in Japan.

Transfer of the Notes will be restricted.

The Notes will not be registered under the Securities Act or the securities laws of any jurisdiction. The holders of the Notes may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws. The holders of the Notes should read the disclosures in the section "*Transfer Restrictions*" for further information about these and other transfer restrictions. It is the holder's obligation to ensure that offers and sales of the Notes comply with applicable securities laws.

USE OF PROCEEDS

We expect that the aggregate net proceeds from the offering of the Notes, after deducting the Initial Purchasers' fees and other estimated expenses related to the offering, will be approximately $2,483.1 million.

We intend to use the net proceeds of the sale of the Notes for general corporate purposes, including refinancing for the acquisition of Vector Group Ltd.

CAPITALIZATION

The following table shows our total capitalization as of December 31, 2024 and on an as-adjusted basis to give effect to the offering of the Notes. Except as indicated in the table below, there has been no material change in our total capitalization since December 31, 2024.

You should read the table below together with "*Selected Consolidated Financial and Other Information*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," our audited consolidated financial statements and other information included elsewhere in this listing document.

	As of December 31, 2024	
	Actual	**As adjusted**
	(yen in billions)	
Long-term debt[1]:		
Bonds and borrowings (less current portion)	1,548.1	1,548.1[2]
Notes offered hereby	-	394.6[3]
Total long-term debt	1,548.1	1,942.7
Equity:		
Share capital	100.0	100.0
Capital surplus	736.7	736.7
Treasury shares	(488.6)	(488.6)
Other components of equity	381.6	381.6
Retained earnings	3,036.9	3,036.9
Equity attributable to owners of the parent company	3,766.6	3,766.6
Non-controlling interests	82.1	82.1
Total equity	3,848.7	3,848.7
Total capitalization[4]	**5,396.8**	**5,791.4**

(1) Lease obligations are excluded.

(2) This amount excludes the issuance of ¥70 billion in outstanding principal amounts of bonds, which was settled on April 10, 2025, and €550 million senior unsecured notes, which we announced on April 10, 2025 and is expected to close on or about April 17, 2025.

(3) Translation of the U.S. dollar amount of the Notes into Japanese yen has been made at the rate of ¥157.84 to $1.00, the approximate rate of exchange prevailing as of December 31, 2024.

(4) Total capitalization is the sum of total long-term debt and total equity.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following selected financial data as of and for the year ended December 31, 2022 are derived from the Consolidated Financial Statements for the Year Ended December 31, 2023. The following selected financial data as of and for the years ended December 31, 2023 and 2024 are derived from the Consolidated Financial Statements for the Year Ended December 31, 2024. You should read these data together with our audited consolidated financial statements and related notes included elsewhere in this listing document, as well as the sections "Presentation of Financial and Certain Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Consolidated Statement of Income Data

The following table sets forth certain of our statement of income information for each of the periods presented:

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Revenue[(1)]	2,657.8	2,841.1	3,149.8
Cost of sales	(1,091.0)	(1,226.0)	(1,407.5)
Gross profit	1,566.8	1,615.1	1,742.3
Other operating income	20.3	30.0	31.2
Share of profit in investments accounted for using the equity method	8.0	8.3	12.9
Selling, general and administrative expenses	(941.5)	(981.1)	(1,462.9)
Operating profit	653.6	672.4	323.5
Financial income	31.1	44.4	69.5
Financial costs	(91.3)	(95.2)	(159.2)
Profit before income taxes	593.5	621.6	233.8
Income taxes	(149.3)	(136.3)	(51.2)
Profit for the period	**444.2**	**485.3**	**182.6**
Attributable to:			
Owners of the parent company	*442.7*	*482.3*	*179.2*
Non-controlling interests	*1.5*	*3.0*	*3.4*

(1) Tobacco excise taxes and other transactions in which we are involved as an agency are excluded from revenue.

Consolidated Statement of Financial Position Data

The following table sets forth certain of our statement of financial position information as at each of the dates presented.

	As of December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Assets			
Current assets			
Cash and cash equivalents	866.9	1,040.2	1,084.6
Trade and other receivables	477.2	535.3	569.0
Inventories	691.9	832.6	957.3
Other financial assets	37.7	58.6	120.2
Other current assets	649.2	789.9	826.8
Subtotal	2,722.9	3,256.6	3,557.8

Assets held for sale	0.7	2.9	19.8
Total current assets	2,723.6	3,259.6	3,577.6
Non-current assets			
Property, plant and equipment	776.0	821.5	907.7
Goodwill	2,446.1	2,616.4	2,914.3
Intangible assets(1)	246.4	200.8	486.5
Investment property	9.5	9.3	3.7
Retirement benefit assets	57.8	65.9	89.6
Investments accounted for using the equity method	56.9	56.7	50.4
Other financial assets(1)	140.4	155.3	151.9
Other non-current assets(1)	-	7.2	5.5
Deferred tax assets	91.4	89.4	183.6
Total non-current assets	3,824.5	4,022.5	4,793.2
Total assets	**6,548.1**	**7,282.1**	**8,370.7**
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	540.1	592.8	659.5
Bonds and borrowings	137.3	233.3	178.7
Income tax payables	37.5	29.6	24.6
Other financial liabilities	40.1	44.5	60.0
Provisions	26.6	18.6	195.9
Other current liabilities	781.1	1,008.4	1,029.9
Subtotal	1,562.6	1,927.3	2,148.6
Liabilities directly associated with assets held for sale	0.0	-	-
Total current liabilities	1,562.7	1,927.3	2,148.6
Non-current liabilities			
Bonds and borrowings	821.0	908.9	1,548.1
Other financial liabilities	41.7	40.7	49.2
Retirement benefit liabilities	244.1	279.4	277.2
Provisions	26.5	45.5	253.9
Other non-current liabilities	195.2	127.2	120.4
Deferred tax liabilities	40.1	40.6	124.5
Total non-current liabilities	1,368.7	1,442.3	2,373.4
Total liabilities	2,931.3	3,369.6	4,522.0
Equity			
Share capital	100.0	100.0	100.0
Capital surplus	736.4	736.5	736.7
Treasury shares	(490.2)	(489.2)	(488.6)
Other components of equity	104.3	290.6	381.6
Retained earnings	3,089.9	3,192.3	3,036.9
Equity attributable to owners of the parent company	3,540.4	3,830.2	3,766.6
Non-controlling interests	76.3	82.3	82.1
Total equity	3,616.8	3,912.5	3,848.7
Total liabilities and equity	**6,548.1**	**7,282.1**	**8,370.7**

(1) The amounts as of December 31, 2023 have been retrospectively adjusted in order to be presented on a comparable basis with the corresponding figures as of December 31, 2024, while the amounts as of December 31, 2022 have not been retrospectively adjusted as the effect of such adjustment is not material. For more information, see "*Presentation of Financial and Certain Other Information*."

Consolidated Statement of Cash Flows Data

The following table sets forth certain of our statement of cash flows information for each of the periods presented:

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Net cash flows from operating activities[(1)]	483.8	566.3	630.0
Net cash flows used in investing activities[(1)]	(101.8)	(125.4)	(439.8)
Net cash flows used in financing activities	(306.2)	(270.5)	(94.9)
Net increase / (decrease) in cash and cash equivalents	75.8	170.4	95.3
Cash and cash equivalents at the beginning of the period	721.7	866.9	1,040.2
Effect of exchange rate changes on cash and cash equivalents	69.4	2.9	(51.0)
Cash and cash equivalents at the end of the period	**866.9**	**1,040.2**	**1,084.6**

(1) The amounts for the year ended December 31, 2023 have been retrospectively adjusted in order to be presented on a comparable basis with the corresponding figures for the year ended December 31, 2024, while the amounts for the year ended December 31, 2022 have not been retrospectively adjusted as the effect of such adjustment is not material. For more information, see "*Presentation of Financial and Certain Other Information*."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included in this listing document.

Our financial statements are prepared in conformity with IFRS, which differ in certain significant respects from accounting principles generally accepted in other jurisdictions, including U.S. GAAP. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions, and are subject to the qualifications set forth under "Forward-Looking Statements." Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to those set forth under "Risk Factors" and elsewhere in this listing document.

Overview

We are a leading global tobacco company and our products are sold in over 130 markets around the world, selling two of the top ten global brands of combustibles by sales volume.[7] The core of our tobacco brand portfolio is made up of our GFB, which address consumer needs globally. Our GFB include leading brands in cigarettes and fine cut tobacco, such as Winston, Camel, MEVIUS and LD. Our product portfolio is strengthened by our RRP, for which consumer demand is increasing. These brands include Ploom, Logic, Nordic Spirit and With. We also engage in the pharmaceutical and processed food businesses with the aim of complementing the profit growth of the wider JT Group.

As of December 31, 2024, we had 268 consolidated subsidiaries and 53 associates accounted for using the equity method. For the years ended December 31, 2024 and December 31, 2023, we had revenue of ¥3,149.8 billion and ¥2,841.1 billion and Adjusted Operating Profit of ¥751.9 billion and ¥728.0 billion, respectively.

Factors Affecting our Results of Operations

Our results of operations have been, and will continue to be, affected by a range of factors, many of which are beyond our control. The factors that management believes have had a material effect on our results of operations during the period under review, as well as those considered reasonably likely to have a material effect on our results of operations in the future, are described below.

Factors affecting our tobacco business's results of operations

The financial results of our tobacco business constitute by far the most important factor affecting our overall financial results.

<u>*Revenue*</u>

The sales price and sales volume of our products primarily determine the amount of our revenue for our tobacco business.

Retail sales price

Pricing is a key component to achieve quality top-line growth. Price changes are often times initiated by tax changes, which in general involve increases, as well as our attempts to increase revenue and profits. In setting a price for a product, we consider various factors, including the positioning of the brand or product, the perceived value of the brand or product in the relevant market and the price of competing products, in order to strike an optimal balance between the potential impact on sales volume and pricing gains on revenue or profit. We focus on increasing value-added product offerings; as such, innovative products can be priced higher. Material factors which may impact our retail sales prices include:

- *Product and market mix.* Our product and market mix impact the average unit price of our tobacco sales. For instance, our product mix improves if the proportion of higher-priced brands or products increases and the proportion of lower-priced brands or products decreases within our sales volume

[7] Excluding China National Tobacco Corporation.

profile by brand or product, and vice versa. In addition to product mix, our sales prices are similarly influenced by our market mix.

- *Tax levels.* Our pricing is affected by the level of taxes on tobacco products, including excise, value-added, consumption or other taxes, which are included in the retail sales price in a number of countries in which we operate. Although these taxes are not included in revenue, changes in taxes affect our price-setting in that we choose whether and to what extent we reflect such changes in the retail prices of our tobacco products. For example, in recent years we have experienced combustibles-related tax increases in a number of key jurisdictions, and we generally responded to these tax increases by raising the prices of most of our tobacco products.

Sales volume

Our sales volume in each market in which we operate depends on a number of factors, including:

- *Brand equity.* Our ability to maintain a strong brand equity for our products influences our sales volumes. The nucleus of our brand portfolio is our GFB—Winston, Camel, MEVIUS and LD—all of which are globally recognized for their quality. To gain mass consumer loyalty, we believe we must keep building more brand equity and we have been doing so worldwide through various approaches. Other local brands will receive selective investments to enable us to meet the unique preferences of consumers in the diverse markets and regions where we are active.

- *Marketing activities*. Marketing is particularly important for new product or brand launches, and our efforts in this area primarily focus on key growth brands, most notably our GFB, as well as RRP. However, while we seek to actively market our products to further establish our brands and increase sales volume, our marketing activities are subject to regulatory restrictions, which we expect to continue to increase globally. Moreover, with respect to RRP, some countries have applied existing tobacco product regulations while others have newly adopted separate regulations. With a global regulatory consensus yet to take shape, regulatory treatment of RRP currently varies widely among markets and countries.

- *Ability to address consumer preferences.* Our ability to develop and introduce products that meet changing consumer preferences also influences the popularity of our tobacco products. In recent years, consumer preferences for tobacco products have become increasingly diversified and individualized, including in particular in relation to RRP.

- *Geographic reach and presence*. Over the years, we have increased our presence as a leading global tobacco manufacturer, including through acquisitions. In February 2022, Russia launched a widespread military invasion of Ukraine. Japan, the United States, the United Kingdom and a number of other countries in Europe and elsewhere responded by imposing sanctions against Russian banks, businesses and individuals, including members of the Russian government, with the stated aim of limiting Russia’s access to the global economy. Given the challenging and unpredictable environment, we continue to monitor developments very closely.

- *Industry volumes and net revenues.* Industry volume[8] has generally been declining over the past several years and, looking forward, is expected to continue to decline at a CAGR of 1% between 2022 and 2035, from 3.0 trillion units to 2.6 trillion units (excluding China). However, even amid the current, challenging environment, industry net revenues are expected to continue growing over the next several years, mainly driven by the HTS category. Net revenues from the global tobacco industry,[9] excluding China, are expected to increase at a CAGR of 3% between 2022 and 2035 (from $135 billion to $200 billion), reflecting an increase in net revenues of $48 billion (at an 8% CAGR) from the RRP industry and $17 billion (at a 1% CAGR) from the combustibles industry. The HTS category alone is expected to account for approximately 22% of the industry net revenues by 2035, corresponding to a CAGR of 10% and an increase of $33 billion between 2022 and 2035.

[8] Including e-vapor and oral.
[9] Including e-vapor and oral.

- *Competition and market share.* Competition and our level of market share in each of our relevant markets influences sales volume. Tobacco companies face an increasingly competitive marketplace globally, with competition extending not only to mature markets but also to emerging markets. We also maintain or increase our market share through acquisitions and partnerships. To that end, we have acquired, among others, Vector Group Ltd., the fourth largest tobacco company in the United States, in October 2024, thereby increasing our estimated market share in the United States from 2.4% to 8.2%[10] and expanding our coverage nationwide. In this increasingly competitive marketplace, we successfully increased our market share in 2024 in combustibles by 0.5 percentage points to 22.1% across our 76 markets, following a 0.5 percentage point increase in 2023. The RRP category is still to mature with each product segment being in different stages of development as consumer acceptance varies from one market to another.

- *Illicit trade.* The illicit tobacco trade undermines the sales volume of legitimate tobacco products. According to the FCTC, the global illicit tobacco trade accounts for approximately 11% of total global tobacco trade, equating to approximately one in every ten cigarettes sold being illegal.[11] The degree of prevalence of illicit trade varies significantly among individual countries, influenced by a variety of factors including the local excise tax policy, the regulatory framework and the strength of the local laws, as well as the extent to which such laws are enforced.

- *General economic conditions and operating environment.* While the tobacco business is seen as relatively resilient to economic cycles, general economic conditions do to a certain extent influence sales volume, with improved economic conditions generally leading to an increase or slow-down of a decrease in consumption, and vice versa. In addition to general economic conditions, the general operating environment similarly influences sales volumes. Our operating environment has regularly been impacted by uncertainties stemming from multiple factors, including changing international political conditions, exchange rate fluctuations and the COVID-19 pandemic. For more information on these factors, see "*Risk Factors—Risks Relating to Our Business—Due to the geographical scope of our operations, our business, financial condition and operating results may be adversely affected by economic, regulatory and political changes or instability in many countries*" and "*Risk Factors—Risks Relating to Our Business—Fluctuations in currency and exchange rates affect our business, financial condition and operating results*," among others.

- *Smoking environment and demographics.* Various factors including tightening restrictions on smoking in public places, generational bans, adverse publicity from anti-tobacco initiatives or tobacco-related litigation and increasing social concern regarding the effects of smoking on health may adversely affect sales volume. We expect that regulatory restrictions on smoking and related commercial activities will continue to be tightened, which, coupled with the increasing social concern regarding the health effects of smoking, may contribute to a reduction in demand for tobacco products, particularly in the combustibles category. Demographic factors, such as adult population size, disposable income levels and average population age also influence consumption.

<u>Costs and expenses</u>

Our tobacco business's cost base is primarily driven by our cost of sales, including in particular the cost of tobacco leaf, and, to a lesser extent, the cost of other materials. We also incur significant selling, general and administrative expenses in our operations. In order to strengthen our cost competitiveness, we pursue continuous cost efficiency improvement of our operations, in particular with respect to the global supply chain, with an emphasis on agility and efficiency without compromising quality, including our decision in January 2022 to operate as a single tobacco business in order to further enhance the speed of business operations and generate cost efficiencies.

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[10] JT estimates based on data from the fourth quarter of 2024.

[11] Source: FCTC, Six years on – The Protocol that supports countries to fight crime, poverty and strengthens health of populations, September 25, 2024 (https://fctc.who.int/newsroom/news/item/25-09-2024-six-years-on-the-protocol-that-supports-countries-to-fight-crime-poverty-and-strengthens-health-of-populations).

Cost of sales

The material factors influencing our tobacco business's cost of sales are:

- *Cost of tobacco leaf.* Tobacco leaf is the most important raw material in our combustible products. The supply and cost of tobacco leaves are affected by a variety of factors, such as supply, demand, climate conditions, harvest yields, exchange rates, pace of inflation, agricultural input prices and energy costs. For our tobacco business in Japan, we are required to purchase unprocessed Japan origin tobacco leaf, which is substantially more expensive than processed non-Japan origin tobacco leaf obtained on worldwide markets. Outside of Japan, we primarily use tobacco leaf grown in Brazil, Europe, India, Türkiye, the United States and Africa.

- *Cost of other materials.* We also incur other costs such as filters and papers for our combustibles category, and costs of RRP materials for our RRP category.

Factors affecting our pharmaceutical business's results of operations

Our pharmaceutical business generates revenue primarily from sales of prescription pharmaceutical products. These sales include products we develop and manufacture, products developed by third-party pharmaceutical companies which we sell pursuant to license arrangements, and royalties we receive from license arrangements with third parties. Licensed products are either manufactured by us or purchased from third parties as finished products.

Revenue

Material factors affecting revenue in our pharmaceutical business include the following:

- *Ability to offer more commercially successful pharmaceutical products through research and development.* The commercial success of a product is affected by a variety of factors, including the degree of market acceptance of the product in terms of its efficacy and its ability to meet medical needs, the competitiveness of the product in terms of its ability to meet medical needs in the same therapeutic area, and the life span of the patents covering the product during which we can expect to generate higher revenue. As such, in order to generate additional revenue from our pharmaceutical business, we must maintain and enhance our research and development activities and pipeline, as well as increase and advance compounds that can be brought to market successfully. However, the content of our drug development portfolio may change over time as new compounds progress from discovery to development and from development to market, and as we discontinue testing of product candidates that do not prove to be promising or feasible to develop or market. Due to the uncertainties and difficulties of the drug development process, it is not unusual for compounds, especially those in the early stages of investigation but including later stage candidates as well, to be terminated as they progress through development. Moreover, if unexpected side effects and the like are discovered after a product goes on sale that subsequently cause a suspension of sales or a product recall, such a situation could materially adversely impact our pharmaceutical business's results of operations.

- *Unit prices, government regulation and competition from generics.* Pricing pressures from regulatory authorities and other parties, such as in Japan, the United States and Europe, are expected to continue to have an overall downward effect on the unit prices and, therefore, revenue from our prescription pharmaceutical products. Government policy in many countries has emphasized the importance of restraining expenditures on health costs, in many cases resulting in discounts on pharmaceutical products. In addition, once the patent protection expires for a prescription drug, other pharmaceutical manufacturers may produce generic versions of the product and sell them at lower prices. In certain markets, the introduction of a generic pharmaceutical product often leads to a swift and substantial decline in the sales of the original.

- *License and royalty agreements*. Revenue from our pharmaceutical business is also impacted by our out-license arrangements with third parties. Revenue from licensing is generated by licensing out the rights to develop and market of each compound to licensees in the development stage, and we receive upfront income, milestone revenue and sales-based royalties.

Costs and expenses

Research and development expenses constitute a significant portion of the expense and are particularly important for our pharmaceutical business. Research and development expenses for our pharmaceutical business primarily consist of costs and expenses related to our research activities, collaboration and co-development with outside research institutions domestically and internationally and the development of potential products in pre-clinical and clinical studies. Our research and development expenses also include fees paid to third parties as consideration for the right to commercialize products under licensing arrangements. Other significant costs and expenses in our pharmaceutical business include the cost of marketing, distributing and selling our pharmaceutical products. One important portion of these expenses is compensation paid to sales and marketing personnel, as well as promotional expenses. In addition, raw material costs are one component of cost of sales. Finally, to the extent we license pharmaceutical products, licensing fees constitute a significant portion of costs associated with the sales of such products.

Factors affecting our processed food business's results of operations

Our processed food business mainly operates in the frozen and ambient foods business.

Revenue

The most important factors driving revenue for our processed food business are:

- *General economic conditions and operating environment.* General economic conditions and operating environment influence our processed food business's sales, with improved conditions generally leading to an increase in sales, and vice versa.

- *Consumer preferences.* Consumer preferences change rapidly in the processed food business and success requires rapid introductions of new products as well as modifications or spin-offs from existing ones. Introduction of products which meet these needs in a timely manner is essential to success in the processed food business. Price, quality and safety concerns are particularly important components of consumer preference.

- *Distributional reach.* Because the ability to secure space in convenience stores, supermarkets and other retailers is critical in promoting processed food sales, our relations with wholesalers in Japan's complex multi-tiered distribution system are important for our processed food business. An increase in our distributional reach would therefore generally positively contribute to our processed food business's revenue, while a decrease would generally adversely impact revenue.

Costs and expenses

The raw materials used to manufacture our processed food products generally consist of various commodities. Therefore, the cost of such raw materials is subject to fluctuations in the price of the underlying commodities. In addition, we allocate significant resources toward advertising and other forms of marketing to maintain and enhance awareness of our products. The launch of new products, in particular, requires heightened levels of marketing activity to generate market interest in such products, and existing products also need to be improved on a regular basis to maintain interest and meet changing needs in such products.

Other factors affecting our results of operations

Currency fluctuations

While we prepare our consolidated financial statements in Japanese yen, our subsidiaries outside Japan prepare their financial statements in various other currencies, including the Russian ruble, euro, Sterling, Taiwanese dollar, U.S. dollar and Swiss franc. Therefore, changes in such foreign currencies' exchange value against the yen affect our reported earnings. In general, a devaluation of such foreign currencies relative to the yen would have a net negative impact on our overall reported operating results, while a strengthening of such currencies relative to the yen would have a positive impact on our overall reported operating results. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We seek to hedge this risk with foreign-currency debt, a portion of which is designated as net-investment hedges.

Litigation-related costs

Under IFRS, we must recognize a provision if, but only if: (i) a present obligation has arisen as a result of a past event, or an obligating event, (ii) payment is probable and (iii) the amount can be estimated reliably. An obligating event is an event that creates a legal or constructive obligation and, therefore, results in an entity having no realistic alternative but to settle the obligation. JT and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products or exposure to tobacco smoke. As of December 31, 2024, our provision for loss on litigation in Canada was ¥375.6 billion and our other litigation-related provisions were not material. Any increase or decrease in the provisions recognized on our consolidated balance sheet will be treated as an adjusting item in the income statement.

Acquisitions and investments

In the ordinary course of business, we regularly consider acquisitions of and investments in other companies, joint ventures or similar arrangements in connection with our tobacco business and execute such transactions in the ordinary course of our business whenever appropriate conditions are met. One of our recent acquisitions was that of Vector Group Ltd., which was completed in October 2024 for approximately $2.3 billion. Generally, such transactions and arrangements positively contribute to our revenue. For substantial capital needs related to acquisitions, we may utilize debt financing, primarily borrowings from financial institutions or the issuance of bonds or notes, as needed.

Factors Affecting the Comparability of our Results of Operations

Adjustment of consolidated financial information

The financial information as of and for the year ended December 31, 2023 presented in this listing document in respect of intangible assets, other financial assets, other non-current assets, net cash flows from operating activities and net cash flows used in investing activities, which is derived from the comparative columns of the Consolidated Financial Statements for the Year Ended December 31, 2024, has been retrospectively adjusted in order to be presented on a comparable basis with the corresponding financial information as of and for the year ended December 31, 2024. The difference between the originally reported and the retrospectively adjusted amounts is not material and, where applicable, we have indicated that such financial information has been retrospectively adjusted.

Hyperinflationary accounting adjustments

We make accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29 "Financial Reporting in Hyperinflationary Economies."

Our results of operations for fiscal years ended December 31, 2022, 2023 and 2024 and the forecasts for the year ended December 31, 2025 on a reported basis have been adjusted to include the impact of such hyperinflationary accounting. The results on a constant-currency basis have been calculated to exclude amounts of revenue and profit that have increased due to hyperinflation in certain markets, which as of December 31, 2024 are Ethiopia, Iran, Sudan and Türkiye.

Critical Accounting Policies

The preparation of our consolidated financial statements requires 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 our management, considering past results and various factors deemed to be appropriate as of the fiscal year end date. Given their nature, actual results may substantially differ from those estimates and assumptions. The estimates and assumptions are continuously reviewed by our 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 our consolidated financial statements, see Notes 3 and 4 to the Consolidated Financial Statements for the Year Ended December 31, 2024.

Results of Operations

The following table shows certain financial data for the periods indicated:

	For the year ended December 31,		
	2022	2023	2024
		(yen in billions)	
Revenue[(1)]	2,657.8	2,841.1	3,149.8
Cost of sales	(1,091.0)	(1,226.0)	(1,407.5)
Gross profit	1,566.8	1,615.1	1,742.3
Other operating income	20.3	30.0	31.2
Share of profit in investments accounted for using the equity method	8.0	8.3	12.9
Selling, general and administrative expenses	(941.5)	(981.1)	(1,462.9)
Operating profit	653.6	672.4	323.5
Financial income	31.1	44.4	69.5
Financial costs	(91.3)	(95.2)	(159.2)
Profit before income taxes	593.5	621.6	233.8
Income taxes	(149.3)	(136.3)	(51.2)
Profit for the period	**444.2**	**485.3**	**182.6**
Attributable to:			
Owners of the parent company	*442.7*	*482.3*	*179.2*
Non-controlling interests	*1.5*	*3.0*	*3.4*

(1) Tobacco excise taxes and other transactions in which we are involved as an agency are excluded from revenue.

Results of operations for the year ended December 31, 2024 compared to the year ended December 31, 2023

Revenue

Revenue increased by ¥308.7 billion, or 10.9%, to ¥3,149.8 billion for the year ended December 31, 2024 from ¥2,841.1 billion for the year ended December 31, 2023, driven by increases in the tobacco and processed food businesses.

Operating profit

Operating profit decreased by ¥348.9 billion, or 51.9%, to ¥323.5 billion for the year ended December 31, 2024 from ¥672.4 billion for the year ended December 31, 2023, due to a provision for litigation losses related to the settlement covering all pending tobacco-related claims in Canada, recorded as an adjustment item in the fourth quarter.

Adjusted Operating Profit increased by 3.3%, to ¥751.9 billion for the year ended December 31, 2024, driven by increases in the tobacco and processed food businesses, as well as the acquisition of Vector Group Ltd., partially offset by unfavorable currency movements of ¥30.9 billion. On a constant-currency basis,[12] Adjusted Operating Profit increased by 7.5%, to ¥782.7 billion for the year ended December 31, 2024.

Profit attributable to owners of the parent company

Profit attributable to owners of the parent company decreased by 62.8%, or ¥303.0 billion, to ¥179.2 billion for the year ended December 31, 2024 from ¥482.3 billion for the year ended December 31, 2023, due to the decrease in operating profit and higher financing costs. Excluding the impact of the provision for litigation losses discussed above, profit attributable to owners of the parent company decreased by 3.9% to ¥463.4 billion.

12 Adjusted Operating Profit on a constant-currency basis is Adjusted Operating Profit excluding the impact of foreign exchange rate changes since the prior year. For more information, see "*Presentation of Financial and Certain Other Information—Constant Currency*."

Results by Business Segment

Tobacco

The tobacco business accounted for 92.0% of our revenue for the year ended December 31, 2024, compared to 91.2% of our revenue for the year ended December 31, 2023.

Total volume for the year ended December 31, 2024 was 552.9 billion units, a 2.4% increase from 540.1 billion units for the year ended December 31, 2023, principally driven by growth in both combustibles and RRP.

Combustibles volume increased by 2.0% from 531.3 billion units for the year ended December 31, 2023 to 541.9 billion units for the year ended December 31, 2024, fueled by continued market share gains in two-thirds of our markets. RRP volume increased by 24.2% from 8.8 billion units for the year ended December 31, 2023 to 10.9 billion units for the year ended December 31, 2024, due to 40% volume growth in Ploom.

Core Revenue in the year ended December 31, 2024 increased by 12.1% to ¥2,778.6 billion, or by 9.1% on a constant-currency basis[13] for the same period, driven by solid pricing in combustibles, RRP-related revenue growth and favorable currency movements of ¥73.4 billion. RRP-related revenue increased by 21.1% for the same period, fueled by the strong volume growth.

Adjusted Operating Profit from the tobacco business increased by 5.6%, to ¥791.8 billion in the year ended December 31, 2024, due to strong revenue growth and the acquisition of Vector Group Ltd., which more than offset higher investments in RRP, unfavorable currency movements of ¥30.9 billion and the impact of inflation-driven cost increases. On a constant-currency basis,[14] Adjusted Operating Profit increased by 9.7%, to ¥822.7 billion for the year ended December 31, 2024.

Pharmaceutical

The pharmaceutical business accounted for 3.0% of our revenue for the year ended December 31, 2024, compared to 3.3% of our revenue for the year ended December 31, 2023. Revenue from our pharmaceutical business for the year ended December 31, 2024 decreased by ¥0.4 billion, or 0.4%, to ¥94.5 billion from ¥94.9 billion for the year ended December 31, 2023. This decrease was mainly due to the absence of one-time compensation gains from licensed compounds received in 2023, as well as lower overseas royalty income, partially offset by Torii's sales growth in the area of skin diseases and allergens.

Processed food

The processed food business accounted for 5.0% of our revenue for the year ended December 31, 2024, compared to 5.4% of our revenue for the year ended December 31, 2023. Revenue from our processed food business for the year ended December 31, 2024 increased by ¥3.3 billion, or 2.2%, to ¥157.2 billion from ¥153.9 billion for the year ended December 31, 2023. This increase was driven by a positive contribution from price revisions, as well as sales growth in the seasonings business.

Results of operations for the year ended December 31, 2023 compared to the year ended December 31, 2022

Revenue

Revenue increased by ¥183.3 billion, or 6.9%, to ¥2,841.1 billion for the year ended December 31, 2023 from ¥2,657.8 billion for the year ended December 31, 2022. This increase was primarily due to increases in the respective revenues from the tobacco and pharmaceutical businesses.

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[13] Core Revenue on a constant-currency basis is Core Revenue excluding the impact of foreign exchange rate changes since the prior year. For more information, see "*Presentation of Financial and Certain Other Information—Constant Currency*."

[14] Adjusted Operating Profit on a constant-currency basis is Adjusted Operating Profit excluding the impact of foreign exchange rate changes since the prior year. For more information, see "*Presentation of Financial and Certain Other Information—Constant Currency*."

Operating profit

Operating profit increased by ¥18.8 billion, or 2.9%, to ¥672.4 billion for the year ended December 31, 2023 from ¥653.6 billion for the year ended December 31, 2022. This increase was driven by an increase in sales of real estate and reduced trademark amortization.

Adjusted Operating Profit was stable, with a marginal increase of ¥0.2 billion from ¥727.8 billion for the year ended December 31, 2022 to ¥728.0 billion for the year ended December 31, 2023, due to unfavorable currency movements of ¥37.7 billion, partially offset by increases across all businesses. On a constant-currency basis,[15] Adjusted Operating Profit increased by 5.2%, to ¥765.7 billion for the year ended December 31, 2023.

Profit attributable to owners of the parent company

Profit attributable to owners of the parent company increased by 8.9%, or ¥39.6 billion, to ¥482.3 billion for the year ended December 31, 2023 from ¥442.7 billion for the year ended December 31, 2022, due to an increase in operating profit as well as decreases in financing costs and income taxes.

Results by Business Segment

Tobacco

The tobacco business accounted for 91.2% of our revenue for the year ended December 31, 2023, compared to 91.0% of our revenue for the year ended December 31, 2022.

Total volume for the year ended December 31, 2023 was 540.1 billion units, a 2.4% increase from the 527.3 billion units for the year ended December 31, 2022, principally driven by mid-single-digit growth in the EMA cluster and stable volume in Asia, following continued market share gains and favorable industry volume trends in selected markets. These factors more than offset a decline in Western Europe due to lower industry volumes, notably in the United Kingdom.

Combustibles volume increased by 2.3% from 519.4 billion units for the year ended December 31, 2022 to 531.3 billion units for the year ended December 31, 2023, fueled by increases in the sales of Winston and Camel by 8.1% and 17.5%, respectively. RRP volume grew by 11.8% (20.5% when excluding one-off unfavorable comparisons) from 7.9 billion units for the year ended December 31, 2022 to 8.8 billion units for the year ended December 31, 2023. This volume growth was fueled by HTS volume increasing by 47.8% in Japan and HTS volume contributions from European market launches, with Ploom now available in the Czech Republic, Greece, Hungary, Italy, Japan, Kazakhstan, Lithuania, Poland, Portugal, Romania, Slovenia, Switzerland and the United Kingdom and market share gains continuing in key markets such as Italy, Japan, the Philippines, Russia and Taiwan.

Core Revenue in the year ended December 31, 2023 increased by 7.1% to ¥2,478.6 billion, or by 6.4% on a constant-currency basis[16] for the same period, driven by a robust price/mix variance of ¥144.3 billion from the Western Europe and EMA clusters and a positive volume contribution of ¥2.8 billion from the Asia and EMA clusters, as well as favorable currency movements of ¥16.3 billion. RRP-related revenue grew by 8.3% for the same period, fueled by the increase in RRP sales volume.

Adjusted Operating Profit from the tobacco business decreased slightly by 0.6%, to ¥749.8 billion in the year ended December 31, 2023, due to unfavorable currency movements of ¥37.7 billion. On a constant-currency basis,[17] Adjusted Operating Profit increased by 4.4%, driven by a positive price/mix variance, which more than offset a negative volume contribution, the impact of inflation and increased investments in the global expansion of Ploom.

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15 Adjusted Operating Profit on a constant-currency basis is Adjusted Operating Profit excluding the impact of foreign exchange rate changes since the prior year. For more information, see "*Presentation of Financial and Certain Other Information—Constant Currency*."

16 Core Revenue on a constant-currency basis is Core Revenue excluding the impact of foreign exchange rate changes since the prior year. For more information, see "*Presentation of Financial and Certain Other Information—Constant Currency*."

17 Adjusted Operating Profit on a constant-currency basis is Adjusted Operating Profit excluding the impact of foreign exchange rate changes since the prior year. For more information, see "*Presentation of Financial and Certain Other Information—Constant Currency*."

Pharmaceutical

The pharmaceutical business accounted for 3.3% of our revenue for the year ended December 31, 2023, compared to 3.1% of our revenue for the year ended December 31, 2022. Revenue from our pharmaceutical business for the year ended December 31, 2023 increased by ¥12.0 billion, or 14.4%, to ¥94.9 billion from ¥82.9 billion for the year ended December 31, 2022. This increase was primarily due to one-time compensation gains from licensed compounds, as well as top-line growth at our consolidated subsidiary, Torii.

Processed food

The processed food business accounted for 5.4% of our revenue for the year ended December 31, 2023, compared to 5.9% of our revenue for the year ended December 31, 2022. Revenue from our processed food business was broadly stable, with a slight decrease of ¥1.7 billion to ¥153.9 billion for the year ended December 31, 2023 from ¥155.5 billion for the year ended December 31, 2022. This marginal decrease due to the impact of revenue losses caused by the transfer of the bakery business, partially offset by a positive contribution from price revisions as well as top-line growth in food-service products due to a recovery of eating out demand in the frozen and ambient foods business.

Liquidity and Capital Resources

Our financial policy is to maintain a solid financial base that is both robust against exogenous changes such as economic crises and affords sufficient flexibility to nimbly capitalize on attractive investment opportunities. We derive the funds we need to meet our capital requirements principally from cash flows provided by operations, borrowings from financial institutions and issuance of debt securities.

We have historically had, and expect to continue to generate, significant cash flows from operating activities. Net cash flows from operating activities was ¥630.0 billion the year ended December 31, 2024. We expect that cash generated from operating activities will continue to be stable and cover funds needed for ordinary business activities. As of December 31, 2024, we had ¥601.3 billion in committed lines of credit from both major domestic and international financial institutions, of which 99.8% was unused. In addition, we have commercial paper programs, uncommitted facilities, a domestic bond shelf registration and a euro medium-term note program.

Capital Requirements

Historically, our principal capital and liquidity needs have been for capital expenditures, working capital, strategic acquisitions and investments, repayments of borrowings and payments of interest, funds for payments of dividends, stock repurchases and income taxes.

Capital Expenditures

Capital expenditures include purchases of property, plant and equipment, such as land, buildings and structures, machinery and vehicles and others, and intangible assets such as goodwill, trademark, software and others that are necessary for enhancing the productivity of our factories and other facilities and strengthening our competitiveness and operations in various business fields.

The following table shows capital expenditures for the years ended December 31, 2022, 2023 and 2024:

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Capital expenditures	101.0	120.7	150.7

For the year ended December 31, 2024, our capital expenditures, funded through internally generated funds, were broken down as follows:

	Year ended December 31, 2024	Main purpose of investment
	(yen in billions)	
Tobacco	135.0	Expenditures for RRP-related investments, strengthening of production capabilities, and maintenance and replacement of manufacturing facilities
Pharmaceutical	7.0	Expenditures for the development and reinforcement of research and development capabilities
Processed food	6.1	Expenditures for the expansion of production capacity and improvement, maintenance and replacement of production facilities
Others/Elimination	2.6	Others

For the year ending December 31, 2025, we currently expect our total capital expenditures to amount to approximately ¥176.0 billion. We plan to fund all these capital expenditures through internally generated funds.

Working Capital and Liquidity

Our principal working capital requirements are for the purchase of raw materials, including tobacco leaf and other inventories, salaries and wages, selling costs, advertising and promotion costs, taxes and research and development. We also require sufficient liquidity to make our scheduled dividend payments.

Long-term Debt

Bonds issued and outstanding (including the current portion) amounted to ¥928.1 billion as of December 31, 2024, and long-term borrowings as loans from financial institutions (including the current portion) amounted to ¥738.3 billion as of December 31, 2024. Long-term lease liabilities amounted to ¥43.0 billion as of December 31, 2024. As of December 31, 2024, 29.0% of our long-term debt (including the current portion) was denominated in U.S. dollar, 40.4% in euro, 23.1% in yen and 7.5% in Sterling.

Maturities of interest-bearing, long-term debt (including the current portion) as of December 31, 2024 were as follows:

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2038	2043	2051
	(yen in billions)												
Principal amount due(1)	215.5(2)	82.3	20.0	106.1	156.4	10.0	88.8	78.9	109.4	98.8	10.0	20.0	63.1

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(1) Represents the principal amount due (as opposed to the book value) and excludes long-term borrowings by the subsidiaries in Japan Tobacco International local and the processed food business. Subordinated bonds maturating in April 2081 and October 2083 are reflected at the end of their first call period in April 2026 and January 2029, respectively.

(2) Includes ¥100 billion of a subordinated loan which was refinanced in January 2025 and excludes $3.9 billion (¥614.9 billion) of a loan for the acquisition of Vector Group Ltd., which we intend to refinance with the net proceeds of the sale of the Notes.

Short-term Debt

Short-term borrowings totaled ¥60.3 billion as of December 31, 2024. There was no commercial paper outstanding as of December 31, 2024. Short-term lease liabilities amounted to ¥20.6 billion as of December 31, 2024.

Net Interest-bearing Debt

The following table sets out our Net Interest-bearing Debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital which is attributable to owners of the parent company, as at the dates indicated:

	As of December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Interest-bearing debt[(1)]	958.3	1,142.3	1,726.8
Cash and cash equivalents	(866.9)	(1,040.2)	(1,084.6)
Net Interest-bearing Debt	91.4	102.1	642.2
Capital (equity attributable to owners of the parent company)	3,540.4	3,830.2	3,766.6

(1) Lease obligations are excluded.

Cash Flows

The following table shows information with respect to our cash flows during the periods indicated:

	For the year ended December 31,		
	2022	**2023**	**2024**
		(yen in billions)	
Net cash flows from operating activities[(1)]	483.8	566.3	630.0
Net cash flows used in investing activities[(1)]	(101.8)	(125.4)	(439.8)
Net cash flows used in financing activities	(306.2)	(270.5)	(94.9)
Net increase / (decrease) in cash and cash equivalents	75.8	170.4	95.3
Cash and cash equivalents at the beginning of the period	721.7	866.9	1,040.2
Effect of exchange rate changes on cash and cash equivalents	69.4	2.9	(51.0)
Cash and cash equivalents at the end of the period	**866.9**	**1,040.2**	**1,084.6**

(1) The amounts for the year ended December 31, 2023 have been retrospectively adjusted in order to be presented on a comparable basis with the corresponding figures for the year ended December 31, 2024, while the amounts for the year ended December 31, 2022 have not been retrospectively adjusted as the effect of such adjustment is not material. For more information, see "*Presentation of Financial and Certain Other Information*."

Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Net cash flows from operating activities during the year ended December 31, 2024 were ¥630.0 billion, compared to ¥566.3[18] billion in the year ended December 31, 2023, mainly due to the generation of a stable cash inflow from the tobacco business, despite an increase in inventories and payments of trade and other payables.

Net cash flows used in investing activities during the year ended December 31, 2024 were ¥439.8 billion, compared to ¥125.4 billion[19] in the year ended December 31, 2023, mainly due to business combinations and the purchase of property, plant and equipment.

Net cash flows used in financing activities during the year ended December 31, 2024 were ¥94.9 billion, compared to ¥270.5 billion in the year ended December 31, 2023, mainly due to the payment of cash dividends, despite proceeds from long-term borrowings.

18 As adjusted in the Consolidated Financial Statements for the Year Ended December 31, 2024.
19 As adjusted in the Consolidated Financial Statements for the Year Ended December 31, 2024.

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

Net cash flows from operating activities during the year ended December 31, 2023 were ¥566.3[20] billion, compared to ¥483.8 billion in the year ended December 31, 2022. This was mainly due to the generation of stable cash inflow from the tobacco business, despite payments of income taxes and increases in inventories and prepaid tobacco excise taxes.

Net cash flows used in investing activities during the year ended December 31, 2023 were ¥125.4[21] billion, compared to an outflow of ¥101.8 billion in the year ended December 31, 2022. This was mainly due to purchases of property, plant and equipment, intangible assets and securities.

Net cash flows used in financing activities during the year ended December 31, 2023 were ¥270.5 billion, compared to ¥306.2 billion in the year ended December 31, 2022. This was mainly due to the payment of cash dividends and redemption of bonds, despite an increase in short-term borrowings.

Our Treasury Policies and Risk Management

Our treasury division provides group-wide support to enable secure and efficient financing activities. We are exposed to financial risks (in particular, credit risks, liquidity risks, foreign exchange risks, interest rate risks and market price fluctuation risks). Treasury operations are conducted pursuant to a set of group-wide financial risk management policies and results are reported quarterly to the Executive Committee and, as appropriate, our Board of Directors. For more details on financial risk management, see Note 33 to the Consolidated Financial Statements for the Year Ended December 31, 2024.

Shareholder Returns Policy

Our current shareholder returns policy is as follows:

- Aim to enhance shareholder returns by growing adjusted operating profit on a constant-currency basis at a rate in the mid- to high-single digits over the mid- to long-term;

- Target a dividend payout ratio of about 75%, a competitive level in the capital markets; and

- Consider implementing a share buy-back program, mainly taking into account our financial outlook of the respective year and mid-term capital needs.

It is also our policy 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. JT has a history of consistent delivery of dividends since incorporation and, in the year ended December 31, 2024, the total annual dividend for the year was ¥194 per share. We may also consider repurchases of our shares if favorable circumstances arise.

Related Party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions. Our revenue from CJSC TK Megapolis, the local Russian distribution affiliate, was ¥369.6 billion, ¥321.0 billion and ¥347.3 billion for the years ended December 31, 2024, 2023 and 2022, respectively. As of December 31, 2024, we held trade receivables of ¥75.0 billion from CJSC TK Megapolis.

[20] As adjusted in the Consolidated Financial Statements for the Year Ended December 31, 2024.
[21] As adjusted in the Consolidated Financial Statements for the Year Ended December 31, 2024.

BUSINESS

Overview

We are a leading global tobacco company and our products are sold in over 130 markets around the world, selling two of the top ten global brands of combustibles by sales volume.[22] The core of our tobacco brand portfolio is made up of our GFB, which address consumer needs globally. Our GFB include leading brands in cigarettes and fine cut tobacco, such as Winston, Camel, MEVIUS and LD. Our product portfolio is strengthened by our RRP, for which consumer demand is increasing. These brands include Ploom, Logic, Nordic Spirit and With. We also engage in the pharmaceutical and processed food businesses with the aim of complementing the profit growth of the wider JT Group.

As of December 31, 2024, we had 268 consolidated subsidiaries and 53 associates accounted for using the equity method. For the years ended December 31, 2024 and December 31, 2023, we had revenue of ¥3,149.8 billion and ¥2,841.1 billion and Adjusted Operating Profit of ¥751.9 billion and ¥728.0 billion, respectively.

Historical Background

JT is a joint stock corporation listed on the Tokyo Stock Exchange, with ISIN JP3726800000. JT was incorporated in April 1985 under the Companies Act of Japan and pursuant to the JT Act. Its operations can be traced back to 1898, when a government bureau was formed to operate a monopoly for the sale of domestic tobacco leaf.

JT was wholly owned by the Minister of Finance of Japan, representing the Japanese government, from the date of its establishment until its initial public offering in Japan in 1994. Upon the offering, JT listed shares of its common stock on the Tokyo Stock Exchange and other Japanese stock exchanges. The Japanese government subsequently offered additional shares of JT common stock in 1996, 2004 and 2013, and held 37.6%[23] of its issued and outstanding shares of common stock according to the register of shareholders as of December 31, 2024.

JT, and the broader JT Group, has developed its presence as a leading global tobacco manufacturer through large-scale acquisitions, most notably the acquisition of RJR Nabisco, Inc.'s non-U.S. tobacco operations in 1999 and Gallaher Group Plc in 2007. In 2022, JT introduced a new operating model that unifies the former Japanese-domestic tobacco business and international tobacco business. In October 2024, JT completed its acquisition of Vector Group Ltd., the fourth largest tobacco company in the United States. See "*Business—Acquisition of Vector Group Ltd.*" for further description of the acquisition.

With the aim of complementing the profit growth of the wider JT Group, we have been building our pharmaceutical and processed food businesses. Pharmaceutical operations began in 1987 and expanded significantly in 1993 with the establishment of the Central Pharmaceutical Research Institute, a full-scale research and development facility. Our acquisition in December 1998 of 53.5% of the outstanding shares of Torii substantially increased the scale of its pharmaceutical business. After the acquisition, we consolidated most of the production as well as sales and promotion functions in our pharmaceutical business into Torii and consolidated Torii's research and development function into our pharmaceutical operations. In April 2000, we established a research and development base outside Japan by adding a clinical development function to Akros Pharma Inc., a U.S. subsidiary located in the state of New Jersey. We substantially expanded our processed food business through the acquisition of the processed food operations of Asahi Kasei Corporation in July 1999. We later acquired Katokichi Co., Ltd., a food company in Japan, in 2008. Our processed food and seasoning operations were transferred to Katokichi Co., Ltd. in July 2008 and the corporate name was changed to TableMark Co., Ltd. ("**TableMark**") in 2010.

We withdrew from the manufacture and sale of beverage products at the end of September 2015.

Our Management Principles

Our commitment to serving four key stakeholder groups is represented in our "4S" model. Under the 4S model, we strive to fulfil our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups. We believe that

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22 Excluding China National Tobacco Corporation.
23 Excluding 224,409,101 Treasury shares.

pursuing this 4S model is the best approach to achieving sustainable profit growth over the mid- to long-term and thus increase our enterprise value. This approach is intended to confer benefits to each of our four stakeholder groups.

JT Group Purpose

We operate in a business environment that has ever increasing levels of uncertainty and complexity. In response to this, on February 14, 2023, we announced that we had formulated the JT Group Purpose: "Fulfilling Moments, Enriching Life." The aim of the Purpose is to clarify our direction for being a sustainable business for all of society. Specifically, we identified "human enrichment" as the area in which we can benefit society in the future. Moreover, to enable us to realize our Purpose, we formulated purposes for each individual business in line with this.

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.*"

The meaning of "human enrichment" is expected to undergo changes as time passes as it depends on people, and we will aim to continually evolve so that we can continue to be entrusted by society and make valuable contributions to this area in the future.

Our Corporate Goals

Achieve sustainable profit growth

By pursuing the 4S model and the JT Group Purpose, we aim to achieve sustainable profit growth over the mid to long term. More specifically, we are targeting to achieve mid- to high-single digit average annual growth in our Adjusted Operating Profit on a constant-currency basis over the mid to long term. We believe that the key to achieving these objectives lies in the growth of our tobacco business, which is the core driver of our profitability. Consequently, we intend to continue to focus on investing our management resources intensively for top-line growth and increasing profitability, designating HTS and combustibles as our top-priority categories. We estimate that HTS will offer the strongest growth profile among existing product segments within the RRP category. In this context, we are prioritizing investments towards HTS and accelerating efforts to increase our share of the segment. While the RRP category is our top investment priority in terms of future sustainability, we recognize that combustibles users will remain the largest cohort of consumers within the tobacco industry for at least another decade. We also intend to continue satisfying the needs of these consumers by exceeding their expectations. To do so, resources will be allocated as a priority towards our GFB—which have strong brand equity and high profitability—with the intent of maximizing returns and supporting the investments in RRP. With respect to the pharmaceutical and processed food businesses, while we expect that they will continue to face a challenging business environment, their role of supplementing profit growth for the JT Group remains unchanged. In the pharmaceutical business, we intend to continue to enhance the value of products already introduced and still in development, as well as cultivating in- and out-licensing opportunities to reinforce our business foundation. In the processed food business, we intend to follow through on existing initiatives, such as allocating more resources to high-value-added and high-priced products, mainly in our core frozen and ambient foods business, with the aim of promoting a high-quality top-line increase leading to sustainable profit growth.

Maintain a strong and flexible financial position

We believe financial stability and flexibility are equally important. We define the former as the ability to stay in business even when major risk events like economic crises occur; the latter as the ability to nimbly take advantage of attractive investment opportunities. We have adopted a financial policy that ensures our financial foundation is both stable and flexible enough to realize sustainable profit growth through business investment.

JT was established under the Japan Tobacco Act, which currently requires the Japanese government to own more than a one-third equity interest in JT. If JT were to raise equity capital, one-third of the new shares must be issued to the government under the JT Act. JT consequently relies predominantly on debt financing from a financial-agility standpoint. Given the JT Act's constraints on the equity component of our capital structure, we ascribe critical importance to maintaining a manageable balance between assets and liabilities. We believe the key to doing so is to grow our assets while keeping liabilities at an appropriate level. The main lever by which we regulate the balance between assets and liabilities is cash flow. In our cash flow management, we put highest priority on stable cash generation from top-line business growth. We are also undertaking initiatives to reduce foreign exchange impact and optimize working capital. In the tobacco business, particularly in emerging markets, we are working to optimize our businesses for local levels of economic growth and build the value of our businesses in local currency over the medium to long terms. We pursue cash creation via top-line growth, made possible by, on the one hand, pricing that takes into consideration tax hikes and inflation, and on the other, share gains building on the strength of our brand portfolio, enhanced with a long-term strategic investment view. By boosting our cash-flow generation capacity, we aim to maintain or increase our debt capacity and use it to fund investments as efficiently as possible. We raise debt capital either from subordinated loans or through subordinated bond issuance by subsidiaries, depending on the capital market environment, to improve both our financial soundness and capital efficiency.

Notwithstanding our primary reliance on debt financing from a financial-agility standpoint, our Leverage Ratio has historically been considerably lower than many of our peers. As of December 31, 2024, 2023 and 2022, our Leverage Ratio was 2.3x, 1.6x and 1.3x, respectively. Underpinned by our strong financial profile, we have also consistently achieved sector leading ratings. Our credit ratings as of the date of this listing document are A2 by Moody's Japan K.K. and A+ by S&P Global Ratings Japan Inc. The figure below sets out our historical credit ratings compared to some of our peers, according to Moody's and Standard & Poor's.

Source: Moody's and S&P

We periodically perform credit-rating simulations internally. Such simulations involve estimating future operating cash requirements, modeling cash inflows from additional debt and acquirable assets and reviewing our shareholder return policy and investment opportunities from a financial standpoint while also taking into account credit-rating impacts.

Sustainability Strategy

Our management principle is to pursue the 4S model and the JT Group Purpose. We believe that, as nature, society and people's lives are intertwined, sustaining our ways of living, and the activities of entities, will depend on the sustainability of the environment and society in which we exist. In pursuing this principle and by realizing the JT Group Purpose, we aim to contribute to the sustainability of our environment and our society.

JT Group Materiality

The JT Group Materiality is the foundation of our sustainability management. We have identified five material topics, namely: "Living with the planet"; "Value creation that exceeds consumer expectations"; "Investing in our people and supporting their growth"; "Responsible supply chain management"; and "Good governance". Based on the JT Group Materiality, we have set the JT Group Sustainability Targets consisting of a total of 25 targets. These targets are revised regularly so that they can evolve further. With our sustainability strategy in place, we continue to uphold our commitment to provide value in realizing the JT Group Purpose: “Fulfilling Moments, Enriching Life.”

Living with the planet

We believe that people’s lives, society, corporate activities, and the activities of all people are part of the ecosystem. On this basis, we have looked at our past environmental initiatives from the perspective of the ecosystem, considering the aspect of biodiversity as well as the impact that our business may have had on the ecosystem. To resolve any negative impact beyond the resilience of the ecosystem, we have established sustainability targets related to our material topic “Living with the planet.”

Value creation that exceeds consumer expectations

We strive to provide value that exceeds the expectations of a wide range of consumers or society with innovative products and services. We have set related sustainability targets with the aim of realizing our aspirations, through initiatives in each of our businesses of tobacco, pharmaceutical and processed food.

Investing in our people and supporting their growth

We believe that each employee is the starting point for all the activities in realizing the JT Group Purpose. The importance of human resources will continue to grow in the future. We have set related sustainability targets with the aim of tackling multiple themes from multiple angles in order to further expand our human resources.

Responsible supply chain management

Our supply chain is essential for our business. It is crucial for our supply chain to be resilient to rapid changes in the business environment. As part of the key initiative, we perform supplier screenings and due diligence and are committed to addressing the social issues facing our suppliers and the communities in which they operate. It is important that we work jointly to resolve these issues. Bearing these factors in mind, we have set related sustainability targets.

Good governance

Good governance is the foundation for improving the satisfaction of various stakeholders and for us to continue to be a trustworthy corporate entity. We believe that this is the basis for all of our activities. We strive to realize sustainable profit growth and continuous improvement in corporate value over the medium- and long-term, while also contributing to the development of our stakeholders, the economy and society as a whole. With this in mind, we have set related sustainability targets, taking into account the characteristics of each of our businesses.

Awards and recognitions

Our commitment to good governance and sustainability is demonstrated by a number of external recognitions, including the following:

- We achieved a place in 2024 on CDP’s “A List” for climate change. This marks our sixth consecutive year, and seventh time overall for climate change.

- For the eleventh year in a row, JT International Holding B.V. was certified as a ‘Global Top Employer’ in 47 countries for 2025 by the Top Employers Institute, which we believe demonstrates our commitment to our “4S” strategic priorities.

- In the PRIDE Index, which recognizes the most LGBT+-friendly companies, our Japanese operations achieved Gold status, the highest ranking, in 2024 for the ninth consecutive year.

- In 2025, we were recognized as a Certified Health and Productivity Management Outstanding Organization (White 500) for our excellent health-conscious management for the ninth consecutive year.

Our Risk Management System

Our operations are subject to various risks stemming from our attributes and exogenous changes, among other factors. We identify risks that could inflict losses on us and closely monitor events that could affect our operations. We take measures to prevent the materialization of risks and mitigate the impact in case risks do materialize.

We have established an integrated risk management system for identifying and managing all of these risks with the following four steps: (1) risk identification, (2) risk assessment, (3) planning to address risks and (4) progress monitoring of the plan.

Tobacco Business

Our global tobacco business, headquartered in Geneva, Switzerland since 2022, manufactures and offers tobacco products globally and has the third largest sales volume in the world. Our tobacco business's key markets include Japan, the Philippines, Taiwan, Italy, Spain, the United Kingdom, Romania, Russia and Türkiye.

On January 1, 2022, the international and Japanese domestic tobacco businesses were consolidated into one tobacco business to strengthen the global competitiveness and profitability of our tobacco business. This included, for example, the consolidation of the domestic and international Research & Development and RRP functions into one global operation to achieve scale and compete with rivals on an equal footing, including in the RRP category. In addition to clarifying our investment priorities, we have reorganized our tobacco business to enable us to utilize global resources more effectively and efficiently, as well as to provide products and services aiming to exceed consumers' needs and expectations. In line with the consolidation of the business management structure in the tobacco business, the regional clusters in the whole tobacco business, including the Japan market, have been reorganized into three new regional clusters: Asia (including Japan), Western Europe and EMA (Eastern Europe, the "MENEAT" (Middle East, Near East, Africa and Türkiye) group of markets, the Americas and Global Travel Retail). Since consolidation, our tobacco business competes directly against rivals with no partition between our domestic and overseas operations.

Our tobacco business contributed ¥2,896.6 billion, ¥354.6 billion and ¥791.8 billion to our revenue, operating profit and Adjusted Operating Profit for the year ended December 31, 2024, and ¥2,590.9 billion, ¥677.1 billion and ¥749.8 billion to our revenue, operating profit and Adjusted Operating Profit for the year ended December 31, 2023, respectively.

Our Products

Our product offering comprises two key categories, namely combustibles and RRP. As of December 31, 2024, our combustibles category represented around 98% of our total volume, while the RRP category represented around 2% of our total volume.

Combustibles

The combustibles category includes all tobacco products excluding contract-manufactured products, waterpipe, HTP, oral and e-vapor. Cigarettes and fine cut tobacco represent the key drivers of the combustibles category. Our combustibles brands include globally recognized tobacco and cigarette brands, as well as local cigarette brands with loyal followings. As of the date of this listing document, our cigarette brands include, among others, our GFB (namely Winston, Camel, LD and MEVIUS) and our fine cut tobacco brands include, among others, Amber Leaf and Old Holborn. In 2024, our market share in the combustibles category was approximately 22.1% across our 76 markets.

The global combustibles industry volume has generally been declining over the past several years (with some localized exceptions during the COVID-19 pandemic) and, looking forward, we expect it to continue to decline. However, we estimate that combustibles will remain by far the largest category in terms of volume and net revenue until at least 2035. As such, we intend to prioritize improving our return-on-investment through continued top-line growth and margin improvement. To do so, we intend to allocate resources as a priority towards our GFB, with the intent of maximizing returns, and supporting our investments in RRP, as further described under "*—Reduced-Risk Products ("RRP")*" below. Initiatives to support this strategy include GFB equity building, market share gains, market prioritization and market investments. We also intend to continue to pursue new growth opportunities, strengthening our existing business base as well as expanding our geographic footprint in emerging markets. In addition, we may pursue further growth opportunities through any other strategic alternatives that may arise, including potentially through bolt-on acquisitions.

Reduced-Risk Products ("RRP")

We define RRP as products that have the potential to reduce the risks associated with smoking, as they do not involve any combustion, thus generating no smoke. We segment RRP into heated tobacco products (which contain tobacco that is heated directly (e.g., heated tobacco sticks) or indirectly (e.g., infused tobacco capsules) to create an inhalable vapor), e-vapor products (known as e-cigarettes that do not contain tobacco and create an inhalable vapor by electronically heating a liquid) and oral products (e.g., snus and nicotine pouches). Our RRP portfolio is articulated around four brands: Ploom for heated tobacco sticks, Logic for e-vapor, Nordic Spirit for nicotine pouches and With for infused tobacco capsules.

We entered into our first venture in relation to RRP in December 2011 through a partnership agreement with Ploom Inc. and have since continued to grow our product portfolio both organically and through acquisitions or partnerships, including partnerships with start-up incubators, battery and device manufacturers, design firms, and technology research and development modeling firms. After acquiring a number of patents and trademarks related to a tobacco vaporization device from Ploom Inc. in February 2015, we launched our first heated tobacco stick device, Ploom S, in Japan in January 2019, followed by Ploom S 2.0 in July 2020. After several years of trials and research on consumer insights, we launched our latest HTS device, Ploom X, in Japan in July 2021 and outside of Japan in October 2022, quickly expanding its availability to 25 markets as of January 2025, which represent approximately 75% of global HTS industry volume. In October 2022, we further announced a global partnership with Altria in the area of RRP, including the set-up of a joint venture in the United States to exclusively distribute our proprietary Ploom device. Our market share in the HTS segment at the end of 2024 was 12.6% across all of the markets where Ploom was available, compared to 4.6% at the end of 2022, and 7.8% in the 13 markets where Ploom has been on sale for over 12 months,[24] on track with our ambition to achieve a market share in the mid-teens in these selected HTS[25] markets and to reach break-even[26] in the RRP category more broadly by the end of 2028, with RRP becoming accretive to earnings by the end of 2027.

With respect to the e-vapor segment, in June 2014, we acquired all of the outstanding shares of Zandera Ltd., a leader in e-vapor and best known for its E-Lites brand. In July 2015, we acquired Logic Technology Development LLC, a leading independent U.S. e-vapor company. This acquisition complemented our existing RRP portfolio and marked our entry into the largest global e-vapor market, the United States. As of the date of this listing document, Logic is available in four markets: Canada, Poland, the United Kingdom and the United States.

In the oral segment, we have been commercializing snus tobacco in the Nordic markets for several years, mainly under the LD brand. More recently, we introduced nicotine pouches under the Nordic Spirit brand, which is available in four markets as of the date of this listing document: Ireland, the Philippines, Sweden and the United Kingdom.

Our Infused products are available only in Japan as of the date of this listing document. Initially launched under the Ploom TECH brand in Japan in March 2016, the entire product line was rebranded to With in July 2023, along with a completely redesigned device and new consumables.

We believe that RRP enhance consumers' satisfaction and provide benefits to shareholders, society and our business. Further, we expect to see incremental growth opportunities from the RRP category and, in particular, we expect HTS will be the fastest growing product segment in terms of net revenue, followed by e-vapor and oral. As such, the RRP category remains a centerpiece of our growth strategy and we continue to invest in it accordingly, with the goal of turning it into the future growth driver of our tobacco business. Our RRP strategy will also continue to prioritize heated tobacco sticks by investing approximately ¥650 billion between 2025 and 2027 in, among other initiatives, commercial expenditures to grow Ploom into a global power brand and expand its geographic presence, as well as research and development to build a pipeline of next generation products. This is approximately ¥450 billion more than the amount invested over the three years ended December 31, 2024.

[24] Czech Republic, Greece, Hungary, Italy, Japan, Kazakhstan, Lithuania, Poland, Portugal, Romania, Slovenia, Switzerland and the United Kingdom.

[25] Czech Republic, Greece, Hungary, Italy, Japan, Kazakhstan, Lithuania, Poland, Portugal, Romania, Slovenia, Switzerland and the United Kingdom.

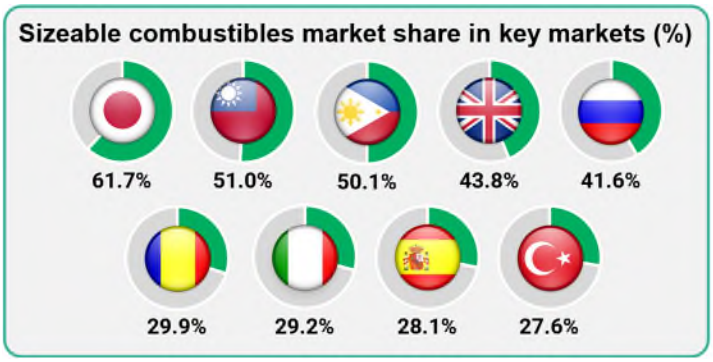
[26] Break even at brand contribution level, representing gross profit less commercial expenditures and before allocation of overheads.

In addition, our tobacco business will explore ways to win in product categories with low barriers to entry, such as e-vapor, oral and Infused. To support these strategic initiatives, we will strengthen our capabilities in consumer centricity, digitalization, artificial intelligence and innovation. We also intend to continue investing in supply chain optimization, including through acquisition of machines, modernization of existing factories and enhancement of product specifications.

Our Markets

We have operations in over 70 countries and our products are sold in over 130 markets around the world. From January 2022, we introduced a new operating model that unifies our former Japanese-domestic tobacco business and international tobacco business. Our tobacco business is grouped in three regional clusters: Asia (including Japan), Western Europe and EMA (Eastern Europe, the "MENEAT" (Middle East, Near East, Africa and Türkiye) group of markets, the Americas and Global Travel Retail). As such, in 2022 we started to report three clusters: Asia, with Japan, the Philippines and Taiwan as key markets; Western Europe, with Italy, Spain and the United Kingdom as key markets; and EMA, with Romania, Russia and Türkiye as key markets. In the year ended December 31, 2024, the Asia cluster contributed ¥802.3 billion to our Core Revenue and ¥219.6 billion to our tobacco business's Adjusted Operating Profit; the Western Europe cluster contributed ¥688.9 billion to our Core Revenue and ¥257.1 billion to our tobacco business's Adjusted Operating Profit; and the EMA cluster contributed ¥1,287.4 billion to our Core Revenue and ¥315.0 billion to our tobacco business's Adjusted Operating Profit. Further, the EMA cluster accounted for 58.7% of our total volume, while the Asia and Western Europe clusters accounted for 23.0% and 18.3% of our total volume, respectively.

In the combustibles category, we hold leading positions by market share across several key markets, including the number one position[27] in Japan, Russia, Spain, Taiwan and the United Kingdom, and the number two position[28] in Italy, the Philippines, Romania and Türkiye. The following figure sets out our estimated market share in the combustibles category as of December 31, 2024 in those markets.



Note: Combustibles market shares include cigarettes and fine cut tobacco where relevant and are based on JT estimates as of December 2024.

In the RRP category, we are now present in 28 markets (excluding Global Travel Retail) and intend to continue to expand our geographic footprint going forward. In Japan, our market share in the RRP category was 13.9% in the year ended December 31, 2024, increasing from 13.1% in the year ended December 31, 2023.

Tobacco Leaf Procurement

Tobacco leaf is an agricultural product grown in more than 100 countries around the world. China is the world's largest tobacco leaf producer, followed by Brazil, India, Zimbabwe and Bangladesh. These five countries accounted for approximately 70% of global production for the year ended December 31, 2024.

We source tobacco leaf both from within our own internal network and from external leaf suppliers. Tobacco leaf is purchased from farmers in its raw, unprocessed form. The tobacco leaf is processed and transformed in a process mainly characterized by being mechanically blended, destemmed and then redried and packed in standardized packing units of standard specified weight, density and moisture content for subsequent

27 Based on JT estimates.
28 Based on JT estimates.

storage and aging. Tobacco leaf is perishable and must be processed within a relatively short period of time to prevent deterioration in quality.

As with many other agricultural commodities, the supply of tobacco leaf is affected by availability, price of agricultural input, energy costs and supply and demand dynamics; these factors could lead leaf prices to fluctuate. See "*Risk Factors—Risks Relating to Our Business—Our business, financial condition and operating results may be adversely affected by instabilities in the procurement of raw materials*." Under these circumstances, we aim to secure a stable supply and ensure competitive purchase prices through vertical integration of our internal network and strengthening our relationships with external leaf suppliers.

Non-Japan origin tobacco leaf procurement

Approximately 50% of our requirements for processed non-Japan origin tobacco leaf are procured through JT Group-appointed tobacco suppliers, of which approximately 70% is procured through three appointed international tobacco suppliers. These international suppliers purchase tobacco from both directly contracted tobacco growers and from auctions (in India only), and thereafter market this tobacco leaf to international manufacturers. These appointed suppliers select, purchase, process, pack, warehouse and ship processed tobacco leaf to us in accordance with our specifications. In addition, we procure the remaining balance of non-Japan origin tobacco leaf through our internal supply network in which all tobacco leaf is directly purchased pursuant to contracts with tobacco growers. This internal supply network was established in 2009, when we acquired Tribac Leaf Limited's business primarily based in Africa, Kannenberg & Cia. Ltda. and Kannenberg, Barker, Hail & Cotton Tabacos Ltda. in Brazil, and further set up a joint venture with J.E.B. International Co. of Virginia and Hail & Cotton of Tennessee to supply contracted U.S. tobacco exclusively for our needs. Following the initial acquisition and set-up of vertically integrated operations in 2009, we have either developed or acquired further leaf supply operations in other countries (including Türkiye, Zambia, Tanzania, Bangladesh and Ethiopia). As at the date of this listing document, we source approximately 82% of our leaf requirements to meet global and/or specific local requirements from ten countries across multiple continents, including the Americas, Africa, Europe and Asia (including Japan).

Japan origin tobacco leaf procurement

Our Japanese-domestic internal leaf supply satisfies around 35% of our Japanese manufacturing leaf requirements. Japan origin tobacco leaf that we purchase is neither re-dried nor does it have its stems removed (such tobacco leaf is "unprocessed") at the time of purchase. The price of Japan origin tobacco leaf has tended to be high relative to non-Japan origin tobacco leaf. The higher price of Japan origin tobacco leaf reflects higher production costs similar to other agricultural products.

As mentioned above, Japan origin tobacco leaf is purchased in unprocessed form and must be both processed and aged by us after purchase. Without adjustment to reflect these factors, and on a simple average basis, the price at which we purchased Japan origin tobacco leaf was generally more expensive than that of non-Japan origin tobacco leaf. The high price of Japan origin tobacco leaf and our statutory obligation to purchase substantially all tobacco leaf that is produced in Japan is a unique part of our cost structure.

The Tobacco Business Act and related regulations govern Japan origin tobacco leaf procurement. The Tobacco Business Act requires JT to purchase, if suitable for the manufacture of tobacco products, all tobacco leaf produced pursuant to the annual purchase contracts that JT concludes in advance with each Japanese tobacco grower who intends to cultivate tobacco leaf for sale to JT. The common agreements also include disaster relief provisions which require JT to pay money to domestic tobacco growers whose tobacco plants or crops suffer from natural disasters.

Before conclusion of the contracts, JT must consult with the Leaf Tobacco Deliberative Council (*hatabako shingi kai*), a deliberative body composed of representatives of domestic tobacco growers and academic appointees appointed by JT and approved by the Minister of Finance of Japan, as to the aggregate cultivation area for specific varieties of tobacco leaf and the prices for tobacco leaf by variety and grade. The Council must deliberate and provide its opinion as to the appropriate prices of tobacco leaf based on the level which would allow continued domestic production of tobacco leaf by taking into account economic conditions such as production cost and commodity prices. JT is legally required to respect the opinion of the Council.

Japan origin tobacco leaf cultivation has been decreasing as the number of domestic tobacco growers has decreased (as a consequence of the aging of Japanese society). Partly as a result of this trend and measures taken by JT in the past, such as offering a "cooperation fee" for ceasing tobacco cultivation, the amount of domestic tobacco leaf JT is required to purchase has been decreasing.

Pricing

Pricing is a key component to achieve revenue growth. Price changes are often times initiated by tax changes, which in general involve increases, as well as our attempts to increase revenue and profits. In setting a price for a product, we consider various factors, including the positioning of the brand or product, the perceived value of the product in the relevant market and the price of competing products, in order to strike an optimal balance between the potential impact on sales volume and pricing gains on revenue or profit. In general, the higher the unit price is set, the greater the profitability we achieve per unit sales. We focus on increasing value-added product offerings; as such, innovative products can be priced higher.

Pricing in the tobacco business

Tax increases continue to be discussed and implemented around the world with varying degrees of consistency. Our pricing strategy takes into consideration our portfolio structure, affordability levels, illicit trade and government revenue targets. Overall, we aim to enhance predictability of the excise tax increases and avoid tax shocks which tend to destabilize markets.

The strong equity of our brands in both cigarettes and fine cut tobacco, nurtured by focused investment, continues to play a pivotal role in enhancing our pricing opportunities in a highly regulated industry with high barriers to entry. Strong pricing has been, and is expected to continue to be, one of the key drivers of our financial performance.

Manufacturing

Processed tobacco leaf is further processed in JT Group's factories, which includes flavoring, shredding, rolling and further drying, prior to the packaging stages of manufacturing. As of December 31, 2024, we operated 38 manufacturing sites (including tobacco-related factories) in 27 different countries. Three of these sites also manufacture RRP sticks, specifically in Japan and Poland. In a limited number of cases, we license production of some of our tobacco products to competitors.

As part of our ongoing initiatives to strengthen our cost competitiveness, we regularly assess the efficiency of our supply chain. Our basic policy is to manufacture our products in or close to the markets for consumption. However, we also constantly look at efficiencies in terms of capacity utilization, product complexity and industry volume trends. As a result, we close, upgrade or establish production sites on a regular basis. Our manufacturing footprint is also affected by acquisitions.

Marketing

Our strategic focus is on core brands, including GFB in combustibles and Ploom in RRP, and we strive to enhance brand value through effective communications with adult consumers.

We engage in a variety of marketing activities, such as sales promotion and advertising, in order to enhance adult consumer loyalty to our brands. Our marketing activities vary across the regions but primarily focus on promoting GFB and RRP brands.

Globally, our marketing activities are heavily constrained due to regulations and the tobacco industry's voluntary restrictions on marketing. See "*Risk Factors—Risks Relating to Our Business—Restrictions and other regulatory mandates on promotion, marketing, packaging, labelling, composition and usage of our products in any market in which we operate might reduce the demand for our products, increase our costs and adversely affect our business, financial condition and operating results*."

Sales and Distribution

There are various sales channels for tobacco products, including supermarkets, convenience stores, street and train station kiosks, small independent stores, gas stations, specialty retail outlets, Global Travel Retail and vending machines.

Our sales and distribution network varies by market in accordance with local legal restrictions, customary practice and business considerations. Where necessary, we use a network of local agents and distributors.

Research and Development

We are committed to strengthening our research and development capabilities to ensure a long-term competitive advantage. We focus on fundamental research and product technology development, taking advantage of our global research platform, in close collaboration with other functions.

Competition in the Tobacco Industry

We face competition in the tobacco industry in terms of both product value and value chains. Competition in product value relates to competition in pricing, taste, format, package, packaging design and introduction of innovative products. Competition in value chains relates to competition in research and development, procurement of raw materials, manufacturing, marketing and distribution of tobacco and nicotine products. Tobacco companies face an increasingly competitive marketplace globally in all these aspects.

Our main competitors are Philip Morris International, British American Tobacco and Imperial Brands, each of which has solid market positions. We and these main competitors account for around two-thirds of the market outside China. The Chinese market is the world's largest tobacco market and is almost exclusively operated by China National Tobacco Corporation.

Since the acquisitions of the non-U.S. tobacco operations of RJR Nabisco, Inc. in 1999 and Gallaher Group Plc in 2007, we have competed extensively with major international tobacco manufacturers, as well as with smaller, local manufacturers. Some of these companies have larger market shares, more extensive operations and a longer operating history than us in international markets. Some competitors may have different profit and volume objectives. We are focused on the balance of short-term profit and mid- to long-term growth and, like our main competitors, we are increasing investments in RRP and our most widely recognized brands to strengthen the brand equity associated therewith. We expect global competition to intensify further.

Acquisition of Vector Group Ltd.

In October 2024, we completed the acquisition of Vector Group Ltd., the fourth largest tobacco company in the United States, following a tender offer initially announced in August 2024. Following a statutory merger on October 7, 2024, Vector Group Ltd. became a wholly-owned subsidiary of JT and was delisted from the New York Stock Exchange as of October 7, 2024. In line with our tobacco business strategy, this acquisition is expected to improve our return-on-investment in combustibles by significantly increasing our presence and doubling our distribution network in the United States, the second largest tobacco market by net sales globally and one of the most profitable, and giving us full ownership of two of the top ten U.S. cigarette brands. As a result of the acquisition, we have also boosted our combustibles volume by approximately nine billion units in the United States and expanded our geographic footprint nationwide, with an estimated market share of over 10% in 21 states.[29]

The acquisition price was $2.3 billion for the outstanding shares, or approximately ¥344.6 billion.[30] The transaction did not have a material impact on our consolidated performance for the fiscal year ending December 31, 2024.

The following table provides certain key financial results of Vector Group Ltd. for the financial years ended December 31, 2021, 2022 and 2023, respectively.[31]

	For the year ended December 31,		
	2021	**2022**	**2023**
		(USD thousands)	
Net assets	(841,553)	(807,877)	(741,814)

29 Based on JT estimates.
30 The acquisition price is converted at the rate of ¥149.39 per USD using the PL rate mean in October 2024.
31 The results of operations and financial condition are taken from the Form 10-K filed by Vector Group Ltd. with the U.S. Securities and Exchange Commission in respect of the year ended December 31, 2023.

Total assets	871,087	908,591	934,095
Net assets per share (USD)[(1)]	(5.47)	(5.22)	(4.76)
Net sales	1,220,700	1,441,009	1,424,268
Operating profit	320,439	339,010	328,035
Net income	219,463	158,701	183,526
Net income per share (USD)[(2)]	1.40	1.01	1.16
Dividend per share (USD)	0.80	0.80	0.80

(1) Net assets per share is calculated by dividing net assets by the number of common shares outstanding at the end of each period.
(2) Diluted EPS is shown.

Regulation of the Tobacco Business

Our tobacco business operates under increasingly stringent regulatory regimes worldwide.

Regulation in Japan

In Japan, we are subject to the Tobacco Business Act and related regulations, the JT Act, and other acts and regulations, including the Health Promotion Act.

- *The Tobacco Business Act.* The Tobacco Business Act's stated purpose is to promote the sound growth of the Japanese tobacco industry so as to ensure stable tax revenues and contribute to Japan's economic development through the coordination of the production and purchase of domestically grown tobacco leaf and the manufacture and sale of tobacco products. The Tobacco Business Act and related regulations govern our tobacco leaf procurement in Japan (see "*—Japan origin tobacco leaf procurement*"), and also contain restrictions on advertising activities and a requirement that tobacco product packages contain warnings about the health risks associated with the consumption of tobacco products. It also governs the manufacture and pricing of tobacco products in Japan. Under the Tobacco Business Act, tobacco products shall not be manufactured by any person other than Japan Tobacco Inc. A new tobacco product introduced by us may not be shipped to a wholesaler or retailer unless we first establish a maximum wholesale price for the new tobacco product, which includes the required amounts of consumption tax and tobacco excise taxes, and receive an approval from the Minister of Finance for the price. Any change in such maximum wholesale price is subject to approval by the Minister of Finance. The Minister of Finance shall not grant the approval above if it finds that the proposed maximum wholesale price would unduly prejudice the interests of adult consumers. Furthermore, a new tobacco product introduced by us or a registered importer may not be shipped unless we or the registered importer first establish a retail price for the new tobacco product and receive an approval from the Minister of Finance for the price. Any change in such retail price is subject to approval by the Minister of Finance. The Minister of Finance is required to approve the price unless it finds that the proposed retail price would unduly prejudice the interests of adult consumers or be unduly low in comparison with the product's approved maximum wholesale price or the import price. Tobacco products may only be sold to adult consumers at the approved retail price. In addition, the Tobacco Business Act, related laws and regulations and voluntary industry standards, which regulate tobacco product sales and promotional activities, further require that advertisements and product packaging contain cautionary statements to consumers with respect to the effect of smoking on health. In accordance with the Tobacco Institute of Japan (the "**TIOJ**")'s voluntary standards, the cautionary statements on tobacco product packaging were revised to be consistent with the latest scientific knowledge, and the area of the statements displayed on the packaging was enlarged. The amendment to the TIOJ's advertising voluntary standard introduced measures to shield those under 20 years of age more effectively from tobacco product advertisements, including online, and new restrictions on point-of-sale advertisement size and display methods.

- *The JT Act.* The JT Act created our company to assume management and operation of manufacturing, selling and importing tobacco products, for the purpose of accomplishing the purposes stated in the Tobacco Business Act. The JT Act also permits us to engage in other activities necessary to accomplish our purpose, subject to approval by the Minister of Finance. The Minister of Finance, in the course of implementing the JT Act or the Tobacco Business Act, may oversee and issue orders to us if necessary for the enforcement of the JT Act and the Tobacco Business Act. The Minister of Finance may also require us to submit reports in relation to our activities and conduct investigations of our offices, books and records. In addition, we must obtain the approval of the Minister of Finance for, among other things, any merger, corporate split or dissolution of our company; any expansion of our business into areas beyond tobacco and related businesses; the election or removal of our directors, executive officers (*shikkoyaku*) (if any) and Audit & Supervisory Board Members; any transfer or encumbrance of manufacturing facilities or similar significant assets; any issuance of new shares, stock acquisition rights or new bonds with stock acquisition rights; and the adoption or amendment of our annual business plan. Furthermore, we are required to submit our annual financial statements and business reports to the Minister of Finance within three months of each fiscal year end.

- *The Health Promotion Act.* The Health Promotion Act restricts the use of tobacco products in public areas and an increasing number of local governmental and private organizations have also restricted tobacco usage. In addition, the Amendment to the Health Promotion Act, enacted in July 2018, imposed a blanket ban on indoor tobacco usage in public facilities, which has been fully effective since April 2020. In respect of certain types of facilities, such as restaurants that are not part of larger chains, the relevant facility manager still retains discretion as to whether to apply the ban.

Regulation outside Japan

Outside Japan, the laws and regulations covering tobacco differ among countries, reflecting each country's specific legal, social and cultural circumstances. Restrictions on promotions and advertisements are the most common forms of restrictions around the world. An increasing number of markets are also introducing bans on smoking in public places, and health warnings on packages are required in numerous countries. For more detail, see "*Risk Factors—Risks Relating to Our Business—Restrictions and other regulatory mandates on promotion, marketing, packaging, labelling, composition and usage of our products in any market in which we operate might reduce the demand for our products and adversely affect our operating results*."

Pharmaceutical Business

Our pharmaceutical business focuses on the research and development, production and sales promotion activities of prescription pharmaceutical products. Its mission is to build world-class and unique research and development capabilities and reinforce our market presence through original and innovative drugs. In the pharmaceutical business, we concentrate on research and development activities, while our subsidiary Torii, a company listed on the Tokyo Stock Exchange, focuses on manufacturing as well as sales and promotion in the Japanese-domestic market.

For the years ended December 31, 2024 and December 31, 2023, our pharmaceutical business contributed ¥94.5 billion and ¥94.9 billion to our revenue, and ¥9.2 billion and ¥17.4 billion to our Adjusted Operating Profit, respectively. Looking forward, for our pharmaceutical business we intend to focus on research and development investments toward next-generation strategic products and maximize the value of each product.

Clinical Development Pipeline

As of December 31, 2024, we had 11 drug candidates at the clinical development stage excluding those of Torii. The content of our drug development portfolio will change over time as new compounds progress from discovery to development and from development to market, and as we discontinue testing of product candidates that do not prove to be promising or feasible to develop or market. Due to the uncertainties and difficulties of the drug development process, it is not unusual for compounds, especially those in the early stages of investigation but including later stage candidates as well, to be terminated as they progress through development.

Research and Development

Research and development is the cornerstone of our pharmaceutical business and is important to its long-term growth and profitability. Research and development activities focus mainly on the fields of Cardiovascular, Kidney and Skeletal Muscle; Immunology; and Neuroscience. In addition to the research and development activities at the Central Pharmaceutical Research Institute in Osaka, Japan, we are working to enhance our research and development pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.

The following is a list of our significant licensing deals that have been concluded to date:

Compounds	Licensing Partner (in/out)	Year
Elvitegravir (HIV)	Gilead Sciences, Inc. (out)	2005
Trametinib (MEK inhibitor)	Novartis AG (out)	2006
Ferric citrate (Phosphate binder)	Keryx Biopharmaceuticals, Inc. (in)	2007
Delgocitinib (JAK inhibitor)	Leo Pharma A/S (out)	2014
	ROHTO Pharmaceutical (out)	2018
Enarodustat (HIF-PH inhibitor)	JW Pharmaceutical CORPORATION (out)	2016
	Shenzhen Salubris Pharmaceuticals Co., Ltd (out)	2019
Tapinarof (AhR modulator)	Dermavant Sciences GmbH. (in)	2020

Research and development process

The process of developing pharmaceutical products for commercialization is extremely complex, costly and time-consuming. According to the Japan Pharmaceutical Manufacturers Association, developing a new drug in Japan takes approximately nine to 16 years. Only a small fraction of compounds that enter the clinical trial phases, thereby requiring significant investments, result in commercially viable products.

Production

Our pharmaceutical products are produced by contract manufacturers outside the JT Group.

Sales and Promotion

Sales and promotion outside Japan

Outside Japan, we currently have no sales and marketing forces of our own. We license out the right to develop and commercialize certain compounds in the development stage to global pharmaceutical companies and receive royalties from our partners based on sales performance.

Sales and promotion in Japan

Torii is mainly responsible for sales of our pharmaceutical products to pharmaceutical wholesalers and promotion to medical facilities.

Competition in the Pharmaceutical Industry

The pharmaceutical industry is highly competitive worldwide. Our pharmaceutical business focuses on building a research and development-led operational platform. Based on this platform, original compounds are developed and marketed as leading products in major global markets. As such, we face competition with Japanese pharmaceutical companies and multinational pharmaceutical companies.

Regulation of the Pharmaceutical Business

The pharmaceutical industry operates in a highly controlled regulatory environment. There are stringent regulations relating to analytical, toxicological and clinical standards and protocols for testing of pharmaceuticals, as well as regulations covering research, development and manufacturing procedures. In Japan, pharmaceutical manufacturing and sales are regulated by the Ministry of Health, Labour and Welfare (the "**MHLW**") and/or prefectural authorities under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (the "**Pharmaceutical and Medical Device Act**"). The Pharmaceutical and Medical Device Act requires companies that manufacture and sell pharmaceuticals to be licensed in every prefecture in which they operate and to renew those licenses every five years. In addition, every pharmaceutical manufactured or sold in Japan must be approved by the MHLW. Further, in many markets, marketing and pricing strategies are subject to national legislation, and regulatory authorities have administrative powers such as forcing product recalls and suspending manufacturing.

Processed Food Business

Our processed food business primarily engages in two businesses, consisting of frozen and ambient foods business and seasonings business. The mission of our processed food business is to deliver safe, high-quality food to our customers under these two businesses. The core of our processed food business is frozen and ambient foods, which is operated by our subsidiary, TableMark. TableMark concentrates on food products such as frozen noodles and packaged cooked rice. TableMark's frozen noodles, particularly its "Reito Sanuki-Udon," are household names in Japan. Products for the seasonings business include "Vertex ®IG20," a yeast extract seasoning, which is used in various foods such as instant noodles and snacks.

For the years ended December 31, 2024 and December 31, 2023, our processed food business contributed ¥157.2 billion and ¥153.9 billion to our revenue, and ¥8.1 billion and ¥6.8 billion to our Adjusted Operating Profit, respectively. Looking forward, we intend to ensure sustainable profit growth in our processed food business through quality top-line growth.

Research and Development

We devote our efforts to the development of innovative products that meet consumers' needs and preferences. We have developed frozen bread products that allow consumers to enjoy the taste of freshly baked bread at home. Our original techniques for fermentation, baking and freezing create and preserve the taste and texture of fresh bread. In addition, we have developed a new process for producing higher quality and value-added frozen udon noodles.

Delivering safe, high-quality products

As of December 31, 2024, we had 23 processed food factories, which produce a variety of food products, from frozen foods to seasonings. We are dedicated to delivering safe and high-quality food products to our consumers by thoroughly managing food safety based on the four priorities of food safety, food defense, food quality and food communication.

Food safety standards

As of the date of this listing document, 22 factories located inside and outside Japan have already achieved FSSC 22000 certification, which is recognized by the Global Food Safety Initiative, a global food industry body that promotes food safety management. Our newest factory, which commenced operations in 2020, is also in the process of obtaining this certification.

In addition, all of the factories that are contracted to manufacture frozen food products on our behalf are required to achieve ISO 22000 or FSSC 22000 certification, as an assurance of food safety.

Food defense practices

We seek to protect our manufacturing processes and products from both intentional and inadvertent contamination. We apply robust food defense guidelines across the supply chain, both in our own factories and our contracted factories. We also carry out annual audits to check how successfully these guidelines are being implemented. Recent initiatives to strengthen our defense mechanisms against deliberate contamination include optimizing factory cameras and enhancing the way we manage chemical substances.

Enhancing food quality

We seek to ensure that all of our employees have a deep understanding of the importance of food quality through various initiatives conducted by each factory and the provision to employees of customized e-learning materials. We also listen to our consumers' suggestions for improving product quality and swiftly share these with our factories and operations. We respond to our consumers' recommendations through our internal Quality Improvement Committee. The Quality Improvement Committee is comprised of representatives from different divisions, including Product Development, Manufacturing, Distribution, Sales, Quality Control and Consumer Call Center. Our consumer care service management system is compliant with ISO 10002, the international standard for customer satisfaction and complaints handling.

Food communication

We respond to consumers' requests for information and can disclose the precise factory where food products were made or the country of origin of the main ingredients. In order to ensure food safety, we utilize a system that records information about our products at every stage of the process, from the raw materials and production to processing, distribution and sales. This allows us to trace our products to any point, if necessary. We also provide toll-free numbers on our product labels, which consumers can call to obtain information.

Sales and Distribution

In convenience stores and supermarkets, we are striving to increase our exposure by offering a wider range of products and obtaining better shelf space. Our processed food and seasoning products are sold nationwide through retail stores, supermarkets, convenience stores, restaurants, hotels and other channels.

Competition in the Processed Food Industry

We compete primarily on the basis of product quality, brand recognition, brand loyalty, marketing, advertising, distributional reach and price. In the Japanese processed food market, we compete against major processed food producers such as Maruha Nichiro, Nichirei Foods, Ajinomoto Frozen Food and Nissui, as well as a number of mid- or small-scale producers. However, we are starting to see gradual segregation of competition within the industry according to the product categories these competitors respectively own. We are also subject to further competition from other existing market participants and there remains the possibility of new entrants to the industry. We believe 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. We also need to be aware of the continuing risk of price fluctuations in raw materials of our products due to sporadic global food shortages.

Regulation of the Processed Food Business

Our processed food business is subject to a variety of legal restrictions, such as the Food Safety Basic Act, which sets forth basic principles regarding food safety; the Food Sanitation Act, which prescribes provisions in order to prevent the occurrence of health hazards arising from human consumption of food; and the Food Labelling Act, which imposes controls on the labelling of food products for sale, such as labelling of raw materials, nutritional ingredients and food additives.

Property, Plant and Equipment

We own manufacturing and other facilities throughout the world. In relation to our tobacco business, which comprises the most significant part of our property, plant and equipment, as of December 31, 2024, we had 38 manufacturing facilities (including tobacco-related factories). In addition, we own research and development facilities and a number of other properties including our branch and regional offices.

Employees

As of December 31, 2024, we had 53,593 full-time employees and, taken on an average basis, had 5,704 temporary and part-time employees during the 12 months ended December 31, 2024.

Share Capital

As of December 31, 2024 JT had 2,000,000,000 shares in issue (fully paid and non-assessable), including 224,409,101 treasury shares. There has been no change in JT's share capital since December 31, 2024.

The table below sets out our major shareholders as of December 31, 2024:

Name	% of share capital(1)	Number of shares
The Minister of Finance of Japan	37.56%	666,885,200
The Master Trust Bank of Japan, Ltd.	10.24%	181,802,200
Custody Bank of Japan, Ltd.	3.56%	63,152,600

(1) Excluding treasury shares. As of December 31, 2024, JT held 224,409,101 shares of ordinary shares as treasury shares.

Under the JT Act, as amended on December 2, 2011, the Japanese government shall continue to hold more than one-third of the issued shares (excluding shares of class of stock without any voting rights) including in the case where JT issues new shares in the future with the approval of the Minister of Finance.

Subsidiaries and Associates

As of December 31, 2024, we had 268 consolidated subsidiaries and 53 associates which were accounted for by the equity method in our consolidated financial statements. The following table presents information on our principal consolidated subsidiaries as of December 31, 2024.

Name	Country of incorporation	Main business	Percentage held by us directly or indirectly[1]
JT International Holding B.V.	Netherlands	Tobacco	100.0
JT International S.A.	Switzerland	Tobacco	100.0
LLC JTI Russia	Russia	Tobacco	100.0
Gallaher Ltd.	United Kingdom	Tobacco	100.0
JTI Polska Sp. z o.o.	Poland	Tobacco	100.0
LLC Petro	Russia	Tobacco	100.0
JTI Tütün Urunleri Sanayi A.S.	Türkiye	Tobacco	100.0
TS Network Co., Ltd.	Japan	Tobacco	85.3
Japan Filter Technology Co., Ltd.	Japan	Tobacco	100.0
Torii Pharmaceutical Co., Ltd.	Japan	Pharmaceutical	54.8
Akros Pharma Inc.	United States	Pharmaceutical	100.0
TableMark Co., Ltd.	Japan	Processed food	100.0

(1) Based on the number of voting rights.

Legal Proceedings

JT and some of its subsidiaries are defendants in legal proceedings. These proceedings generally may be classified as: (i) smoking and health related cases brought on behalf of individual, or a class of individual, plaintiffs, seeking damages for harm allegedly caused by smoking, the marketing of tobacco or e-vapor products, or exposure to tobacco smoke; (ii) health care cost recovery litigations brought by governmental plaintiffs seeking to recoup the health care costs they have allegedly incurred and/or will incur, resulting from a “tobacco related wrong;” and (iii) other legal proceedings, such as commercial and tax disputes. Damages claimed in some of the smoking and health related cases are substantial. See below and Notes 20 and 39 to the Consolidated Financial Statements for the Year Ended December 31, 2024 for more information.

While JT and its subsidiaries believe they have a number of valid defenses and counterclaims in these pending cases, litigation is subject to many uncertainties and it is not possible to predict with certainty their outcome at this time or in future lawsuits. See “*Risk Factors—Risks Relating to Our Business—Substantial costs could be incurred in connection with litigation*.”

Smoking and Health Related Litigation

As of December 31, 2024, there were a total of 51 smoking and health related cases pending for which no provisions have been recorded and in which one or more members of the JT Group were named as a defendant or for which JT or the relevant member of the JT Group may have certain indemnity obligations pursuant to an agreement, such as in relation to JT’s acquisition of RJR Nabisco, Inc.’s overseas (non-U.S.) tobacco operations. Of these, a total of 18 class action and healthcare cost recovery litigations related to Canada have been retroactively provisioned as a result of a settlement reached after December 31, 2024. In addition, there were 84 cases for which a provision has been made for contingent liabilities assumed in business combinations, as a result of the acquisition of Vector Group Ltd.

Litigation in Canada

On March 1, 2019, the Quebec Court of Appeal dismissed an appeal of two class action lawsuits related to smoking and health against the Issuer's local subsidiary, JTI-Macdonald Corp. ("**JTI-Mac**") and its competitors and co-defendants, Rothmans, Benson & Hedges Inc. and Imperial Tobacco Canada Limited (the "**Tobacco Companies**").

On March 8, 2019, the Tobacco Companies applied to the Ontario Superior Court for protection under the Companies' Creditors Arrangement Act (the "**CCAA**"), which was approved. As a result, all legal proceedings and enforcement of judgments in Canada to which the Tobacco Companies were parties were stayed, and the Tobacco Companies were able to preserve their assets and continue their respective businesses.

Subsequently, the Tobacco Companies have been participating in a court-ordered mediation process with representatives of multiple claimants, including the Quebec class action plaintiffs and all provincial and territorial governments (hereinafter collectively referred to as the "**Claimants**"), in an attempt to reach a final resolution of all pending litigation.

On October 17, 2024, the court-appointed mediator and the CCAA monitors for each Tobacco Company publicly proposed CCAA Plans of Compromise and Arrangement (the "**Plans**"), under which the Tobacco Companies would pay a total of approximately CAD 32.5 billion (approximately ¥3.56 trillion[32]) in aggregate to settle the litigation (including 18 pending litigations against JTI-Mac). The Plans were approved at a creditors' meeting held on December 12, 2024.

Following a court hearing in January 2025 to consider approving the Plans, JTI-Mac reached an agreement with the other two Tobacco Companies on the terms of allocation of payments between them. The resulting proposed amendments were filed with the Ontario Superior Court on February 27, 2025. As a result, we have retroactively recorded a provision for loss on litigation of ¥375.6 billion in operating expenses in the financial year ending December 31, 2024 as an adjusted subsequent event in accordance with IAS 37.

On March 6, 2025, the Ontario Superior Court of Justice handed down its decision to approve the Plans.

The details of the settlement payments are as follows:

- JTI-Mac will make an upfront payment of the cash and cash equivalents it holds (as at the end of the month prior to the month in which the settlement of the Plans is implemented) (the "**Upfront Payment**"); and

- JTI-Mac will make an annual payment equal to a certain percentage of its annual net after-tax income (being 85% for the first five years, 80% for years 6-10, 75% for years 11-15, and 70% from year 16 onwards) (the "**Annual Payments**").

The Annual Payments will continue to be made until the total settlement amount of CAD 32.5 billion is paid in full by the Tobacco Companies, which JT expects will take 20 to 30 years.

In calculating the provision for loss in relation to this litigation in Canada, the Upfront Payment is estimated based on JTI-Mac's cash and cash equivalents at the time defined in the Plans. For Annual Payments, the calculation is based on the annual net after-tax income for each year incorporating future trends in the market size of the tobacco business in Canada and JTI-Mac's expected market share in the Canadian tobacco market.

Additionally, the discount rate used in calculating the provision is a pre-tax discount rate of 6.09%, which reflects current market assessments of the time value of money and the risks specific to the liability.

[32] Translation of the CAD amounts into Japanese yen across this section has been made at the approximate rate of exchange prevailing as of December 31, 2024.

Individual Claims

As of December 31, 2024, there were 116 ongoing individual cases, including one case against JT’s indemnitee in South Africa, which has been dormant since February 2001, and one case against a JT subsidiary in Ireland, which has been dormant since May 2004.

The remaining 114 matters related to litigation against JT’s subsidiaries in the United States, following the acquisition of Vector Group Ltd.

Class Actions

As of December 31, 2024, there was one ongoing class action in the United States against members of the tobacco industry, including Liggett Vector Brands LLC, one of our U.S. subsidiaries. The case was brought in November 1997 in Louisiana and has been stayed since October 2004.

Other Legal Proceedings

JT and some of its subsidiaries are also engaged in other proceedings such as commercial or tax disputes.

MANAGEMENT

Directors

The following table provides information regarding our Directors as of the date of this listing document.

Title	Name	Date of birth	Summary of career		Number of shares held in JT[1]
Chairperson of the Board	Mutsuo Iwai	October 29, 1960	April 1983	Joined JT (Japan Tobacco and Salt Public Corporation)	45,500
			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, and 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.	
			June 2021	Outside Director, TDK Corporation (Current Position)	
			March 2022	Chairperson of the Board, JT (Current Position)	
			January 2023	Outside Director, &Capital Inc. (Current Position)	
			April 2024	Senior Vice Chairperson, Japan Association of Corporate Executives (Current Position)	
				(Significant Concurrent Positions outside JT)	
				Outside Director, TDK Corporation	
				Outside Director, &Capital Inc.	
				Senior Vice Chairperson, Japan Association of Corporate Executives	
Deputy Chairperson of the Board	Shigeaki Okamoto	February 20, 1961	April 1983	Entered Ministry of Finance	1,200
			July 2001	Head of Management Office, General Coordination Division, Planning and Coordination Bureau, Financial Services Agency	
			July 2002	Director for Supervisory and Financial Risk Stabilization Management, General	

Title	Name	Date of birth	Summary of career		Number of shares held in JT[(1)]
				Coordination Division, Supervisory Bureau	
			July 2004	Director of Research Division, Budget Bureau, Ministry of Finance	
			July 2006	Director for the Budget Bureau, Planning and Administration Division of Budget Bureau	
			July 2009	Head of Secretariat Division, Minister's Secretariat	
			August 2012	Director-General of the Budget Bureau	
			July 2015	Deputy Vice Minister	
			July 2017	Director-General of the Budget Bureau	
			July 2018	Administrative Vice Minister	
			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, JT (Current Position)	
			June 2022	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Tokyo Head Office (Current Position) (Significant Concurrent Positions outside JT) 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	
Representative Director and President, Chief Executive Officer	Masamichi Terabatake[(3)]	November 26, 1965	April 1989	Joined JT	307,386
			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, JT	
			March 2018	Representative Director and President, Chief Executive Officer (Current Position)	

Title	Name	Date of birth		Summary of career	Number of shares held in JT[(1)]
				(Significant Concurrent Positions outside JT)	
				Chairman of Supervisory Board, JT International Holding B.V.	
Representative Director and Executive Vice President	Koji Shimayoshi[(3)]	March 7, 1968	April 1993	Joined JT	59,200
			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, Corporate Governance, Compliance, Corporate Strategy, Sustainability, People & Culture, Information Technology, Legal, Operation Review & Business Assurance, Pharmaceutical Business and Food Business of the Issuer	
			March 2024	Representative Director and Executive Vice President, Corporate Governance, Compliance, Corporate Strategy, Sustainability, People & Culture, Information Technology, Legal, Operation Review & Business Assurance, Pharmaceutical Business and Food Business of the Issuer (Current Position)	
Representative Director and Executive Vice President	Kei Nakano[(3)]	March 1, 1968	April 1991	Joined JT	66,946
			April 2011	Vice President, M&S Strategy Department, Tobacco Business Development	
			June 2014	President and Chief Executive Officer, TS Network Co., Ltd.	
			January 2016	Senior Vice President, Communications of the Issuer	
			October 2019	Senior Vice President, Corporate Strategy	
			March 2020	Director, Japan Growth Investments Alliance, Inc. (Current Position)	
			January 2022	Senior Vice President, Corporate Strategy of the Issuer	
			January 2023	Executive Vice President, Finance, Corporate Communications, Business Development and D-LAB	
			March 2023	Representative Director and Executive Vice President, Finance, Corporate Communications, Business Development and D-LAB (Current Position)	

Title	Name	Date of birth		Summary of career	Number of shares held in JT[(1)]
				(Significant Concurrent Positions outside JT)	
				Director, Japan Growth Investments Alliance, Inc	
Member of the Board	Yukiko Nagashima[(2)]	April 4, 1961	April 1985	Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.)	-
			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, JT (Current Position)	
			June 2021	Outside Audit & Supervisory Board Member, Sumitomo Corporation (Current Position)	
				(Significant Concurrent Positions outside JT)	
				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[(2)]	October 10, 1952	April 1976	Joined the Ministry of Foreign Affairs	-
			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 Vice Minister	
			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, JT	
			June 2020	External Director, Marubeni Corporation (Current Position)	
				Outside Director, Nippon Steel Corporation	
			March 2021	Outside Director, JT (Current Position)	
				(Significant Concurrent Positions outside JT)	
				External Director, Marubeni Corporation	

Title	Name	Date of birth	Summary of career		Number of shares held in JT[1]
Member of the Board	Tetsuya Shoji[2]	February 28, 1954	April 1977	Joined Nippon Telegraph and Telephone Public Corporation	-
			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 (now Kanadevia Corporation) (Current Position)	
				Outside Director, Mitsubishi Logistics Corporation (Current Position)	
			March 2022	Outside Director, JT (Current Position)	
				(Significant Concurrent Positions outside JT)	
				Corporate Advisor, NTT Communications Corporation	
				Outside Director, circlace Inc.	
				Outside Director, Sapporo Holdings Limited	
				Outside Director, Kanadevia Corporation	
				Outside Director, Mitsubishi Logistics Corporation	
Member of the Board	Hiroko Yamashina[2]	May 20, 1963	April 1986	Joined Orient Leasing Co., Ltd. (Currently, ORIX Corporation)	-
			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	
				President, ORIX Credit Corporation	
			January 2021	Chairman, ORIX Credit Corporation	
			March 2023	Outside Audit & Supervisory Board Member, JT	
			March 2024	Outside Director, JT (Current Position)	

Title	Name	Date of birth	Summary of career		Number of shares held in JT[(1)]
			January 2025	Advisor, ORIX Corporation (Current Position)	
				(Significant Concurrent Positions outside JT)	
				Advisor, ORIX Corporation	
Member of the Board	Kenji Asakura[(2)]	December 11, 1955	April 1978	Joined Nagase & Co., Ltd	-
			April 2009	Executive Officer and General Manager, Automotive Solutions Department, Nagase & Co., Ltd	
			June 2013	Director and Executive Officer, Nagase & Co., Ltd	
			April 2015	Representative Director, President and CEO, Nagase & Co., Ltd	
			April 2023	Representative Director and Chairman, Nagase & Co., Ltd (Current Position)	
			March 2024	Outside Director, JT (Current Position)	
				(Significant Concurrent Positions outside JT)	
				Representative Director and Chairman, Nagase & Co., Ltd.	

(1) As of December 31, 2024.
(2) Members of the Board Yukiko Nagashima, Masato Kitera, Tetsuya Shoji, Hiroko Yamashina and Kenji Asakura are Outside Directors.
(3) These persons concurrently serve as Executive Officer.

The business address of each of JT's directors is the principal office of JT, being 1-1, Toranomon 4-chome, Minato-ku, Tokyo 105-6927, Japan.

Audit & Supervisory Board Members

The following table provides information regarding our Audit & Supervisory Board Members as of the date of this listing document.

Title	Name	Date of birth	Summary of career		Number of shares held in JT[(1)]
Standing Audit & Supervisory Board Member	Hideaki Kashiwakura	February 28, 1969	April 1991	Joined JT	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 and Chief Executive Officer and JT BusinessCom Inc.	
			March 2023	Standing Audit & Supervisory Board Member of the Issuer (Current Position)	
Standing Audit & Supervisory Board Member	Tsutomu Hashimoto	May 31, 1967	April 1991	Joined JT	1,584
			March 2019	Vice President, Operational Review and Business Assurance	
			March 2023	Standing Audit & Supervisory Board Member of the Issuer (Current Position)	

Title	Name	Date of birth	Summary of career		Number of shares held in JT[(1)]
Standing Audit & Supervisory Board Member	Shigeru Taniuchi[(2)]	September 7, 1962	April 1986	Entered the Ministry of Finance	-
			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 Coordination Division, Financial Bureau, Ministry of Finance (Retired from the office in July 2014)	
			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 (Retired in June 2022)	
			March 2023	Standing Outside Audit & Supervisory Board Member of the Issuer (Current Position)	
Audit & Supervisory Board Member	Nobuo Inada[(2)]	August 14, 1956	April 1981	Appointed as Public Prosecutor	-
			October 2008	Deputy Vice-Minister of Justice, Ministry of Justice	

Title	Name	Date of birth	Summary of career		Number of shares held in JT[1]
			August 2011	Director-General, Criminal Affairs Bureau, Ministry of Justice	
			January 2014	Vice-Minister of Justice, Ministry of Justice	
			September 2016	Superintending Prosecutor, Sendai High Public Prosecutors Office	
			September 2017	Superintending Prosecutor, Tokyo High Public Prosecutors Office	
			July 2018	Prosecutor-General (Retired in July 2020)	
			October 2020	Registered as Attorney at Law (Current Position)	
			June 2021	Outside Director, Audit & Supervisory Board Member, Nomura Securities Co., Ltd. (Current Position)	
			March 2023	Outside Audit & Supervisory Board Member of the Issuer (Current Position)	
			June 2024	Outside Audit & Supervisory Board Member, Sumitomo Corporation (Current Position)	
				(Significant Concurrent Positions outside JT)	
				Attorney at Law, Inada Law Firm	
				Outside Director, Audit & Supervisory Board Member, Nomura Securities Co., Ltd.	
				Outside Audit & Supervisory Board Member, Sumitomo Corporation	
Audit & Supervisory Board Member	Emiko Takeishi[2]	February 16, 1960	April 1982	Joined the Ministry of Labour	-
			July 1992	Joined NLI Research Institute	
			April 2003	Assistant Professor, Institute of Social Science, The University of Tokyo	
			April 2004	Research Fellow, NLI Research Institute	
			April 2006	Assistant Professor, Faculty of Lifelong Learning and Career Studies, Hosei University	
			April 2007	Professor, Faculty of Lifelong Learning and Career Studies, Hosei University (Current Position)	
			February 2015	Outside Corporate Auditor, Kewpie Corporation	
			June 2015	Outside Audit & Supervisory Board Member, Tokio Marine & Nichido Fire Insurance Co., Ltd. (Current Position)	
			June 2023	Outside Audit & Supervisory Board Member, KAJIMA CORPORATION (Current Position)	
			March 2024	Outside Audit & Supervisory Board Member of the Issuer (Current Position)	
				(Significant Concurrent Positions outside JT)	
				Professor, Faculty of Lifelong Learning and Career Studies, Hosei University	
				Outside Audit & Supervisory Board Member, Tokio Marine & Nichido Fire Insurance Co., Ltd.	

Title	Name	Date of birth	Summary of career	Number of shares held in JT(1)
			Outside Audit & Supervisory Board Member, KAJIMA CORPORATION	

(1) As of December 31, 2024.
(2) Standing Audit & Supervisory Board Member Shigeru Taniuchi and Audit & Supervisory Board Members Nobuo Inada and Emiko Takeishi are Outside Audit & Supervisory Board Members.

The business address of each of JT's Audit & Supervisory Board Members is the principal office of JT, being 1-1, Toranomon 4-chome, Minato-ku, Tokyo 105-6927, Japan.

Executive Officers

The names, titles and positions of our Executive Officers as of the date of this listing document are as follows:

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

The business address of each of JT's Executive Officers is the principal office of JT, being 1-1, Toranomon 4-chome, Minato-ku, Tokyo 105-6927, Japan.

Conflicts of Interest

As at the date of this listing document, the abovementioned members of the Board, Executive Officers and Audit & Supervisory Board Members do not have actual or potential conflicts of interests between any duties to JT and their private interests or other duties.

Corporate Governance

Corporate Governance Structure

Our Board of Directors has the ultimate responsibility for the administration and supervision of our affairs and forms the basis of our corporate governance framework. Our Audit & Supervisory Board also conducts such administrative and supervisory functions through its monitoring and audit activities in cooperation with independent auditors. The Advisory Panel on Nomination and Compensation and the Compliance Committee are the two committees in place to further enhance this governance framework. The Advisory Panel on Nomination and Compensation provides opinions to the Board of Directors regarding the appointment of directors, compensation calculation policy and the compensation system for our Directors and Executive Officers. The Compliance Committee advises our Board of Directors on important compliance matters.

JT is a corporation established pursuant to the JT Act and remain subject to the JT Act’s requirements, including the governmental approval requirements for certain significant corporate matters.

Directors

Our Board of Directors has the ultimate responsibility for the administration and supervision of our affairs. Our Articles of Incorporation provide for not more than 15 directors. At least one-third of the directors on the Board must also be independent directors. Directors are nominated by the Board of Directors and elected at a general meeting of shareholders for a one-year term, although they may serve any number of consecutive terms. Currently we have ten Directors, with the term expiring upon conclusion of the annual general meeting of shareholders to be held in 2026.

The Board of Directors elects from among its members and Executive Officers: (i) a President; and (ii) one or more Executive Vice President(s), if necessary. The Board of Directors may also elect from among its members: (i) a Chairperson of the Board; and (ii) a certain number of Deputy Chairpersons of the Board, if necessary. In addition to the foregoing, the Board of Directors elects from among its members one or more Representative Directors, who have the authority to individually represent JT. Currently, the President and two Executive Vice Presidents are the Representative Directors. The Chairperson of the Board concentrates on supervising the management activities as a non-Representative Director and chairs the Board of Directors. If there is a member of the Board who has any conflict of interest regarding the Board proposals, such member of the Board cannot participate in the vote for such matters.

Our Articles of Incorporation stipulate that we may enter into an agreement with the members of the Board (excluding those who are Executive Directors or the like, as defined under the Companies Act of Japan) to limit the scope of their liabilities in advance to the extent permitted by the Companies Act of Japan and JT may exempt members of the Board from liabilities to the extent permitted by the same act. This provision is intended to enable members of the Board to fulfil their expected roles and make it easier to appoint the right persons from a broad choice both within and outside the JT Group. We have such liability limiting agreements with our Directors who are not Executive Officers.

All of our Board members are engaged in the business on a full-time basis except for Yukiko Nagashima, Masato Kitera, Tetsuya Shoji, Hiroko Yamashina and Kenji Asakura, who are Outside Directors as defined under the Companies Act of Japan.

Executive Officers

In order to enhance corporate value by responding promptly to the changing business environment and to manage group-wide business activities effectively and efficiently, JT has appropriately delegated authorities to Executive Officers, to enable them to act independently within specified limits before further authority from the Board must be sought.

Executive Officers are appointed by the Board of Directors and assigned specific business execution in their respective areas of responsibility in accordance with group-wide management strategies. Currently, JT has 19 Executive Officers, three of whom are also members of the Board of Directors.

Audit & Supervisory Board

As an independent body acting on behalf of our shareholders, each Audit & Supervisory Board Member has a statutory duty to conduct operating audits and accounting audits. The operating audit seeks to ensure that business execution by the Board of Directors is compliant with legal and regulatory requirements and our Articles of Incorporation. The accounting audit supervises the process and the result of the audit conducted by the independent auditors. The Audit & Supervisory Board Members' report containing the results of both operating audits and accounting audits is submitted to shareholders at the annual general meetings. Audit & Supervisory Board Members have various legal rights in order to accomplish their roles and responsibilities, including making reporting requests to the members of the Board, Executive Officers and employees; requesting any members of the Board refrain from conducting any illegal activities if such activities are likely to cause substantial damage to the Issuer; representing the Issuer in the case of litigation between any members of the board and such company; and dismissing independent auditors by the consent of all Audit & Supervisory Board Members under limited circumstances. Audit & Supervisory Board Members are obligated to attend the Board of Directors meetings, monitor the discussion and, if necessary, express their opinions at such meetings, but they are not entitled to vote. Audit & Supervisory Board Members are required to report to the Board of Directors and have the right to call the Board of Directors when they find any breach of, or any attempt to breach, laws and regulations or the Articles of Incorporation.

Our Articles of Incorporation stipulate that the maximum number of members of the Audit & Supervisory Board is five, and any member may only serve for a term of not more than four years, although they may serve any number of consecutive terms. Audit & Supervisory Board Members are elected at annual general meetings. Before the Board of Directors submits a proposal to elect Audit & Supervisory Board Members to the annual general meeting, the proposal needs to be approved by the Audit & Supervisory Board. As of the date of this listing document, we have five Audit & Supervisory Board Members. Three out of five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members under the Companies Act of Japan. Outside Audit & Supervisory Board Members are appointed in light of their significant experience in their respective backgrounds and broad perspectives.

Our Articles of Incorporation provide that Audit & Supervisory Board Members shall be exempt from liability and that the Audit & Supervisory Board Members shall be able to sign a limited liability contract, to the extent allowed under the Companies Act of Japan. We have signed such limited liability contracts with all of the Audit & Supervisory Board Members.

The Audit & Supervisory Board Members include Hideaki Kashiwakura, Tsutomu Hashimoto, Shigeru Taniuchi, Nobuo Inada, and Emiko Takeishi.

In addition to Audit & Supervisory Board Members, we are required to appoint and have appointed an independent auditor, subject to approval by shareholders, who has the statutory duties of examining the financial statements to be submitted to the shareholders and preparing its audit report thereon. Currently, JT's independent auditor is Deloitte Touche Tohmatsu LLC.

Advisory Panel on Nomination and Compensation

The Advisory Panel on Nomination and Compensation was established on March 20, 2019 as a voluntary advisory arm of the Board of Directors. It merges the former Meeting for Talent Development and Compensation Advisory Panel's respective functions into a single entity. Its purpose is to render the Board's decision-making more objective and transparent and upgrade the Board's oversight functions by having the Board deliberate on executive appointment and remuneration in accordance with the results of the deliberation in the Panel. Its specific roles include supporting the growth of executive candidates, including succession plans; 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 to the Board. In order to ensure its independence and objectivity, the Panel is comprised entirely of Directors who do not serve as Executive Officers, and more than half of its members are independent Outside Directors. Chaired by an independent Outside Director, the Advisory Panel has seven members, five of whom are independent Outside Directors, and meets at least once a year.

Compliance Committee

To ensure fair and effective compliance practices, we have established the JT Group Compliance Committee as a deliberative body responsible for executive management and promotion of compliance for the entire JT Group that reports directly to the Board of Directors. It has four members, one of whom is an outsider.

Executive Compensation

The aggregate compensation, including bonuses, paid to our Directors and Audit & Supervisory Board Members for the year ended December 31, 2024 was ¥1,535 million.

The following table presents remuneration payments to our Directors and Audit & Supervisory Board Members for the year ended December 31, 2024:

		Total amount by its component				
Category	**Total amount of remuneration and other payments**	**Base salary**	**Executive bonus[2]**	**Restricted stock remuneration[3]**	**Performance share unit (PSU)[1][2][3]**	**Number to be paid**
	(yen in millions)		*(yen in millions)*			*(persons)*
Directors (excluding Outside Directors)	1,252	473	395	278	107	6
Audit & Supervisory Board Members (excluding outside members)	88	88	-	-	-	2
Outside Executives	195	195	-	-	-	9
Total	**1,535**	**756**	**395**	**278**	**107**	**17**

(1) The amount of PSU in the table above is the amount booked as expenses for 2024.
(2) Executive bonus and PSU are categorized as performance-linked remuneration.
(3) Restricted stock remuneration and PSU are categorized as non-monetary compensation.

DESCRIPTION OF THE NOTES

The Notes will be issued under the Fiscal Agency Agreement, dated as of April 15, 2025 between the Issuer and Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**," which expression shall, where the context so requires, include any successor for the time being as Fiscal Agent), paying agent and transfer agent (in each such capacity, the "**Paying Agent**" and the "**Transfer Agent**", which terms shall, where the context so requires, also include any successor or additional such agents as appointed from time to time under the Fiscal Agency Agreement). The Fiscal Agent is also acting as registrar (the "**Registrar**", which expression shall, where the context so requires, include any successor for the time being as Registrar).

Holders are deemed to have notice of all provisions of the Fiscal Agency Agreement. The summary information set forth herein does not purport to be complete and is subject to the actual provisions of the Fiscal Agency Agreement and the Notes. Copies of the Fiscal Agency Agreement are available for inspection at the office of the Fiscal Agent or may be provided by email to a Noteholder following their prior written request to the Fiscal Agent and provision of proof of holding and identity (in a form satisfactory to the Fiscal Agent). A copy of the Fiscal Agency Agreement is also available upon request from the Issuer.

The following is a summary of the material provisions of terms and conditions that shall be applicable to the Notes (the "**Conditions**"). The Fiscal Agency Agreement and its associated documents, including the full Conditions contained therein, contain the full legal text of the matters described in this section, and this summary is subject to and qualified in its entirety by reference to all the provisions of the Fiscal Agency Agreement. The Fiscal Agency Agreement and the Notes are governed by New York law.

1 General

The U.S.$800,000,000 4.850% Notes due 2028 (the "**2028 Notes**"), the U.S.$900,000,000 5.250% Notes due 2030 (the "**2030 Notes**") and the U.S.$800,000,000 5.850% Notes due 2035 (the "**2035 Notes**", and together with the 2028 Notes and the 2030 Notes, the "**Notes**"), were issued on April 15, 2025 (the "**Issue Date**") in registered form and treated as debt securities under a fiscal agency agreement dated as of April 15, 2025 (the "**Fiscal Agency Agreement**"), between Japan Tobacco Inc. ("**JT**" or the "**Issuer**", which term shall include any Substitute hereunder following the execution of the Substitution Documents as referred to in Section 13) and Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**," which expression shall, where the context so requires, include any successor for the time being as Fiscal Agent), paying agent and transfer agent (in each such capacity, the "**Paying Agent**" and the "**Transfer Agent**", which terms shall, where the context so requires, also include any successor or additional such agents as appointed from time to time under the Fiscal Agency Agreement), in addition to as registrar (the "**Registrar**", which expression shall, where the context so requires, include any successor for the time being as Registrar). The Fiscal Agency Agreement will not be qualified under the U.S. Trust Indenture Act of 1939 (the "**Trust Indenture Act**") and will not incorporate by reference the provisions of the Trust Indenture Act. Consequently, the holders of Notes generally will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture.

As used herein, the terms "**holder**", "**Noteholder**" and other similar terms refer to a "**registered holder**" of Notes, and not to a beneficial owner of a book-entry interest in any Notes, unless the context otherwise clearly requires. The terms "series," "applicable series", "any series" and other similar terms refer to the 2028 Notes, the 2030 Notes or the 2035 Notes, as the context may require. A "**Business Day**" refers to any day which is not, in London, Tokyo or New York City, or any other place of payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorised or obligated by law or regulation to close, and a "**person**" refers to any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organisation or government or any agency or political subdivision thereof.

2 Principal, Maturity and Interest

The 2028 Notes are initially issuable in an aggregate principal amount of U.S.$800,000,000 and will mature on May 15, 2028 (the "**2028 Maturity Date**"). The 2030 Notes are initially issuable in an aggregate principal amount of U.S.$900,000,000 and will mature on June 15, 2030 (the "**2030 Maturity Date**"). The 2035 Notes are initially issuable in an aggregate principal amount of U.S.$800,000,000 and will mature on June 15, 2035 (the "**2035 Maturity Date**", and along with the 2028 Maturity Date and the 2030 Maturity Date**,** each a "**Maturity Date**").

The Notes will bear interest from the Issue Date or from the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for, at the following rates of interest: (i) 4.850% per annum for the 2028 Notes, (ii) 5.250% per annum for the 2030 Notes and (iii) 5.850% per annum for the 2035 Notes. Interest on the 2028 Notes will be payable semi-annually in arrear on May 15 and November 15, commencing on

November 15, 2025, and interest on the 2030 Notes and the 2035 Notes will be payable semi-annually in arrear on June 15 and December 15, commencing on December 15, 2025 (each, an "**Interest Payment Date**") until the applicable Maturity Date, to the person in whose name the Note is registered at the close of business on, for the 2028 Notes, May 1 and November 1 and, for the 2030 Notes and the 2035 Notes, June 1 and December 1, whether or not a Business Day (each, a "**Record Date**"), notwithstanding any transfer or exchange of such Notes subsequent to the applicable Record Date and prior to such Interest Payment Date. Interest on the Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the exact number of days elapsed.

If the day on which any interest payment, principal payment or payment of Additional Amounts (as defined in Section 8) is to be made is not a Business Day, that interest payment, principal payment or Additional Amounts payment will be postponed to the following day that is a Business Day, and no further interest or other amounts will be paid or be payable in connection therewith.

The rights of holders of beneficial interests in the Notes to receive the payments of interest on the Notes are subject to applicable procedures of the book-entry depositary and The Depository Trust Company ("**DTC**"), as applicable.

3 Form and Denomination

The Notes will be issued in fully registered form and only in minimum denominations of U.S.$150,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by global notes ("**Global Notes**") registered in the name of the DTC or in the name of its nominee.

4 Further Issues

The aggregate principal amount of Notes issuable under the Fiscal Agency Agreement is unlimited. The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, "reopen" the Notes of any series and create and issue additional notes having identical Conditions as the Notes of the same series (or in all respects except for the issue date, issue price, the payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes may be consolidated and form a single series of notes with the Notes of the applicable series (a "**Further Issue**"); *provided*, however, that such additional notes shall be issued with a separate CUSIP, ISIN or other identifying number unless such additional notes are treated as fungible with the Notes of the applicable series for U.S. federal income tax purposes.

5 Status of Notes

The Notes constitute (subject to Section 6 and any right as might be accorded by statute) direct, unsecured and unsubordinated general obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Section 6, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

Under the Japan Tobacco Inc. Act of Japan, as amended, holders of debt securities issued by JT which are classified as "shasai" under the laws of Japan (including the Notes) have the preferential right (ippan-tanpo) to be paid prior to other unsecured indebtedness of JT, but the rights of such holders are subordinated to JT's obligations in respect of national and local taxes and certain other exceptions provided under applicable law and to certain other obligations of JT entitled to general preferential rights (sakidori-tokken) provided in the Civil Code of Japan.

6 Negative Pledge

So long as any Notes of a series remain outstanding (as defined in the Fiscal Agency Agreement), the Issuer will not create, or permit to subsist, any Lien (which, for the avoidance of doubt, shall not include the statutory preferential rights (*ippan-tanpo*) provided for in the Japan Tobacco Inc. Act of Japan, as amended) on any of its property or assets, present or future, to secure, for the benefit of the holders of any Public External Indebtedness, payment of any sum owing in respect of any such Public External Indebtedness, any payment under any guarantee of any such Public External Indebtedness or any payment under any indemnity or other like obligation relating to any such Public External Indebtedness, unless an effective provision is made contemporaneously to secure the Notes of such series equally and rateably with such Public External Indebtedness, with a similar Lien on the same property or assets securing such Public External Indebtedness for so long as such Public External Indebtedness is secured by such Lien, or provide such other security as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders; *provided, however,* that the provisions of this Section 6 shall not apply:

(a) in the event of a merger, amalgamation or consolidation of JT with another company, with regard to any Lien in respect of any Public External Indebtedness over the property or assets of that other company which Lien exists at the time of such merger, amalgamation or consolidation and any Lien thereafter created by JT in substitution for the aforesaid Lien over property or assets the value of which does not materially exceed the current value of the assets subject to such Lien immediately prior to such merger, amalgamation or consolidation; and

(b) to any Lien created in connection with, or pursuant to, a securitisation or other similar limited recourse arrangement where the payment obligations in respect of the indebtedness secured by the relevant Lien are to be discharged from the revenues generated by assets over which such Lien is created (including, without limitation, receivables).

In this Section 6,

"**Lien**" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such property or asset.

"**Public External Indebtedness**" means bonds, debentures, notes or other similar investment securities of the Issuer or any other person evidencing indebtedness with a maturity of not less than one year from the issue date thereof, or any guarantees thereof, which (a) are either (i) by their terms payable, or confer a right to receive payment, in any currency other than Japanese yen or (ii) denominated in Japanese yen and more than 50% of the aggregate principal amount thereof is initially distributed outside of Japan by or with the authorisation of the Issuer thereof; and (b) for the time being, are or are intended to be, quoted, listed, ordinarily dealt in or traded on a stock exchange or over-the-counter or other securities market outside Japan.

7 Early Redemption and Repurchase

7.1 Early Redemption at the Option of the Issuer

Prior to one month prior to the 2028 Maturity Date and 2030 Maturity Date and prior to three months prior to the 2035 Maturity Date (each, a "**Par Call Date**"), the Issuer may redeem each series of Notes at its option, in whole or in part, at any time and from time to time, at a redemption price (expressed as a percentage of principal amount and rounded to three decimal places) equal to the greater of:

(a) the sum of the present values of the applicable Remaining Scheduled Payments (as defined below) of principal and interest thereon discounted to the date of redemption (the "**Redemption Date**") (assuming the Notes matured on the applicable Par Call Date) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below), *plus*

(1) 20 basis points in the case of the 2028 Notes, *less* interest accrued to the date of redemption,

(2) 20 basis points in the case of the 2030 Notes, *less* interest accrued to the date of redemption, or

(3) 25 basis points in the case of the 2035 Notes, *less* interest accrued to the date of redemption; and

(b) 100% of the principal amount of the Notes to be redeemed,

plus, in either case, accrued and unpaid interest on the principal amount of the Notes to be redeemed to the Redemption Date.

On or after the applicable Par Call Date, the Issuer may redeem each series of the Notes, in whole or in part, at any time and from time to time, at a redemption price equal to 100% of the principal amount of the Notes being redeemed, *plus* accrued and unpaid interest thereon to the respective Redemption Date.

"**Remaining Scheduled Payments**" means, with respect to each Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Redemption Date but for such redemption; provided, however, that if that Redemption Date is not an Interest Payment Date with respect to such Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.

"**Treasury Rate**" means, with respect to any Redemption Date, the yield determined by the Issuer in accordance with the following two paragraphs.

The Treasury Rate shall be determined by the Issuer after 4:15 p.m., New York City time (or after such time as yields on U.S. government securities are posted daily by the Board of Governors of the Federal Reserve System), on the third Business Day preceding the applicable Redemption Date based upon the yield or yields for the most recent day that appear after such time on such day in the most recent statistical release published by the Board of Governors of the Federal Reserve System designated as "Selected Interest Rates (Daily) - H.15" (or any successor designation or publication) ("**H.15**") under the caption "U.S. government securities–Treasury constant maturities–Nominal" (or any successor caption or heading) ("**H.15 TCM**"). In determining the Treasury Rate, the Issuer shall select, as applicable: (1) the yield for the Treasury constant maturity on H.15 exactly equal to the period from the applicable Redemption Date to the applicable Par Call Date (the "**Remaining Life**"); or (2) if there is no such Treasury constant maturity on H.15 exactly equal to the Remaining Life, the two yields—one yield corresponding to the Treasury constant maturity on H.15 immediately shorter than and one yield corresponding to the Treasury constant maturity on H.15 immediately longer than the Remaining Life—and shall interpolate to the applicable Par Call Date on a straight-line basis (using the actual number of days) using such yields and rounding the result to three decimal places; or (3) if there is no such Treasury constant maturity on H.15 shorter than or longer than the Remaining Life, the yield for the single Treasury constant maturity on H.15 closest to the Remaining Life. For purposes of this paragraph, the applicable Treasury constant maturity or maturities on H.15 shall be deemed to have a maturity date equal to the relevant number of months or years, as applicable, of such Treasury constant maturity from the applicable Redemption Date.

If, on the third Business Day preceding the applicable Redemption Date, H.15 or any successor designation or publication is no longer published, the Issuer shall calculate the Treasury Rate based on the rate per annum equal to the semi-annual equivalent yield to maturity at 11:00 a.m., New York City time, on the second Business Day preceding such Redemption Date of the United States Treasury security maturing on, or with a maturity that is closest to, the applicable Par Call Date, as applicable. If there is no United States Treasury security maturing on the applicable Par Call Date but there are two or more United States Treasury securities with a maturity date equally distant from the applicable Par Call Date, one with a maturity date preceding the applicable Par Call Date and one with a maturity date following the applicable Par Call Date, the Issuer shall select the United States Treasury security with a maturity date preceding the applicable Par Call Date. If there are two or more United States Treasury securities maturing on the applicable Par Call Date or two or more United States Treasury securities meeting the criteria of the preceding sentence, the Issuer shall select from among these two or more United States Treasury securities the United States Treasury security that is trading closest to par based upon the average of the bid and asked prices for such United States Treasury securities at 11:00 a.m., New York City time. In determining the Treasury Rate in accordance with the terms of this paragraph, the semi-annual yield to maturity of the applicable United States Treasury security shall be based upon the average of the bid and asked prices (expressed as a percentage of principal amount) at 11:00 a.m., New York City time, of such United States Treasury security, and rounded to three decimal places.

The Issuer's actions and determinations in determining the redemption price shall be conclusive and binding for all purposes, absent manifest error.

Notice of any redemption will be mailed or electronically delivered (or otherwise transmitted in accordance with the depositary's procedures) at least 10 days but not more than 60 days before the applicable Redemption Date to each holder of Notes to be redeemed.

In the case of a partial redemption, selection of the notes for redemption will be made pro rata. No Notes of a principal amount of U.S.$150,000 or less will be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of the Note to be redeemed. A new Note in a principal amount equal to the unredeemed portion of the Note will be issued in the name of the holder of the Note upon surrender for cancellation of the original Note. For so long as the Notes are held by DTC (or another depositary), the redemption of the Notes shall be done in accordance with the policies and procedures of the depositary.

Unless the Issuer defaults in payment of the redemption price, on and after the applicable Redemption Date interest will cease to accrue on the Notes, or portions thereof, called for redemption.

7.2 Early Redemption for Tax Reasons

Each series of the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time by giving not less than 10 and no more than 60 days' notice to the holders of the Notes of such series (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount of the Notes to be redeemed (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay Additional Amounts (as defined below) as provided or referred to in Section 8 as a result of any change in, or amendment to, the laws or regulations of Japan or of any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes of such series then be due. Prior to the publication of any notice of redemption pursuant to this Section 7.2, the Issuer shall deliver to the Fiscal Agent a certificate (for the benefit of the Noteholders, copies of which may be provided by email to a Noteholder following their prior written request to the fiscal agent and provision of proof of holding and identity (in a form satisfactory to the fiscal agent)) signed by a director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the Conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment. The Fiscal Agent is not responsible, nor shall it incur any liability, for monitoring or ascertaining as to whether any certifications and/or opinions required under this Section 7.2 are provided, nor shall it be required to review, check or analyze any certifications and/or opinions produced nor shall it be responsible for the contents of any such certifications and/or opinions or incur any liability in the event the content of such certifications and/or opinions is inaccurate or incorrect.

7.3 Purchases

The Issuer and its subsidiaries may at any time purchase Notes in the open market or otherwise at any price. Such Notes may be held, resold or, at the option of the Issuer, surrendered for cancellation *provided, however,* that any such repurchased Notes may only be resold if such resold Notes are treated as fungible with the Notes of the applicable series for U.S. federal income tax purposes.

7.4 Cancellation

All Notes purchased by or on behalf of the Issuer or any of its subsidiaries may be surrendered for cancellation by surrendering the certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7.5 General

Upon presentation of any Note redeemed in part only, the Issuer will execute and the Fiscal Agent will authenticate and deliver (or cause to be transferred by book-entry) to, or on, the order of the holder thereof, at the expense of the Issuer, a new Note or Notes, in principal amount equal to the unredeemed portion of the Note so presented.

On or before any Redemption Date, the Issuer shall deposit with the Fiscal Agent money sufficient to pay the redemption price of and the accrued and unpaid interest on the Notes to be redeemed on such date. If less than all the Notes of a series are to be redeemed, in the case of a redemption at the Issuer's option in accordance with Section 7.1 above, the Notes to be redeemed shall be selected by the Issuer, on a pro rata pass through distribution of principal basis (in accordance with the rules and procedures of DTC) unless otherwise required by law or applicable stock exchange or depositary requirements. The redemption price shall be calculated by the Issuer and the Fiscal Agent shall be entitled to rely on such calculation.

On and after any Redemption Date, interest will cease to accrue on the Notes or any portion thereof called for redemption.

8 Taxation

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of Japan, or of any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law or by the relevant authority. In that event, the Issuer shall pay such additional amounts ("**Additional Amounts**") as may be necessary to result in receipt by the Noteholders of such net amounts as would have been received by them in respect of the Notes had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note:

(a) to, or to a third party on behalf of, a holder who is an individual non-resident of Japan or a non-Japanese corporation and is liable to such Taxes in respect of such Note, by reason of (A) his having some present or former connection with Japan other than the mere holding of the Note or (B) his being a specially-related person (*tokushu kankei sha*) of the Issuer as described in Article 6, Paragraph (4) of the Special Taxation Measures Act of Japan (Act No.26 of 1957), as amended (the "**Special Taxation Measures Act**");

(b) to, or to a third party on behalf of, a holder who would be exempt from any such withholding or deduction but for a failure to comply with any applicable requirement to provide Interest Recipient Information (as defined below) or to submit a Written Application for Tax Exemption (as defined below) to the relevant Paying Agent to whom the relevant Note is presented (or in respect of which the certificate representing it is presented), or whose Interest Receipt Information is not duly communicated through the relevant Participant (as defined below) and the relevant international clearing organization to such Paying Agent;

(c) to, or to a third party on behalf of, a holder who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation (except for (A) a Designated Financial Institution (as defined below) that complies with the requirement to provide Interest Recipient Information or to submit a Written Application for Tax Exemption and (B) an individual resident of Japan or a Japanese corporation that duly notifies the relevant Paying Agent of its status as not being subject to taxes to be withheld or deducted by the Issuer by reason of receipt by such individual resident of Japan or Japanese corporation of interest on the Notes through a payment handling agent in Japan);

(d) presented (or in respect of which the certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting it for payment on the last day of such period of 30 days; or

(e) a combination of (a) through (d) above.

Notwithstanding any provision in the Conditions, no Additional Amounts shall be payable where withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein:

"**Designated Financial Institution**" means a Japanese financial institution or financial instruments business operator falling under certain categories prescribed by the cabinet order under Article 6, Paragraph 11 of the Special Taxation Measures Act;

"**Interest Recipient Information**" means certain information prescribed by the Special Taxation Measures Act and the cabinet order and other regulations thereunder to enable the Participant to establish that such holder is exempted from the requirement for Japanese Taxes to be withheld or deducted;

"**Participant**" means a participant of an international clearing organization or a financial intermediary;

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative certificate) being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation; and

"**Written Application for Tax Exemption**" means a written application for tax exemption (*hikazei tekiyo shinkokusho*) in a form obtainable from a Paying Agent stating, *inter alia*, the name and address of the beneficial owner, the title of the Note, the relevant Interest Payment Date, the amount of interest and the fact that the beneficial owner is qualified to submit the Written Application for Tax Exemption. If the relevant beneficial owner of such Note provides to a Paying Agent the information required to be stated in the Written Application for Tax Exemption in an electronic form prescribed by the Special Taxation Measures Act, such beneficial owner will be deemed to have submitted the Written Application for Tax Exemption to the Paying Agent.

In respect of any Notes, references herein to (i) "**principal**" shall be deemed to include any premium payable, principal amount, redemption amount and all other amounts in the nature of principal payable pursuant to Section 7 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all scheduled payments of interest and all other amounts payable pursuant to Section 2 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any Additional Amounts that may be payable under this Section 8.

9 Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within 10 years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant coupon is presented for payment within five years of the appropriate Relevant Date.

10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note (or, so long as the Notes are represented by Global Notes, any lawful assignee thereof) may give written notice to the Issuer at its specified office that such Note is immediately repayable, whereupon the principal amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable, unless such event of default shall have been remedied prior to the receipt of such notice by the Issuer:

(i) **Non-Payment:** the Issuer fails to make payment of (A) the interest due in respect of any such series of Notes by the due date and such default continues for more than 30 days or (B) the principal due in respect of any such series of Notes by the due date;

(ii) **Breach of Other Obligations**: the Issuer defaults in the performance or observance of any covenant, condition or provision contained in any such series of Notes, which default is not remedied within 90 days after notice of such default shall have been given to the Issuer at its specified office by holders of not less than 25% in aggregate nominal amount of the applicable series of Notes then outstanding;

(iii) **Winding-up**: a final and non-appealable order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution of the Issuer, except for the purpose of or pursuant to a reconstruction, amalgamation, merger or consolidation on a solvent basis under which the continuing corporation or the corporation formed as a result thereof effectively or expressly assumes the obligations under the Notes;

(iv) **Appointment of Receiver**: an encumbrancer takes possession or a receiver or other officer is appointed, in bankruptcy, civil rehabilitation, reorganisation or insolvency of the Issuer, of all or substantially all of the assets and undertakings of the Issuer and such possession or appointment shall have continued undischarged and unstayed for a period of 60 consecutive days;

(v) **Insolvency**: the Issuer stops payment (within the meaning of the bankruptcy law of Japan) or (otherwise than for the purposes of a consolidation, amalgamation, merger or reconstruction under which the continuing corporation or the corporation formed as a result thereof effectively assumes the entire obligations under the applicable series of Notes) ceases to carry on business or is unable to pay its debts generally as and when they fall due;

(vi) **Order to Commence Insolvency Proceedings**: a decree or order by any court having jurisdiction shall have been issued adjudging the Issuer bankrupt or insolvent, or approving a petition seeking with respect to the Issuer reorganisation or liquidation under bankruptcy, civil rehabilitation, reorganisation or insolvency law of Japan, and such decree or order shall have continued undischarged and unstayed for a period of 60 consecutive days;

(vii) **Consenting to Insolvency Proceedings**: the Issuer initiates or consents to proceedings relating to it under bankruptcy, civil rehabilitation, reorganisation or insolvency law of Japan or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally; or

(viii) **Invalidity**: the applicable series of Notes is not (or is claimed by the Issuer not to be) in full force and effect.

If an Event of Default occurs and is continuing, then and in each and every such case (other than an Event of Default specified in paragraph (v) above), unless the principal of the Notes of the applicable series shall have already become due and payable, the holders of not less than 25% in aggregate principal amount of such series of Notes then outstanding, by notice in writing to the Issuer, may declare the entire principal amount of all Notes of such series then outstanding and interest accrued and unpaid thereon, if any, to be due and payable.

If an Event of Default described in paragraph (v) above occurs and is continuing, the principal amount of and the accrued and unpaid interest on the principal amount of the Notes of the applicable series then outstanding shall become immediately due and payable, without any declaration or other act on the part of any holder. Under certain circumstances, the holders of a majority in aggregate principal amount of the applicable series of Notes then outstanding, by written notice to the Issuer, may waive defaults and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

11 Discharge and Defeasance

The Issuer will have the option either (i) to be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the applicable series of Notes and to have satisfied all the obligations under the Fiscal Agency Agreement relating to the Notes of such series (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of such Notes, to replace mutilated, destroyed, lost or stolen Notes of such series and to maintain paying agencies) on the 91st day after the applicable Conditions described below have been satisfied or (ii) to be released from their obligations to comply with certain covenants under the Fiscal Agency Agreement with respect to the applicable series of Notes, and any non-compliance with such covenants and the occurrence of certain events described above under this Section 11 will not give rise to any Event of Default under the applicable series of Notes or the Fiscal Agency Agreement, at any time after the applicable Conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must (a) irrevocably deposit with a trustee or agent money or Government Obligations for the benefit of the holders of the Notes of the applicable series for the payment of principal of and interest on the outstanding Notes of such series to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and (b) comply with certain other Conditions, including delivering to the Fiscal Agent and such trustee or agent an opinion of U.S. counsel to the effect that beneficial owners of the Notes of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of such defeasance and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such defeasance had not occurred and which opinion, in the case of defeasance described in (i) in the preceding paragraph above, must state that such opinion is based on a ruling received from or published by the United States Internal Revenue Service or on a change of law after the Issue Date.

“**Government Obligations**” as used herein means securities that are (a) direct obligations of the United States for the payment of which its full faith and credit is pledged or (b) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States that, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such Government Obligation or a specific payment of principal of or interest on any such Government Obligation held by such custodian for the account of the holder of such depositary receipt; provided, however, that (except as required by law) such custodian is not authorised to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of principal of or interest on the Government Obligation evidenced by such depositary receipt.

12 Modification and Waiver

12.1 Without Consent of Noteholders

The Issuer and the Fiscal Agent may, without notice to or the consent of the holders of the applicable series of Notes at any time outstanding under the Fiscal Agency Agreement, from time to time and at any time, enter into a fiscal agency agreement or fiscal agency agreement supplemental thereto:

(i) to convey, transfer, assign, mortgage, or pledge to the holders of the Notes of such series or any person acting on their behalf as security for the Notes of such series any property or assets;

(ii) to evidence the succession of another person to the Issuer or successive successions, and the assumption by the successor person(s) of the covenants, agreements and obligations of the Issuer pursuant to the Fiscal Agency Agreement;

(iii) to add an additional entity as co-Issuer of such series of Notes;

(iv) to evidence and provide for the acceptance of appointment of a successor or successors to the Fiscal Agent and/or the Paying Agent, Transfer Agent and Registrar, as applicable;

(v) to add to the covenants of the Issuer such further covenants, restrictions, Conditions or provisions as the Issuer shall consider to be for the protection of the holders of the Notes of such series issued pursuant to the Fiscal Agency Agreement, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, Conditions or provisions an Event of Default under the Notes of such series permitting the enforcement of all or any of the several remedies provided in the Fiscal Agency Agreement; provided that, in respect of any such additional covenant, restriction, condition or provision, such supplemental fiscal agency agreement may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available upon such an Event of Default;

(vi) to modify the restrictions on, and procedures for, resale and other transfers of the Notes of such series pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;

(vii) to cure any ambiguity or to correct or supplement any provision contained in the Fiscal Agency Agreement which may be defective or inconsistent with any other provision contained therein or to make such other provision in regard to matters or questions arising under the Fiscal Agency Agreement as the Issuer or the Fiscal Agent may deem necessary or desirable and which will not, in the opinion of the Issuer, adversely affect the rights and interests of the holders of the Notes of such series in any material respect;

(viii) to issue an unlimited aggregate principal amount of Notes of such series under the Fiscal Agency Agreement or to “reopen” the Notes of such series and create and issue additional notes having identical Conditions as the Notes of such series (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series with the outstanding Notes of such series; and

(ix) to modify the Fiscal Agency Agreement in any other manner which in the opinion of the Issuer does not adversely affect the terms of the Notes of such series or the rights and interests of the holders thereof.

12.2 With Consent of Noteholders

The Issuer and the Fiscal Agent may, with the consent of the holders of not less than a majority in aggregate principal amount of the applicable series of Notes at the time outstanding under the Fiscal Agency Agreement (including consents obtained in connection with a tender offer or exchange offer for the Notes), from time to time and at any time, enter into a fiscal agency agreement or fiscal agency agreement supplemental thereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of such series of Notes or of modifying in any manner the rights and interests of the holders of such series of Notes; provided, that no such fiscal agency agreement may, without the consent of the holder of each of the Notes so affected:

(i) change the stated maturity of the Notes of such series, or the date for payment of any principal of, or instalment of interest on, any Note of such series; or

(ii) reduce the principal amount of, or the rate or amount of interest on, any Note of such series or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default; or

(iii) change the currency of payment of principal of, or interest on, any Note of such series or Additional Amounts payable with respect thereto; or

(iv) change the obligation of the Issuer to pay Additional Amounts (except as otherwise permitted by such Note); or

(v) impair the right to institute suit for the enforcement of any such payment on or with respect to any Note of such series; or

(vi) reduce the percentage of the aggregate principal amount of such series of Notes outstanding the consent of whose holders is required for any such supplemental fiscal agency agreement; or

(vii) modify or change any provision of the Fiscal Agency Agreement affecting the ranking of such series of Notes in a manner adverse to the holders of such series of Notes; or

(viii) reduce the aggregate principal amount of any Note of such series outstanding necessary to modify or amend the Fiscal Agency Agreement or any such Note of such series or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any Notes outstanding required for the adoption of any action at any meeting of holders of such Notes of such series or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of all accrued and unpaid interest on any Note of such series to be due and payable;

provided, that no consent of any holder of any Note shall be necessary to permit the Fiscal Agent and the Issuer to execute a supplemental fiscal agency agreement as described under Section 12.1 above.

Any modifications, amendments or waivers to the Fiscal Agency Agreement or to the Conditions of the applicable series of Notes will be conclusive and binding on all holders of the Notes of such series, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future holders of the Notes of such series, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered holders of such Note.

13 Issuer Substitution

The Issuer or any previously substituted company, may at any time, without the consent of the Noteholders, substitute for itself as principal debtor under the Notes, any company (the "**Substitute**") that is a subsidiary of the Issuer, provided that the Substitute will assume all liability for any payment in respect of the Notes issued by the Issuer which has become due and payable and remains unpaid at the relevant time. Such documents shall be executed by the Substitute and the Issuer as may be necessary to give full effect to the substitution (together the "**Substitution Documents**"). If the Substitute is resident for tax purposes in a territory (the "**New Residence**") other than that in which the Issuer to be substituted is (immediately prior to such substitution) resident for tax purposes (the "**Former Residence**"), then references to the Former Residence in Sections 7.2 and 8 shall be read as references to the New Residence in accordance with the Substitution Documents. The substitution shall be made by execution of the Substitution Documents and:

(i) the Substitute shall, by means of the Substitution Documents, agree to pay all amounts falling due under the Conditions and to indemnify each Noteholder against any tax, duty, assessment or governmental charge that is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note and that would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution (but not, in each case, to the extent that any such tax, duty, assessment or governmental charge is compensated for by an increased payment under Section 8 or would have been or would be compensated for by an increased payment under Section 8 so interpreted but was not or will not be so compensated solely because one of the exclusions of Section 8 so interpreted applied, applies or will apply);

(ii) the obligations of the Substitute under the Substitution Documents and the Notes shall be unconditionally guaranteed by the Issuer by means of a guarantee (the "**Substitution Guarantee**");

(iii) all actions, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Substitution Documents and the Notes represent valid, legally binding and enforceable obligations of the Substitute, and in the case of the Issuer, the Substitution Documents and the Substitution Guarantee are in full force and effect;

(iv) the Substitute shall have become party to the Fiscal Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it;

(v) legal opinions addressed to the Noteholders shall have been delivered to them from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above and in New York as to the fulfilment of the preceding Conditions of paragraph (iii) above and the other matters specified in the Substitution Documents; and

(vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution that are referred to above shall be available for inspection at the specified office of the Paying Agent or may be provided by email to a Noteholder following their prior written request to the Paying Agent and provision of proof of holding and identity (in a form satisfactory to the Paying Agent).

References in Section 10 to obligations under the Notes shall be deemed to include obligations under the Substitution Documents, and the events listed in Section 10 shall be deemed to include the Substitution Guarantee not being (or being claimed by the Issuer not to be) in full force and effect.

14 Restrictions on Transfer

The initial purchasers of the Notes propose to resell the Rule 144A Notes (as defined below) to certain institutions in the United States in reliance upon Rule 144A under the Securities Act. Notes that are initially offered and sold in the United States to "**qualified institutional buyers**" or "**QIBs**" (the "**Rule 144A Notes**") may not be resold or otherwise transferred except, in the United States, pursuant to registration under the Securities Act (which the Issuer is not obliged to do) or in accordance with Rule 144A or, outside the United States, pursuant to Rule 904 of Regulation S thereunder, and the relevant Global Notes will bear a legend to this effect.

15 Notices

All notices regarding the Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register (as defined in the Fiscal Agency Agreement) and will be deemed to have been given on the fourth day after mailing.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of DTC, be substituted for such notice the delivery of the relevant notice to DTC for communication by them to the holders of the Notes and, in addition, if and for so long as the Notes are listed on the Luxembourg Stock Exchange's Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, notice will be published in a daily newspaper of general circulation in the place or places required by those rules or on the Luxembourg Stock Exchange's website (www.luxse.com). Any such notice shall be deemed to have been given to the holders of the Notes on the fourth day after the day on which the said notice was given to DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with a copy of the relevant Note or Notes, with the Registrar. While the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent or the Registrar through DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and/or DTC, as the case may be, may approve for this purpose.

16 Consent to Service

The Issuer will initially designate Neal N. Beaton, Esq., with registered offices on the date hereof at c/o Holland & Knight LLP, 787 Seventh Avenue, 31st Floor, New York, New York 10019 as its authorised agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the Fiscal Agency Agreement or the Notes brought in any state or federal court in the Borough of Manhattan, The City of New York, and will irrevocably submit (but for those purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

17 Governing Law

The Fiscal Agency Agreement and the Notes shall be governed by and construed in accordance with the laws of the State of New York.

18 Regarding the Fiscal Agent

In acting under the Fiscal Agency Agreement and in connection with the Notes, the Fiscal Agent is acting solely as agent of the Issuer and does not assume any obligation towards or relationship of agency or trust for or with the owners or holders of the Notes, except that any funds held by the Fiscal Agent for payment of principal of or interest on the Notes or Additional Amounts with respect thereto shall be held by it for the persons entitled thereto and applied as set forth in the Notes, but need not be segregated from other funds held by it except as required by law. For a description of the duties and immunities and rights of the Fiscal Agent under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of the Fiscal Agent are subject to such immunities and rights.

BOOK-ENTRY; DELIVERY AND FORM; SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The Notes are being offered and sold within the United States initially to qualified institutional buyers in reliance on Rule 144A (the "**Rule 144A Notes**") and outside the United States in reliance on Regulation S (the "**Regulation S Notes**"). Except as set forth below, the Notes will be issued in registered, global form in minimum denominations of $150,000 and integral multiples of $1,000 in excess thereof.

The Notes will initially be represented by one or more notes in global form that together will represent the aggregate principal amount of the Notes. Rule 144A Notes will be represented by one or more global notes in registered form without interest coupons attached (collectively the "**Rule 144A global notes**"). Regulation S Notes will be represented by one or more global notes in registered form without interest coupons attached (collectively, the "**Regulation S global notes**"). The Rule 144A global notes were deposited on April 15, 2025 with a custodian for DTC, and registered in the name of, Cede & Co., as nominee for DTC, in each case, for credit to an account of a participant in DTC, as described below. The Regulation S global notes were also deposited with a custodian for DTC, and registered in the name of Cede & Co., as nominee for DTC, for credit to the respective accounts of beneficial owners of such Notes (or to such other accounts as they may direct) at DTC, Euroclear and Clearstream, Luxembourg.

The Rule 144A global notes and the Regulation S global notes together comprise the "**global notes**." Beneficial interests in the Rule 144A global notes may not be exchanged for beneficial interests in the Regulation S global notes at any time, except in the limited circumstances described below. See *"—Exchanges between Regulation S Global Notes and Rule 144A Global Notes*."

Beneficial interests in the global notes may not be exchanged for definitive registered notes in certificated form (the "**definitive registered notes**") except in the limited circumstances described below. See "*—Definitive Registered Notes*." Except in the limited circumstances described in "*—Definitive Registered Notes*," owners of beneficial interests in the global notes will not be entitled to receive physical delivery of Notes in certificated form.

Beneficial interests in the global notes may only be held through DTC at any time. Any person wishing to own a beneficial interest in the global notes must do so indirectly by virtue of an account with a broker, bank or other financial institution that in turn has an account with DTC (including through Euroclear and Clearstream, Luxembourg).

By acquisition of a beneficial interest in a Regulation S global note, the purchaser thereof will be deemed to represent, among other things, that it will transfer such interest only (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to a person whom the seller reasonably believes to be a person who takes delivery in the form of an interest in a Rule 144A global note (if applicable). See "*Transfer Restrictions*."

By acquisition of a beneficial interest in a Rule 144A global note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the fiscal agency agreement. See "*Transfer Restrictions*." Except as described in "*—Definitive Registered Notes*," owners of interests in the global notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or "holders" thereof under the fiscal agency agreement for any purpose.

Payments on Global Notes

Payments in respect of the principal of, and interest and premium, if any, on, a global note registered in the name of DTC or its nominee will be payable to DTC or its nominee in its capacity as the registered holder under the fiscal agency agreement. The Issuer and the paying agent will treat the persons in whose names the Notes, including the global notes, are registered as the owners of the Notes for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the paying agent nor any of the JT Group's or the paying agent's respective agents has or will have any responsibility or liability for:

- any aspect of the accuracy of DTC's records or any participant's or indirect participant's records (including those of Euroclear or Clearstream, Luxembourg) relating to or payments made on account of beneficial ownership interest in the global notes or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records (including those of Euroclear or Clearstream, Luxembourg) relating to the beneficial ownership interests in the global notes; or

- any other matter relating to the actions and practices of DTC or any of their participants or indirect participants (including Euroclear or Clearstream, Luxembourg).

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities, such as the Notes (including principal and interest), is to credit the accounts of the relevant participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant participant is credited with an amount proportionate to its holdings of the relevant security as shown on the records of DTC. Payments by the participants and the indirect participants (including Euroclear or Clearstream, Luxembourg) to the beneficial owners of the Notes will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants and will not be the responsibility of DTC, the paying agent or the Issuer. None of the Issuer, the paying agent, nor any of their respective agents, will be liable for any delay by DTC or any of the participants or the indirect participants (including Euroclear or Clearstream, Luxembourg) in identifying the beneficial owners of the Notes, and the Issuer and the paying agent may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes. Subject to the procedures and limitations described herein, transfers of beneficial interests within a global note may be made without delivery to the Issuer, the paying agent or any of their respective agents of any written certifications or other documentation by the transferor or transferee.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the global notes will be paid to holders of interests in such notes in U.S. dollars.

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of the Issuer, the paying agent nor the Initial Purchasers nor any of their respective agents will be liable to any holder of a global note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Beneficial Interests in the Global Notes

DTC has advised us that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account DTC has credited the interests in the global notes and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the Notes, DTC reserves the right to exchange the global notes for legended definitive registered notes, and to distribute such definitive registered notes to their participants.

Transfers

Subject to the transfer restrictions set forth under "*Transfer Restrictions*," transfers between the participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and, in the case of Regulation S global notes held through Euroclear or Clearstream, Luxembourg, as participants to DTC, in accordance with the respective rules and operating procedures of Euroclear and Clearstream, Luxembourg. The rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg may change from time to time.

Definitive Registered Notes

Under the terms of the fiscal agency agreement, owners of beneficial interests in the global notes will receive definitive registered notes if:

- DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the global notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Issuer fails to appoint a successor depositary;

- the Issuer, at its option, notifies the fiscal agent in writing that it elects to cause the issuance of the definitive registered notes; or

- there has occurred and is continuing a default or event of default with respect to the Notes and the fiscal agent receives a written request for definitive registered notes from a holder of Notes.

In addition, beneficial interests in a global note may be exchanged for definitive registered notes upon prior written notice given to the fiscal agent by or on behalf of DTC in accordance with the fiscal agency agreement. In all cases, definitive registered notes delivered in exchange for any global note or beneficial interests in global notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend set forth in "*Transfer Restrictions*," unless that legend is not required by applicable law.

Exchanges between Regulation S Global Notes and Rule 144A Global Notes

Beneficial interests in a Regulation S global note may be exchanged for beneficial interests in a Rule 144A global note only if:

- such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A; and

- the transferor first delivers to the fiscal agent a written certificate (in the form provided in the fiscal agency agreement) to the effect that the Notes to a transferee that the transferor reasonably believes is purchasing the Notes for its own account or an account with respect to which the transferee exercises sole investment discretion, and the transferee, as well as any such account, is a "qualified institutional buyer" within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in the Regulation S global note, only if the transferor first delivers to the fiscal agent a written certificate (in the form provided in the fiscal agency agreement) to the effect that (i) no directed selling efforts have been made in the United States in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable; (ii) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; and (iii) the transferor is the beneficial owner of the principal amount of Notes being transferred.

Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and will become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for so long as it remains such an interest.

Settlement

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through participants, who will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note, or the beneficial owner, will in turn be recorded on the participants' and indirect participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participant or indirect participant through which such beneficial owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any global note held within a clearing system are exchanged for definitive notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to participants, by participants to indirect participants, and by participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a global note to such persons may be limited. Transfers of ownership or other interest in a global note may be made only through a participant in DTC. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a global note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest. None of the Issuer, the fiscal agent, the paying agent, the registrar or any of their respective agents will have any responsibility for the performance by DTC or its participants or indirect participants (including Euroclear or Clearstream, Luxembourg) of their respective obligations under the rules and procedures governing their operations.

Information Concerning DTC

The following description of the operations and procedures of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to changes by them. Neither the Issuer nor the Initial Purchasers take any responsibility for these operations and procedures and investors are urged to contact the system or their participants directly to discuss these matters.

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC has advised us that DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions in those securities between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates.

The participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities, or indirect participants, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the participants and indirect participants. DTC has also advised us that, pursuant to procedures established by it:

- upon deposit of the global notes, DTC will credit the accounts of the participants designated by the Initial Purchasers with portions of the principal amount of the global notes; and

- ownership of these interests in the global notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the participants) or by the participants and the indirect participants (with respect to other owners of beneficial interest in the global notes).

Investors in the global notes who are participants may hold their interests therein directly through DTC. Investors in the global notes who are not participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream, Luxembourg) which are participants. As participants in DTC, Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S global notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories. All interests in a global note, including those held through Euroclear or Clearstream, Luxembourg as participants in DTC, are subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream, Luxembourg as participants in DTC, may also be subject to the procedures and requirements of such systems.

TAXATION

The following discussion contains a description of certain material Japanese and U.S. federal tax considerations that may be relevant to you of the purchase, ownership and disposition of the Notes. This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your own tax advisers about the tax consequences of investing in and holding the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of any state, local and other tax laws.

This summary is based upon tax laws of Japan and the United States as in effect at the pricing of the offering of the Notes, which are subject to change, possibly with retroactive effect, and to differing interpretations. You should consult your own tax advisers as to Japanese, U.S. or other tax consequences of the purchase, ownership and disposition of the Notes.

Japanese Tax Considerations

Payment of interest on the Notes paid to an individual resident of Japan, a Japanese corporation (other than a Japanese designated financial institution which has complied with the requirements under the Special Taxation Measures Act, or a Japanese public corporation, a Japanese financial institution or a Japanese financial instruments firm (which has complied with the Japanese tax exemption requirements) through its payment handling agent in Japan as provided in Article 3-3, Paragraph (6) of the Special Taxation Measures Act), or an individual non-resident of Japan or a non-Japanese corporation for Japanese tax purposes (a "**non-resident holder**") that, in either case, is a Specially-Related Person, will be subject to Japanese income tax at a rate of 15.315% (or, from and including January 1, 2038, at a rate of 15%) of the amount of such interest.

In the case of payment of interest on the Notes outside Japan to a beneficial owner that is a non-resident holder, such beneficial owner will not be subject to Japanese withholding tax, provided that the beneficial owner complies with procedures for establishing its status as a non-resident holder in accordance with the requirements of Japanese law. However, such payment of interest will be subject to Japanese withholding tax if:

(a) the amount of interest on the Notes is calculated or determined on the basis of or by reference to certain indicators including the amount of profit, revenue, assets and distribution of surplus, distribution of profit and other similar distributions of the Issuer or any Specially-Related Person as provided in Article 3-2-2 of the Cabinet Order;

(b) the recipient of interest on the Notes is a Specially-Related Person; or

(c) the recipient of interest on the Notes has a permanent establishment in Japan and such interest is attributable to such permanent establishment; provided, however, that if such recipient of interest on the Notes has submitted a claim for exemption from Japanese withholding tax (*hikazei tekiyo shinkokusho*) or certain information to be stated in such written application in an electronic form provided under the Special Taxation Measures Act and such recipient is not a Specially-Related Person, the provisions for withholding tax under Japanese income tax law are not applicable to such interest.

If the recipient of any excess amount of the redemption price over the acquisition cost of any Notes with coupon, defined in Article 41-13 of the Special Taxation Measures Act as redemption premium (the "**Redemption Premium**"), is a non-resident holder with no permanent establishment in Japan that is not a Specially-Related Person, no Japanese income or corporation taxes will be payable with respect to the Redemption Premium. If, however, the receipt of the Redemption Premium is attributable to a permanent establishment maintained by a non-resident holder in Japan, and in certain other cases provided by the Cabinet Order, the Redemption Premium will be subject to Japanese income or corporation taxes.

Under current Japanese practice, JT and the Paying Agent may determine their withholding obligations in respect of the Notes held through a qualified clearing organization in reliance on certifications received from such an organization, and need not obtain certifications from any ultimate beneficial owners of such Notes. As part of the procedures under which such certifications are given, a beneficial owner may be required to establish that it is a non-resident holder and not a Specially-Related Party of the Issuer to the person or entity through which it holds the Notes. A non-resident holder that holds the Notes other than through a qualified clearing organization may be required to deliver a duly completed claim for exemption from Japanese withholding tax, and to provide documentation concerning its identity, residence and any other required information, to the Paying Agent in order to receive interest from the Paying Agent free of Japanese withholding tax. JT and the Paying Agent may adopt modified or supplemental certification procedures to the extent necessary to comply with changes in, or as otherwise permitted under, Japanese law or administrative practice.

Gains derived from the sale of Notes outside of Japan and received by a non-resident holder are generally not subject to Japanese income or corporation taxes. Gains derived from the sale of Notes in Japan and received by a non-resident holder with no permanent establishment in Japan are generally not subject to Japanese income or corporation taxes. Japanese general inheritance and gift taxes at progressive rates may be payable by an individual, regardless of residence, who has acquired Notes as a legatee, heir or donee. No stamp, issue, registration or similar taxes or duties will, under present Japanese law, be payable by noteholders in connection with the issue of the Notes.

Certain U.S. Federal Income Tax Considerations

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who purchase Notes in the Offering at the Issue Price, hold Notes as capital assets and use the U.S. dollar as their functional currency. This summary is not a complete description of all U.S. federal tax considerations relating to the purchase, ownership and disposition of Notes and is not a substitute for tax advice. It does not address all of the tax consequences that may be relevant in light of a holder's particular circumstances, including tax consequences that may be applicable to prospective investors subject to special rules, such as banks and certain other financial institutions, dealers in securities or currencies, traders that elect to mark-to-market, insurance companies, regulated investment companies, real estate investment trusts, investors liable for the alternative minimum tax, investors required to take certain amounts into income no later than the time such amounts are reflected on their audited financial statements, certain former U.S. citizens or lawful permanent residents, tax-exempt entities, individual retirement accounts and other tax-deferred accounts, pass-through entities, including partnerships and S-corporations, and their owners or persons holding Notes as part of a hedge, straddle, conversion, constructive sale or other integrated financial transaction. It also does not address the tax treatment of U.S. Holders that will hold Notes in connection with a permanent establishment or fixed base outside of the United States. This summary also does not address U.S. federal taxes other than the income tax (such as the Medicare surtax on net investment income or estate or gift taxes) or U.S. state or local, or non-U.S. tax laws or considerations.

For purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of a Note that is, for purposes of U.S. federal income taxation, (i) a citizen or individual resident of the United States, (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia, (iii) a trust subject to the control of a U.S. person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that acquires, holds and disposes of Notes generally will depend on the status of the partner and the activities of the partnership. Partnerships are urged to consult their own tax advisers regarding the specific tax consequences to them and to their partners of purchasing, owning and disposing of Notes.

THIS DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM ITS OWN TAX ADVISERS ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NOTES UNDER THE LAWS OF THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PROSPECTIVE PURCHASER MAY BE SUBJECT TO TAXATION.

Interest

It is anticipated, and this discussion assumes, that the Notes will be issued with no more than a de minimis amount of original issue discount ("**OID**") for U.S. federal income tax purposes (generally an amount that is less than 0.25% of the principal amount of the Notes of a series multiplied the number of complete years to stated maturity). Interest on the Notes (including any tax withheld therefrom and Additional Amounts paid in respect of such withholding, if any) generally will be includible in the gross income of a U.S. Holder as ordinary income at the time that such payments are received or accrued in accordance with such U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

Stated interest income on a Note generally will constitute foreign source income and generally will be considered "passive category income" for purposes of the foreign tax credit. Subject to applicable limitations, a U.S. Holder may claim a deduction or a foreign tax credit only for tax withheld at the appropriate rate. However, any Japanese withholding taxes on interest payments generally will not be creditable to the extent it can be reduced or eliminated under Japanese law by providing certain information or certifications. U.S. Holders should review the discussion of such certifications and procedures for obtaining exemption from Japanese withholding taxes under "*—Japanese Tax Considerations*" above. Moreover, because interest is generally exempt from withholding under the tax treaty between the United States and Japan (the "**U.S.-Japan Tax Treaty**"), U.S. Holders that are entitled to the benefits of the U.S.-Japan Tax Treaty will generally not be entitled to credit for any Japanese taxes withheld on interest payments. There are complex and evolving rules relating to the limitations on a U.S. Holder's ability to obtain and utilize foreign tax credits or obtain deductions for foreign income taxes paid or withheld. U.S. Holders should consult their tax advisers regarding the creditability or deductibility of any withholding taxes in their particular circumstances.

Sale, Exchange, Redemption, Retirement or other Taxable Disposition

A U.S. Holder generally will recognize gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of a Note in an amount equal to the difference between the amount realized (less any accrued but unpaid interest, which will be taxable as ordinary interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will be the amount paid to acquire the Note, less the amount of any payments previously received by the holder (other than payments of interest).

Gain or loss on a taxable disposition of a Note by a U.S. Holder generally will be from U.S. sources and will be capital gain or loss. Any capital gain or loss will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by a subsidiary of the Issuer. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new Notes issued by the substituted obligor. As a result of this deemed disposition, a U.S. Holder of 2028 Notes generally would, and a U.S. Holder of 2030 Notes or 2035 Notes may, be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new Notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes as described under "*—Sale, Exchange, Redemption, Retirement or other Taxable Disposition*," above. Moreover, the new Notes may be treated as issued with OID. U.S. Holders should consult their tax advisers concerning the U.S. federal income tax consequences to them of any substitution of the Issuer with respect to the Notes.

Information Reporting and Backup Withholding

Payments of interest and proceeds from the sale, retirement, redemption or other taxable disposition of a Note will be reported to the U.S. Internal Revenue Service ("**IRS**") unless the U.S. Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if a U.S. Holder fails to provide an accurate taxpayer identification number or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. A U.S. Holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding and a refund of any excess, provided that such U.S. Holder timely furnishes the required information to the IRS.

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of certain minimum thresholds at any time during the tax year generally are required to file an information report with the IRS. Specified foreign financial assets include stocks, debt instruments and other securities issued by non-U.S. persons and financial instruments not held in an account maintained by a qualifying financial institution. A Note will constitute "specified foreign financial assets" for purposes of these reporting rules if the Note is not held in an account maintained by a qualifying financial institution. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their own tax advisers regarding the possible implications of these rules for their investment in the Notes.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**") and entities whose underlying assets are considered to include "plan assets" (within the meaning of 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Asset Regulations**")) of any such plan, account or arrangement (each, a "**Plan**").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "**ERISA Plan**") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan, including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws. In addition, a fiduciary of a Plan should consult with its counsel in order to determine if the investment satisfies the fiduciary's duties to the Plan, including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Matters

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest," within the meaning of ERISA, or "disqualified persons" within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of the Notes by an ERISA Plan with respect to which any of the Issuer, or any underwriters, dealers or agents, or any of their respective affiliates is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. Each of these exemptions contains conditions and limitations on its application, and there can be no assurance that any of these exemptions will be available, or that all of the conditions of an exemption will be satisfied with respect to a transaction involving the Notes. Therefore, each person that is considering acquiring or holding the Notes in reliance on an exemption should carefully review and consult with its legal advisors to confirm that it is applicable to the purchase and holding of the Notes.

In light of the above, the Notes may not be purchased or held by any person acting on behalf of any Plan, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or violate any applicable Similar Laws. Any purported purchase, transfer or holding in violation of these limitations will be void.

Representations

Accordingly, by acceptance of a Note, each purchaser, holder and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser, holder or transferee to acquire or hold the Notes, or any interest therein, constitutes assets of any Plan or (ii) the purchase, holding and subsequent disposition of the Notes by such purchaser, holder or transferee will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase, holding and subsequent disposition of the Notes. Purchasers of the Notes have the exclusive responsibility for ensuring that their purchase and holding of the Notes complies with the fiduciary responsibility rules of ERISA or of applicable Similar Laws and does not violate the prohibited transaction rules of ERISA, the Code or applicable Similar Laws.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any reoffering, resale, pledge or transfer of the Notes.

The offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except as set forth below.

Rule 144A Notes

Each purchaser of the Notes offered hereby in reliance on Rule 144A will be deemed to have represented and agreed as follows:

(1) It (A) is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act, or a QIB, (B) is aware that the sale of the Notes to it is being made in reliance on Rule 144A, and (C) is acquiring the Notes for its own account or for the account of a QIB, as the case may be.

(2) It understands that the Notes have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except as permitted by the legend set forth in paragraph (3) below.

(3) It understands that the Notes will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). THE HOLDER HEREOF AGREES FOR THE BENEFIT OF JAPAN TOBACCO INC. (THE “ISSUER”) OR ANY SUBSIDIARY THAT THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR ANY SUBSIDIARY OF THE ISSUER, (2) TO A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)) OR A PERSON WHO THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN ACCORDANCE WITH RULE 144A, PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE ISSUER OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION (IF AVAILABLE), OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND OTHER JURISDICTIONS. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS NOTE FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE ISSUER.”

Regulation S Notes

Each purchaser of the Notes offered hereby in reliance on Regulation S, or the Regulation S Notes, will be deemed to have represented and agreed as follows.

(1) It is a non-U.S. person who is acquiring such Regulation S Notes in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

(2) It understands that such Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons except as permitted by the legend set forth in paragraph (3) below.

(3) It understands that the Notes will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. JAPAN TOBACCO INC. HAS AGREED THAT THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE FINAL DELIVERY DATE WITH RESPECT THERETO."

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and J.P. Morgan Securities LLC are acting as representatives of each of the Initial Purchasers named below. Subject to the terms and conditions set forth in a purchase agreement, dated April 10, 2025, among the Issuer and the Initial Purchasers, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite its name in the tables below.

Initial Purchaser	Principal amount of 2028 Notes
Citigroup Global Markets Inc.	$128,000,000
J.P. Morgan Securities LLC	$128,000,000
Deutsche Bank Securities Inc.	$128,000,000
MUFG Securities Americas Inc.	$128,000,000
SMBC Nikko Securities America, Inc.	$128,000,000
BofA Securities, Inc.	$40,000,000
Commerz Markets LLC	$40,000,000
Mizuho Securities USA LLC	$40,000,000
Standard Chartered Bank	$40,000,000
Total	**$800,000,000**

Initial Purchaser	Principal amount of 2030 Notes
Citigroup Global Markets Inc.	$144,000,000
J.P. Morgan Securities LLC	$144,000,000
BofA Securities, Inc.	$144,000,000
Mizuho Securities USA LLC	$144,000,000
MUFG Securities Americas Inc.	$144,000,000
Deutsche Bank Securities Inc.	$45,000,000
Goldman Sachs International	$45,000,000
SMBC Nikko Securities America, Inc.	$45,000,000
Standard Chartered Bank	$45,000,000
Total	**$900,000,000**

Initial Purchaser	Principal amount of 2035 Notes
Citigroup Global Markets Inc.	$128,000,000
J.P. Morgan Securities LLC	$128,000,000
Mizuho Securities USA LLC	$128,000,000
SMBC Nikko Securities America, Inc.	$128,000,000
Standard Chartered Bank	$128,000,000
BofA Securities, Inc.	$40,000,000
Deutsche Bank Securities Inc.	$40,000,000
Goldman Sachs International	$40,000,000
MUFG Securities Americas Inc.	$40,000,000
Total	**$800,000,000**

Citigroup Global Markets Inc. is an affiliate of Citibank, N.A., London Branch, which is acting as fiscal agent, paying agent, transfer agent and notes registrar in connection with this offering of Notes. Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated.

The purchase agreement entitles the Initial Purchasers to terminate the issue of the Notes in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Initial Purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the Initial Purchasers of officer’s certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The representatives have advised us that the Initial Purchasers propose initially to offer the Notes at the offering prices set forth on the cover page of this listing document. After the initial offering, the offering prices or any other terms of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be QIBs or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under “*Selling Restrictions*.”

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Application has been made to admit the Notes to the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market. There is no assurance that such listing will be maintained. We have been advised by certain of the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors. See “*Risk Factors—Risks Relating to the Notes—The market for the Notes offered by this listing document may have limited liquidity*.”

Settlement

The Notes were delivered to investors on April 15, 2025.

No Sales of Similar Securities

During the period beginning on the date of the purchase agreement and continuing through and including the day after the Notes are delivered, the Issuer will not, and the Issuer will not permit any of its other subsidiaries to, without the prior written consent of the Initial Purchasers, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of (except as contemplated under the purchase agreement), other than commercial paper, any debt securities of the Issuer (or guaranteed by the Issuer) or other securities of the Issuer (or guaranteed by the Issuer), that are convertible into, or exchangeable for, the offered Notes or other debt securities, other than the Notes be sold under the purchase agreement.

Short Positions

In connection with this offering, the Initial Purchasers may purchase and sell the Notes in the open market, subject to applicable laws and regulations. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of Notes in excess of the principal amount of Notes to be purchased by the Initial Purchasers in this offering, which creates a short position for the Initial Purchasers. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may discontinue them at any time.

The Initial Purchasers make no representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, the Initial Purchasers have no obligation to engage in these transactions, and these transactions, once commenced, may be discontinued at any time.

Stamp Taxes and Other Charges

Purchasers of the Notes offered by this listing document may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price on the cover page of this listing document.

Other Relationships

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the Initial Purchasers or their affiliates has a lending relationship with us, certain of those Initial Purchasers or their affiliates routinely hedge, and certain other of those Initial Purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain of the Initial Purchasers or certain of their affiliates are arrangers and/or lenders under certain of our debt facilities and have received or will receive customary fees in such capacities. The proceeds of the Offering will be used for general corporate purposes, including refinancing the acquisition of Vector Group Ltd. and, as such, certain of the Initial Purchasers may receive part of the proceeds of the Offering.

Selling Restrictions

No action has been taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes offered hereby in any jurisdiction where action for that purpose is required. The Notes offered hereby may not be offered or sold, directly or indirectly, nor may this listing document or any other offering material or advertisements in connection with the offer and sale of the Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this listing document comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes and the distribution of this listing document. This listing document does not constitute an offer to purchase or a solicitation of an offer to sell any of the Notes offered hereby in any jurisdiction in which such an offer or a solicitation is unlawful.

European Economic Area

The Notes are not intended to be ordered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a "retail investor" means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. The expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes. Consequently, no key information document required by the EU PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

This listing document has been prepared on the basis that any offer of the Notes in any member state of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of securities. This listing document is not a prospectus for the purposes of the Prospectus Regulation.

United Kingdom

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of assimilated Regulation (EU) No. 2017/565 as it forms part of U.K. law by virtue of the EUWA or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of assimilated Regulation (EU) No. 600/2014 as it forms part of U.K. law by virtue of the EUWA. The expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes. Consequently, no key information document required by the U.K. PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the U.K. PRIIPs Regulation.

This listing document has been prepared on the basis that any offer of the Notes in the United Kingdom will be made pursuant to an exemption under the U.K. Prospectus Regulation from the requirement to publish a prospectus for offers of securities. This listing document is not a prospectus for the purposes of the U.K. Prospectus Regulation.

This listing document is for distribution only to persons who (i) have professional experience in matters relating to investments and who qualify as investment professionals within the meaning of Article 19(5) of the Financial Promotion Order, (ii) fall within Article 49(2)(a) to (d) of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). This listing document is directed only at Relevant Persons and must not be acted or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this listing document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom.

Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and that are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws.

Grand Duchy of Luxembourg

This listing document has not been approved by and will not be submitted for approval to the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*, or the **CSSF**), or a competent authority of another E.U. Member State for notification to the CSSF, for the purposes of a public offering or sale in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this listing document, the fiscal agency agreement nor any other circular, prospectus, form of application, advertisement or other material related to such offer may be distributed, or otherwise be made available in or from, or published in, Luxembourg except for the sole purpose of the admission of the Notes to trading on the Euro MTF and listing on the Official List of the Luxembourg Stock Exchange and except in circumstances where the offer benefits from an exemption to or constitutes a transaction not otherwise subject to the requirement to publish a prospectus in accordance with Regulation (EU) 2017/1129 and the Luxembourg Prospectus Law.

Switzerland

This listing document is not intended to constitute an offer or solicitation to purchase or invest in the Notes and the Notes are not and will not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("**FinSA**") and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this listing document nor any other offering or marketing material relating to the Notes constitutes a prospectus compliant with the requirements of the FinSA for a public offering of the Notes in Switzerland and no such prospectus has been or will be prepared for or in connection with the offering of the Notes in Switzerland. Neither this listing document nor any other offering or marketing material relating to the offering of the Notes have been or will be filed with or approved by a Swiss review body (*Prüfstelle*) and none of these shall be publicly distributed or otherwise made publicly available in Switzerland.

Hong Kong

The contents of this listing document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this listing document, you should obtain independent professional advice.

The Notes have not been, and will not be, offered or sold in Hong Kong, by means of any document, any notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) no advertisement, invitation or document relating to the Notes that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been or will be issued, or in the possession of any person for the purposes of issue, whether in Hong Kong or elsewhere other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA, and may not be offered or sold directly or indirectly in Japan or to, or for the benefit of, any person resident in Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for reoffering or resale directly or indirectly in Japan or to, or for the benefit of, any person resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines of Japan. In addition, as part of the initial distribution by the Initial Purchasers, the Notes are not at any time to be directly or indirectly offered or sold to, or for the benefit of, any person other than a Gross Recipient. A "Gross Recipient" for this purpose is (i) a beneficial owner that is, for Japanese tax purposes, neither (x) an individual resident of Japan or a Japanese corporation, nor (y) an individual non-resident of Japan or a non-Japanese corporation, that in either case is a Specially-Related Person; (ii) a Japanese financial institution, as designated in Article 3-2-2, Paragraph (29) of the Cabinet Order, that will hold the Notes for its own proprietary account; or (iii) an individual resident of Japan or a Japanese corporation whose receipt of interest on the Notes will be made through a payment handling agent in Japan as defined in Article 2-2, Paragraph (2) of the Cabinet Order.

Singapore

Each Initial Purchaser acknowledges, that this listing document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser represents, warrants and agrees, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this listing document or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time, or the "**SFA**") pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a joint stock corporation organized under the laws of Japan. All of its Directors, Executive Officers and Audit & Supervisory Board Members and certain other persons named in this listing document reside in Japan and all of the assets of the Directors, Executive Officers and Audit & Supervisory Board Members and certain other persons named in this listing document and substantially all of the assets of the Issuer are located outside of the United States. As a result, investors may be unable to effect service of process within the United States or elsewhere outside Japan upon it or such persons or to enforce against it or those judgments obtained in United States courts or elsewhere predicated upon the civil liability provisions of the federal or state securities laws of the United States. The Issuer has been advised by its Japanese counsel that there is doubt as to the enforceability in Japanese courts, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon U.S. federal or state securities laws.

LISTING AND GENERAL INFORMATION

Authorizations

The issuance of the Notes was authorized by the Issuer by resolutions of the Issuer's Board of Directors passed on February 13, 2025.

Clearing Systems

The Notes have been accepted for clearance through DTC, and its direct and indirect participants, including Clearstream and Euroclear. The CUSIP, ISIN and Common Codes for the Notes are as follows:

2028 Notes

	Rule 144A Global Note	Regulation S Global Note
CUSIP	471105 AC0	J27869 BB1
ISIN	US471105AC03	USJ27869BB13
Common Codes	305734993	305715638

2030 Notes

	Rule 144A Global Note	Regulation S Global Note
CUSIP	471105 AD8	J27869 BC9
ISIN	US471105AD85	USJ27869BC95
Common Codes	301246790	301246838

2035 Notes

	Rule 144A Global Note	Regulation S Global Note
CUSIP	471105 AE6	J27869 BD7
ISIN	US471105AE68	USJ27869BD78
Common Codes	305735205	305735221

Listing

There is currently no trading market for the Notes. Application has been made to admit the Notes to the Official List of the Luxembourg Stock Exchange in its capacity as market operator of the Euro MTF market and to trade them on the Euro MTF market of that exchange. The Euro MTF market is not a regulated market for the purposes of the Markets in Financial Instruments Directive II (Directive 2014/65/EC). The Notes will not be admitted to trading on the Euro MTF Market prior to or on the settlement date. This listing document constitutes a prospectus for the purpose of the Luxembourg Prospectus Law.

Documents Available

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, copies of the following documents will be available during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection from the registered office of the Listing Agent:

(a) this listing document;

(b) the constitutional documents (with an English translation thereof) of the Issuer;

(c) the Consolidated Financial Statements for the Year Ended December 31, 2024 and the Consolidated Financial Statements for the Year Ended December 31, 2023, in each case, together with the independent auditor's report thereon; and

(d) copies of the fiscal agency agreement (including forms of Notes).

Responsibility Statement

The Issuer accepts responsibility for the information contained in this listing document. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in this listing document is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of this listing document.

No Significant Change

Except as disclosed in this listing document, there has been no significant change in the financial performance or position of the JT Group since December 31, 2024 and no material adverse change in the prospects of the JT Group, since December 31, 2024.

Litigation

Except as disclosed on pages 57 to 59 of this listing document, neither the Issuer nor any other member of the JT Group is, or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this listing document which may have or has had in that period significant effects on the financial position or profitability of either the Issuer or the JT Group taken as a whole.

VALIDITY OF SECURITIES

The validity of the Notes will be passed upon for the Issuer by Freshfields LLP and for the Initial Purchasers by Linklaters LLP. Certain Japanese legal matters relating to the Notes will be passed upon for the Issuer by Mori Hamada & Matsumoto.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Year Ended December 31, 2024 and the Consolidated Financial Statements for the Year Ended December 31, 2023, included elsewhere in this listing document, have been audited by Deloitte Touche Tohmatsu LLC (the Japanese member firm of Deloitte Touche Tohmatsu Limited), independent auditor, as stated in their reports appearing herein.

INDEX TO THE JT GROUP'S FINANCIAL INFORMATION

Japan Tobacco Inc.
Financial Statements and
Independent Auditor's Report

Year Ended December 31, 2024

Index

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Assets		
Current assets		
Cash and cash equivalents (Note 7)	1,040,206	1,084,567
Trade and other receivables (Note 8)	535,302	568,982
Inventories (Note 9)	832,611	957,281
Other financial assets (Note 10)	58,633	120,211
Other current assets (Note 11)	789,888	826,766
Subtotal	3,256,639	3,557,807
Assets held for sale (Note 12)	2,921	19,765
Total current assets	3,259,561	3,577,572
Non-current assets		
Property, plant and equipment (Notes 13, 15)	821,499	907,700
Goodwill (Note 14)	2,616,440	2,914,254
Intangible assets (Note 14)	200,819	486,463
Investment property (Note 16)	9,338	3,716
Retirement benefit assets (Note 22)	65,856	89,573
Investments accounted for using the equity method	56,726	50,423
Other financial assets (Note 10)	155,267	151,940
Other non-current assets (Note 11)	7,212	5,500
Deferred tax assets (Note 17)	89,379	183,591
Total non-current assets	4,022,536	4,793,160
Total assets	7,282,097	8,370,732

(Millions of yen)

	2023	**2024**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	592,802	659,510
Bonds and borrowings (Note 19)	233,333	178,668
Income tax payables	29,647	24,621
Other financial liabilities (Note 19)	44,470	59,965
Provisions (Note 20)	18,634	195,918
Other current liabilities (Note 21)	1,008,390	1,029,925
Total current liabilities	1,927,276	2,148,607
Non-current liabilities		
Bonds and borrowings (Note 19)	908,926	1,548,120
Other financial liabilities (Note 19)	40,678	49,210
Retirement benefit liabilities (Note 22)	279,443	277,236
Provisions (Note 20)	45,527	253,949
Other non-current liabilities (Note 21)	127,170	120,427
Deferred tax liabilities (Note 17)	40,586	124,455
Total non-current liabilities	1,442,329	2,373,398
Total liabilities	3,369,605	4,522,005
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,478	736,697
Treasury shares (Note 23)	(489,194)	(488,579)
Other components of equity (Note 23)	290,550	381,599
Retained earnings	3,192,323	3,036,905
Equity attributable to owners of the parent company	3,830,156	3,766,623
Non-controlling interests	82,336	82,104
Total equity	3,912,491	3,848,727
Total liabilities and equity	7,282,097	8,370,732

B. Consolidated Statement of Income

Years Ended December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Revenue (Notes 6, 25)	2,841,077	3,149,759
Cost of sales (Notes 14, 22)	(1,225,974)	(1,407,462)
Gross profit	1,615,103	1,742,297
Other operating income (Note 26)	30,027	31,202
Share of profit in investments accounted for using the equity method	8,332	12,885
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(981,052)	(1,462,924)
Operating profit (Note 6)	672,410	323,461
Financial income (Notes 28, 33)	44,414	69,503
Financial costs (Notes 22, 28, 33)	(95,222)	(159,198)
Profit before income taxes	621,601	233,766
Income taxes (Note 17)	(136,292)	(51,171)
Profit for the period	485,310	182,596
Attributable to		
Owners of the parent company	482,288	179,240
Non-controlling interests	3,021	3,356
Profit for the period	485,310	182,596
Earnings per share		
Basic (Yen) (Note 30)	271.69	100.95
Diluted (Yen) (Note 30)	271.63	100.94

Reconciliation from "Operating profit" to "Adjusted operating profit"

(Millions of yen)

	2023	**2024**
Operating profit	672,410	323,461
Amortization cost of acquired intangibles arising from business acquisitions	58,836	55,683
Adjustment items (income)	(18,651)	(15,621)
Adjustment items (costs)	15,407	388,345
Adjusted operating profit (Note 6)	728,002	751,868

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Profit for the period	485,310	182,596
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)	2,414	2,339
Remeasurements of defined benefit plans (Notes 22, 29)	(13,538)	13,998
Total of items that will not be reclassified to profit or loss	(11,123)	16,337
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	189,299	93,852
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	4,749	(4,201)
Hedge costs	(17)	29
Total of items that may be reclassified subsequently to profit or loss	194,031	89,680
Other comprehensive income (loss), net of taxes	182,908	106,017
Comprehensive income (loss) for the period	668,217	288,612
Attributable to		
Owners of the parent company	660,663	285,454
Non-controlling interests	7,554	3,159
Comprehensive income (loss) for the period	668,217	288,612

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2023 and 2024

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Hedge costs
As of January 1, 2023	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)
Profit for the period	−	−	−	−	−	−	−
Other comprehensive income (loss)	−	−	−	−	93,999	(4,201)	29
Comprehensive income (loss) for the period	−	−	−	−	93,999	(4,201)	29
Acquisition of treasury shares (Note 23)	−	−	(2)	−	−	−	−
Disposal of treasury shares (Note 23)	−	220	617	(193)	−	−	−
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)	−	−	−	−	−	(918)	−
Total transactions with the owners	−	220	615	(193)	−	(918)	−
As of December 31, 2024	100,000	736,697	(488,579)	364	364,809	4,026	12

(Millions of yen)

	Equity attributable to owners of the parent company						
	Other components of equity						
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2023	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
Profit for the period	–	–	–	179,240	179,240	3,356	182,596
Other comprehensive income (loss)	2,333	14,054	106,214	–	106,214	(197)	106,017
Comprehensive income (loss) for the period	2,333	14,054	106,214	179,240	285,454	3,159	288,612
Acquisition of treasury shares (Note 23)	–	–	–	–	(2)	–	(2)
Disposal of treasury shares (Note 23)	–	–	(193)	(493)	151	–	151
Share-based payments (Note 32)	–	–	–	664	664	24	688
Dividends (Note 24)	–	–	–	(349,759)	(349,759)	(2,810)	(352,569)
Changes in the scope of consolidation	–	–	–	627	627	(66)	561
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	251	251	(539)	(287)
Transfer from other components of equity to retained earnings	1	(14,054)	(14,053)	14,053	–	–	–
Other increase (decrease)	–	–	(918)	–	(918)	–	(918)
Total transactions with the owners	1	(14,054)	(15,164)	(334,657)	(348,987)	(3,390)	(352,377)
As of December 31, 2024	12,388	–	381,599	3,036,905	3,766,623	82,104	3,848,727

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Cash flows from operating activities		
Profit before income taxes	621,601	233,766
Depreciation and amortization	177,409	179,837
Impairment losses	13,710	17,370
Interest and dividend income	(42,816)	(67,562)
Interest expense	28,493	42,485
Share of profit in investments accounted for using the equity method	(8,332)	(12,885)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(16,810)	(7,374)
(Gains) losses on sale of investments in subsidiaries	104	(1,722)
(Increase) decrease in trade and other receivables	(30,169)	45,770
(Increase) decrease in inventories	(136,232)	(96,566)
Increase (decrease) in trade and other payables	40,998	(46,221)
Increase (decrease) in retirement benefit liabilities	455	(7,175)
(Increase) decrease in prepaid tobacco excise taxes	(106,987)	13,802
Increase (decrease) in tobacco excise tax payables	102,787	4,973
Increase (decrease) in consumption tax payables	23,249	4,126
Increase (decrease) in provisions	(10,001)	381,670
Other	53,080	75,299
Subtotal	710,540	759,591
Interest and dividends received	41,189	65,353
Interest paid	(26,324)	(33,980)
Income taxes paid	(159,088)	(160,953)
Net cash flows from operating activities	566,317	630,011
Cash flows from investing activities		
Purchase of securities	(113,010)	(65,514)
Proceeds from sale and redemption of securities	84,363	81,318
Purchase of property, plant and equipment	(94,861)	(127,769)
Proceeds from sale of investment property	19,653	9,753
Purchase of intangible assets	(21,707)	(22,598)
Payments into time deposits	—	(48,262)
Payments for business combinations (Note 38)	—	(265,667)
Proceeds from sale of investments in associates	1,369	414
Other	(1,239)	(1,441)
Net cash flows from investing activities	(125,432)	(439,766)

(Millions of yen)

	2023	**2024**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(367,331)	(349,645)
Dividends paid to non-controlling interests	(2,594)	(2,701)
Capital contribution from non-controlling interests	431	130
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	143,042	(150,105)
Proceeds from long-term borrowings (Note 31)	2,890	581,380
Repayments of long-term borrowings (Note 31)	(14,909)	(236,538)
Proceeds from issuance of bonds (Notes 19, 31)	59,795	97,616
Redemption of bonds (Notes 19, 31)	(68,194)	(8,722)
Repayments of lease liabilities (Note 31)	(23,613)	(26,218)
Acquisition of treasury shares	(1)	(2)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(17)	(100)
Other	0	0
Net cash flows from financing activities	(270,500)	(94,906)
Net increase (decrease) in cash and cash equivalents	170,385	95,339
Cash and cash equivalents at the beginning of the period	866,885	1,040,206
Effect of exchange rate changes on cash and cash equivalents	2,935	(50,978)
Cash and cash equivalents at the end of the period (Note 7)	1,040,206	1,084,567

F. Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2024

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, 2024 were approved on March 26, 2025 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS Accounting Standards

The Group's consolidated financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (hereinafter referred to as the "IFRS Accounting Standards").

(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 when the costs are incurred except the costs to issue debt and equity securities. 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: 20 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, a restricted stock remuneration plan and a restricted stock unit 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 and Restricted stock unit are estimated at fair value at the grant date and are 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 Accounting Standards 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, 2024.

IFRS Accounting Standards		Description of new standards and amendments
IFRS 7	Financial Instruments: Disclosures	Providing requirements for disclosure relating to supplier finance arrangements
IAS 7	Statement of Cash Flows	

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

Part of the consolidated financial statements for the year ended December 31, 2023 has been reclassified to conform with the presentation for the year ended December 31, 2024.

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 “39. Contingencies.”

F. Other information

For recent situation in Russia and Ukraine, there is no material impact on the accounting estimates and judgments at present.

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.

IFRS Accounting Standards		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	Year ending December 2027	New standard that replaces existing IAS 1 to increase the comparability and the transparency in financial statements
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 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
IFRS 9 IFRS 7	Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026	Year ending December 2026	Clarifying classification of the financial instruments with ESG-linked features Clarifying derecognition of a financial liability settled through electronic transfer
IFRS 9 IFRS 7	Amendments regarding the Contracts for Renewable Electricity	January 1, 2026	Year ending December 2026	Providing requirements for accounting treatment and disclosure relating to power purchase agreements

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, 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	2,591,303	94,875	153,885	2,840,063	4,222	(3,208)	2,841,077
Segment profit (loss)							
Adjusted operating profit (Note 1)	749,757	17,409	6,848	774,014	(46,136)	124	728,002
Other items							
Depreciation and amortization (Note 3)	163,584	4,586	7,057	175,227	2,189	(7)	177,409
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)	101,560	6,582	5,818	113,961	6,755	—	120,715

¥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.

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,896,555	94,464	157,183	3,148,203	1,556	—	3,149,759
Intersegment revenue	431	—	28	458	3,037	(3,496)	—
Total revenue	2,896,986	94,464	157,211	3,148,661	4,593	(3,496)	3,149,759
Segment profit (loss)							
Adjusted operating profit (Note 1)	791,773	9,233	8,071	809,077	(57,214)	5	751,868
Other items							
Depreciation and amortization (Note 3)	162,129	4,950	7,312	174,391	5,452	(5)	179,837
Impairment losses on other than financial assets	16,549	—	12	16,561	810	—	17,370
Reversal of impairment losses on other than financial assets	825	—	—	825	—	—	825
Share of profit (loss) in investments accounted for using the equity method	12,793	—	26	12,819	66	—	12,885
Capital expenditures (Note 4)	134,963	7,001	6,116	148,081	2,610	—	150,691

¥2,778,610 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)	802,325	688,921	1,287,364	2,778,610
Adjusted operating profit	219,645	257,106	315,022	791,773

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, 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

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	791,773	9,233	8,071	809,077	(57,214)	5	751,868
Amortization cost of acquired intangibles arising from business acquisitions	(55,683)	−	−	(55,683)	−	−	(55,683)
Adjustment items (income) (Note 6)	5,568	−	446	6,013	9,607	−	15,621
Adjustment items (costs) (Note 7)	(387,074)	−	(511)	(387,585)	(760)	−	(388,345)
Operating profit (loss)	354,584	9,233	8,005	371,822	(48,367)	5	323,461
Financial income							69,503
Financial costs							(159,198)
Profit before income taxes							233,766

(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)

	2023	**2024**
Tobacco	21,530	22,794
Pharmaceuticals	656	547
Processed Food	518	503
Other	1,364	3,174
Depreciation of right-of-use assets	24,068	27,018

(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)

	2023	**2024**
Restructuring incomes	18,207	7,885
Other	444	7,736
Adjustment items (income)	18,651	15,621

Restructuring incomes for the years ended December 31, 2023 and 2024 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, 2024 mainly related to gains on deconsolidation of subsidiaries.

(Note 7) The breakdown of “Adjustment items (costs)” is as follows:

(Millions of yen)

	2023	**2024**
Restructuring costs	4,534	6,077
Loss on litigation in Canada	—	375,636
Other	10,873	6,631
Adjustment items (costs)	15,407	388,345

Restructuring costs for the year ended December 31, 2024 mainly related to rationalization in a market in the “Tobacco Business.” Restructuring costs included in “Cost of sales” were ¥(243) million for the year ended December 31, 2023. Restructuring costs included in “Selling, general and administrative expenses” were ¥4,777 million and ¥6,077 million for the years ended December 31, 2023 and 2024, respectively. The breakdown of restructuring costs is described in “27. Selling, General and Administrative Expenses.” Loss on litigation in Canada for the year ended December 31, 2024 related to the settlement covering all pending tobacco-related claims in Canada, including all smoking and health related cases in Canada brought against the Company’s local 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.” Other (costs) for the year ended December 31, 2024 mainly related to impairment loss on trademark and transaction costs of the business combination 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)

	2023	**2024**
Japan	636,639	575,799
Overseas	3,017,621	3,736,334
Consolidated	3,654,260	4,312,132

(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)

	2023	**2024**
Japan	685,373	668,005
Overseas	2,155,704	2,481,754
Consolidated	2,841,077	3,149,759

(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 ¥370,970 million (13.1% of consolidated revenue) for the year ended December 31, 2023 and ¥416,186 million (13.2% of consolidated revenue) for the year ended December 31, 2024.

7. Cash and Cash Equivalents

The breakdown of “Cash and cash equivalents” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Cash and deposits	787,890	913,681
Short-term investments	252,316	170,886
Total	1,040,206	1,084,567

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 ¥115,779 million as of December 31, 2023 and ¥123,169 million as of December 31, 2024 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 ¥143,791 million as of December 31, 2023 and ¥168,111 million as of December 31, 2024 held by JTI-Mac.

8. Trade and Other Receivables

The breakdown of “Trade and other receivables” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Notes and accounts receivable	525,809	545,898
Financial assets measured at amortized cost	520,502	523,014
Financial assets measured at fair value through profit or loss	5,307	22,884
Other	13,398	30,893
Allowance for doubtful accounts	(3,905)	(7,810)
Total	535,302	568,982

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)

	2023	**2024**
Merchandise and finished goods	189,681	211,762
Leaf tobacco (Note)	519,932	599,921
Other	122,998	145,598
Total	832,611	957,281

(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)

	2023	**2024**
Derivative assets	19,187	18,900
Equity securities	34,281	42,492
Debt securities	70,087	76,551
Time deposits	—	46,568
Other	96,775	94,420
Allowance for doubtful accounts	(6,430)	(6,780)
Total	213,900	272,151
Current assets	58,633	120,211
Non-current assets	155,267	151,940
Total	213,900	272,151

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, amounting to ¥34,281 million as of December 31, 2023 and ¥36,630 million as of December 31, 2024, and as financial assets measured at fair value through profit or loss, amounting to ¥5,862 million as of December 31, 2024, 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	2023	**2024**
Seven & i Holdings Co., Ltd.	4,785	6,381
DOUTOR･NICHIRES Holdings Co., Ltd.	2,909	3,087
Mitsubishi Shokuhin Co., Ltd.	2,891	3,018
KATO SANGYO CO., LTD.	2,587	2,542
Japan Airport Terminal Co., Ltd.	2,484	2,000
NIPPON EXPRESS HOLDINGS, INC.	1,387	1,242
Daicel Corporation	1,161	1,195
Kanemi Co., Ltd.	647	690
AEON CO., LTD.	457	547
MEDIPAL HOLDINGS CORPORATION	507	528

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 are as follows:

(Millions of yen)

	2023	**2024**
Fair value	2,911	2,824
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(1,111)	1

(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 Assets

The breakdown of “Other current assets” and “Other non-current assets” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Prepaid tobacco excise taxes	571,162	597,589
Prepaid expenses	20,852	22,564
Consumption tax receivables	21,802	20,017
Other	183,285	192,096
Total	797,100	832,266
Current assets	789,888	826,766
Non-current assets	7,212	5,500
Total	797,100	832,266

12. Assets Held for Sale

The breakdown of “Assets held for sale” as of December 31 is as follows:

Breakdown of Major Assets

(Millions of yen)

	2023	**2024**
Assets held for sale		
Property, plant and equipment	2,597	5,037
Investment property	324	3,520
Other	—	11,208
Total	2,921	19,765

“Assets held for sale” are mainly idle properties which are currently actively marketed for sale.

"Other" in the table above, which mainly consists of investments accounted for using the equity method, is assets decided to be sold in non-core business operated by a subsidiary.

With regard to such assets and assets sold, impairment losses of ¥15 million were recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended December 31, 2023.

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:

(Millions of yen)

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2023	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
Individual acquisition	32,802	55,446	16,668	53,845	158,762
Acquisition through business combination	4,170	11,040	656	665	16,531
Transfer to investment property	(210)	—	—	—	(210)
Transfer to assets held for sale	—	(2,315)	—	—	(2,315)
Depreciation	(38,545)	(56,942)	(14,086)	—	(109,573)
Impairment losses	(1,319)	(5,182)	(419)	(223)	(7,143)
Reversal of impairment losses	—	750	—	75	825
Sale or disposal	(2,319)	(2,082)	(610)	(6)	(5,017)
Exchange differences on translation of foreign operations	12,980	17,017	1,530	4,052	35,579
Other	4,542	35,730	2,368	(43,878)	(1,238)
As of December 31, 2024	410,581	377,224	47,316	72,579	907,700

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2023	733,029	961,601	162,161	51,226	1,908,018
As of December 31, 2023	776,746	1,040,905	173,636	58,050	2,049,337
As of December 31, 2024	823,087	1,137,391	184,385	72,579	2,217,443

(Millions of yen)

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2023	342,600	665,259	124,202	―	1,132,061
As of December 31, 2023	378,266	717,144	132,427	―	1,227,838
As of December 31, 2024	412,507	760,167	137,070	―	1,309,743

(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 ¥8,264 million in the year ended December 31, 2023, and ¥7,143 million in the year ended December 31, 2024 in “Selling, general and administrative expenses” in the consolidated statement of income.

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.

Impairment losses recognized in the year ended December 31, 2024 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 and the decrease in profitability, 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, 2023	2,446,063	179,145	24,906	38,052	2,688,166
Individual acquisition	—	—	5,989	15,646	21,635
Amortization (Note)	—	(53,969)	(11,570)	(5,483)	(71,023)
Transfer to assets held for sale	—	—	—	(1)	(1)
Impairment losses	—	(5,182)	(194)	—	(5,377)
Sale or disposal	—	(12)	(153)	(122)	(287)
Exchange differences on translation of foreign operations	170,377	11,777	1,009	725	183,887
Other	—	(4)	3,029	(2,766)	259
As of December 31, 2023	2,616,440	131,754	23,015	46,049	2,817,258
Individual acquisition	—	—	6,375	16,547	22,922
Acquisition through business combination	248,076	51,210	—	266,089	565,375
Amortization (Note)	—	(50,095)	(11,703)	(8,377)	(70,175)
Impairment losses	—	(2,940)	(5,812)	(63)	(8,814)
Sale or disposal	—	—	(270)	(184)	(454)
Exchange differences on translation of foreign operations	50,223	7,682	882	16,290	75,077
Other	(485)	—	14,845	(14,832)	(472)
As of December 31, 2024	2,914,254	137,611	27,333	321,519	3,400,717

(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, 2023	2,446,063	1,141,901	164,192	109,317	3,861,473
As of December 31, 2023	2,616,440	1,192,456	175,811	114,342	4,099,049
As of December 31, 2024	2,914,254	1,278,413	172,332	398,094	4,763,093

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2023	—	962,756	139,286	71,266	1,173,308
As of December 31, 2023	—	1,060,703	152,796	68,292	1,281,790
As of December 31, 2024	—	1,140,802	145,000	76,575	1,362,377

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill, trademarks and other intangible assets in the “Tobacco Business.” The carrying amounts of goodwill from the business as of December 31, 2023 and 2024 were ¥2,591,071 million and ¥2,888,885 million, respectively. The carrying amounts of trademarks from the business as of December 31, 2023 and 2024 were ¥131,753 million and ¥137,610 million, respectively. The carrying amounts of other intangible assets from the business as of December 31, 2023 and 2024 were ¥14,608 million and ¥297,352 million, respectively.

The majority of goodwill 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, Natural American Spirit’s in 2016 and Vector Group Ltd. in 2024.

The majority of other intangible assets is those related to contracts and licenses to operate tobacco businesses, which were recognized as a result of the business combination. The content is described in “38. Business combinations.”

The other intangible assets are amortized using the straight-line method and the remaining amortization period is mainly 20 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2024, the carrying amount of the majority of goodwill is allocated to the tobacco cash-generating unit of ¥2,888,885 million (¥2,591,071 million for the year ended December 31, 2023) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2023). 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 5.5% in the fourth year (2023: 4.9%) to 3.7% in the ninth year (2023: 3.7%), 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 10.6% (2023: 10.3%). 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 2.1% in the fourth year (2023: 1.9%) to 1.9% in the ninth year (2023: 1.1%), 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 5.0% (2023: 5.1%). 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.

(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 ¥5,377 million for the year ended December 31, 2023, and ¥8,814 million for the year ended December 31, 2024 in "Selling, general and administrative expenses" in the consolidated statement of income.

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.

Impairment losses recognized in the year ended December 31, 2024 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.

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, 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

Year ended December 31, 2024

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	21,110	9,827	56	30,993
Depreciation	19,690	7,287	42	27,018

As of December 31, 2024

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	51,224	15,338	126	66,687

(2) Expense Items Related to Lease

The breakdown of expense items related to lease is as follows:

(Millions of yen)

	2023	2024
Financial cost on lease liabilities	1,697	2,442
Expense relating to short-term lease or leases of low-value assets	8,615	7,400
Expense relating to variable lease payments	1,502	1,321
Total cash outflow for leases	25,504	28,680

16. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of “Investment property” for each year is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	9,495	9,338
Transfer from property, plant and equipment	1,365	210
Transfer to assets held for sale	(1,074)	(4,974)
Transfer to property, plant and equipment	(105)	(3)
Depreciation	(82)	(89)
Impairment losses	(55)	(750)
Sale or disposal	(5)	(25)
Exchange differences on translation of foreign operations	(200)	9
Other	0	—
As of December 31	9,338	3,716
Acquisition cost as of January 1	30,811	27,031
Accumulated depreciation and accumulated impairment losses as of January 1	21,316	17,693
Acquisition cost as of December 31	27,031	8,880
Accumulated depreciation and accumulated impairment losses as of December 31	17,693	5,164

(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, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	20,887	687	21,574

As of December 31, 2024

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	11,078	1,206	12,284

(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 ¥55 million for the year ended December 31, 2023, and ¥750 million for the year ended December 31, 2024 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized for the year ended December 31, 2023 represent losses incurred to reduce the carrying amounts to the recoverable amounts for idle properties such as buildings, due to the decision to demolish individual items, etc. 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, 2024 represent losses incurred to reduce the carrying amounts to the recoverable amounts for idle properties such as land and buildings, due to the decision to demolish individual items, etc. The recoverable amounts are calculated based on value in use, which are "zero" for buildings that were reduced due to the decision of demolition, and the recoverable amounts of other properties are calculated by the fair value less costs of disposal.

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, 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)

Year ended December 31, 2024

(Millions of yen)

Deferred Tax Assets	As of January 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2024
Fixed assets (Note 2)	77,894	(18,238)	—	1,006	60,662
Retirement benefits	61,491	676	(4,243)	1,515	59,439
Carryforward of unused tax losses	115,279	23,950	—	3,689	142,917
Other (Note 3)	128,624	118,862	9,560	14,012	271,057
Subtotal	383,288	125,249	5,317	20,221	534,076
Valuation allowance	(145,955)	(24,330)	3,034	(5,575)	(172,826)
Total	237,333	100,919	8,351	14,646	361,250

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2024
Fixed assets (Note 2)	(71,780)	12,795	—	(97,820)	(156,804)
Retirement benefits	(22,301)	5,255	(1,000)	(3,600)	(21,646)
Other	(94,459)	(22,656)	424	(6,971)	(123,662)
Total	(188,540)	(4,606)	(576)	(108,390)	(302,113)

(Note 1) “Other” includes exchange differences on translation of foreign operations and acquisition through business combinations.
(Note 2) “Fixed assets” include property, plant and equipment, goodwill, intangible assets and investment property.
(Note 3) “Other” includes Provision for loss on litigation in Canada.

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 ¥103,755 million (including ¥53,625 million, for which the carryforward expires after five years) as of December 31, 2023, and ¥118,040 million (including ¥50,463 million, for which the carryforward expires after five years) as of December 31, 2024. Tax credits, for which the deferred tax assets are not recognized, were ¥9,949 million (including ¥7,537 million, for which the carryforward expires after five years) as of December 31, 2023, and ¥11,236 million (including ¥7,081 million, for which the carryforward expires after five years) as of December 31, 2024.

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax liabilities were not recognized, was ¥506,712 million as of December 31,2023 and 2024.

(2) Income Taxes

The breakdown of “Income taxes” for each year is as follows:

(Millions of yen)

	2023	**2024**
Current income taxes	132,566	147,483
Deferred income taxes	3,725	(96,313)
Total income taxes	136,292	51,171

Deferred income taxes increased by ¥3,659 million and decreased by ¥6,004 million for the years ended December 31, 2023 and 2024, 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.

(%)

	2023	**2024**
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(12.16)	(13.81)
Non-deductible expenses	1.53	1.83
Non-taxable incomes	(2.99)	(1.55)
Changes in tax rates	0.59	(0.99)
Valuation allowance	2.49	3.60
Tax credits	(1.55)	(1.25)
Retained earnings	0.93	1.50
Withholding tax in foreign countries	1.45	3.40
Tax contingencies	1.41	0.45
Other	(0.19)	(1.71)
Average actual tax rate	21.93	21.89

(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.

Current income taxes related to the Pillar Two Model Rules are 894 million yen.
For the areas where such rules have not been enacted in the current fiscal year, there will be no material impacts on the Group’s consolidated financial statements even if they were to be applied.

18. Trade and Other Payables

The breakdown of “Trade and other payables” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Accounts payable and other payables	387,461	259,974
Other	205,341	399,537
Total	592,802	659,510

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)

	2023	**2024**	Due
Derivative liabilities	25,076	45,103	—
Short-term borrowings	208,968	60,317	—
Current portion of long-term borrowings	24,365	2,935	—
Current portion of bonds (Note 2)	—	115,416	—
Long-term borrowings (Note 1)	123,025	735,400	2026 - 2080
Bonds (Note 2)	785,901	812,721	—
Lease liabilities	59,591	63,595	—
Other	481	477	—
Total	1,227,407	1,835,964	
Current liabilities	277,803	238,633	
Non-current liabilities	949,604	1,597,331	
Total	1,227,407	1,835,964	

(Note 1) ¥99,751 million and ¥99,980 million of the long-term borrowings are subordinated loans due in 2080 as of December 31, 2023 and 2024, 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	As of December 31, 2023 (Millions of yen)	As of December 31, 2024 (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	25,000	25,000 (25,000)	0.599	Yes	July 15, 2025
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	10,000	0.713	Yes	April 19, 2030
Japan Tobacco Inc.	16th domestic straight bond	April 20, 2023	30,000	30,000	0.920	Yes	April 20, 2033
Japan Tobacco Inc.	17th domestic straight bond	April 20 2023	20,000	20,000	1.630	Yes	April 20, 2043
JT International Financial Services B.V.	Straight bond in USD (Note 5)	September 28, 2018	69,498 [USD 493 mil.]	75,680 [USD 484 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	85,862 [EUR 550 mil.]	90,416 (90,416) [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR (Note 5)	November 26, 2019	73,528 [EUR 472 mil.]	73,748 [EUR 450 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	71,144 [GBP 400 mil.]	78,345 [GBP 400 mil.]	2.750	No	September 28, 2033
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	78,011 [EUR 500 mil.]	82,138 [EUR 500 mil.]	2.375	No	April 7, 2081 (Note 3)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	77,862 [EUR 500 mil.]	81,948 [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	79,211 [USD 593 mil.]	84,295 [USD 562 mil.]	2.250	No	September 14, 2031
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	56,272 [USD 400 mil.]	62,634 [USD 400 mil.]	3.300	No	September 14, 2051
JT International Financial Services B.V.	Straight bond in USD	October 24, 2022	69,513 [USD 500 mil.]	77,487 [USD 500 mil.]	6.875	No	October 24, 2032
JT International Financial Services B.V.	Straight bond in EUR	April 11, 2024	— [−]	96,446 [EUR 600 mil.]	3.625	No	April 11, 2034
		Total	785,901 (−)	928,136 (115,416)			

(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 previous and current fiscal years.

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, 2023

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Provision for loss on litigation in Canada	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
Provisions for business combinations	—	—	—	—	—	—
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

Year ended December 31, 2024

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Provision for loss on litigation in Canada	Other provisions	Total
As of January 1, 2024	11,136	5,996	4,268	—	42,760	64,161
Provisions	339	5,963	3,915	375,636	31,369	417,222
Provisions for business combinations	—	—	—	—	4,838	4,838
Interest cost associated with passage of time	39	—	—	—	—	39
Provisions used	(55)	(10,721)	(4,448)	—	(3,462)	(18,685)
Provisions reversed	(11)	(398)	—	—	(17,770)	(18,179)
Exchange differences on translation of foreign operations	54	55	—	—	362	471
As of December 31, 2024	11,502	895	3,736	375,636	58,097	449,867
Current liabilities	230	533	3,736	170,214	21,205	195,918
Non-current liabilities	11,272	362	—	205,422	36,892	253,949
Total	11,502	895	3,736	375,636	58,097	449,867

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.

D. Provision for Loss on Litigation in Canada

On March 1, 2019, the Quebec Court of Appeal dismissed an appeal of two class action lawsuits related to smoking and health against the Company's local subsidiary, JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), and its competitors and co-defendants, Rothmans, Benson & Hedges Inc. (hereinafter referred to as "RBH") and Imperial Tobacco Canada Limited (hereinafter referred to as "ITC" and collectively with JTI-Mac and RBH referred to as the "Tobacco Companies").

On March 8, 2019, JTI-Mac applied to the Ontario Superior Court for protection under the Companies' Creditors Arrangement Act (hereinafter referred to as the "CCAA"), which was approved. RBH and ITC also sought and received protection under the CCAA in March 2019. As a result, all legal proceedings and enforcement of judgments in Canada to which the Tobacco Companies were the parties were stayed, and the Tobacco Companies were able to preserve their assets and continue their businesses under the CCAA.

Subsequently, the Tobacco Companies have been participating in a court-ordered mediation process with representatives of multiple claimants, including the Quebec class action plaintiffs and all provincial and territorial governments (hereinafter collectively referred to as the "Claimants"), in an attempt to reach a final resolution of all pending litigation.

On October 17, 2024, the Court-appointed mediator and the CCAA Monitors for each Tobacco Companies publicly proposed CCAA Plans of Compromise and Arrangement (hereinafter referred to as the "Plans"), under which the Tobacco Companies would pay a total of CAD 32.5 billion (approximately ¥3.56 trillion) in aggregate to settle the litigation (including 18 pending litigation against JTI-Mac). The Plans were approved at a creditors' meeting held on December 12, 2024.

Following a Court hearing in January 2025 to consider approving the Plans, JTI-Mac reached an agreement with the other two Tobacco Companies on the terms of allocation of payments between them, which had been an important outstanding issue. The resulting proposed amendments were filed with the Ontario Superior Court on February 27, 2025.

As a result, we have retroactively recorded a provision for loss on litigation of ¥375,636 million in operating expenses in fiscal year 2024 as an adjusting subsequent event in accordance with IAS 37.
On March 6, 2025, the Ontario Superior Court released its decision to approve the Plans.

The details of the settlement payments are as follows:
- JTI-Mac will pay the cash and cash equivalents it holds as at the month end prior to the month in which the settlement is implemented as an Upfront Payment
- For Annual Payments, a certain percentage of JTI-Mac's annual net income after tax (85% for years 1-5, 80% for years 6-10, 75% for years 11-15, and 70% from year 16 onwards) will be paid. These Annual Payments will continue until the total settlement amount (CAD 32.5 billion) is paid in aggregate between the Tobacco Companies, which the Company expects will take 20-30 years.

In calculating the Provision for Loss on Litigation in Canada, the Upfront Payment is estimated based on JTI-Mac's cash and cash equivalents at the time defined in the Plan. For Annual Payments, the calculation is based on the annual net income after tax for each year incorporating future trends in the market size of the tobacco business in Canada and JTI-Mac's expected market share in the Canadian tobacco market.
Additionally, the discount rate used in calculating the provision is a pre-tax discount rate of 6.09%, which reflects current market assessments of the time value of money and the risks specific to the liability.

21. Other Liabilities

The breakdown of "Other current liabilities" and "Other non-current liabilities" as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Tobacco excise tax payables	454,727	466,836
Tobacco special excise tax payables	8,484	7,982
Tobacco local excise tax payables	178,585	178,253
Consumption tax payables	168,081	172,211
Bonus to employees	83,323	97,109
Employees' unused paid vacations liabilities	21,025	22,475
Other	221,333	205,488
Total	1,135,560	1,150,352
Current liabilities	1,008,390	1,029,925
Non-current liabilities	127,170	120,427
Total	1,135,560	1,150,352

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.

Certain subsidiary transferred a portion of their pension plans from a defined benefit plan to a defined contribution plan as of January 1, 2024.

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, 2023 (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
Current service cost	7,759	11,515	19,274
Past service cost and settlement	—	384	384
Interest expense	2,429	19,402	21,831
Contributions by plan participants	—	3,626	3,626
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(1,609)	(516)	(2,125)
Actuarial gains and losses arising from changes in financial assumptions	(1,649)	(11,664)	(13,313)
Actuarial gains and losses arising from experience adjustments	(7,457)	3,591	(3,866)
Benefits paid	(14,010)	(40,490)	(54,500)
Effect of business combination	—	10,877	10,877
Exchange differences on translation of foreign operations	—	35,606	35,606
Other	(309)	(0)	(309)
As of December 31, 2024 (Notes 1, 2)	124,752	601,708	726,460

(Note 1) The Group's weighted-average duration of the defined benefit obligations is 6.9 years for Japan and 11.7 years for overseas (2023 : 7.0 years for Japan and 11.8 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, 2023			**As of December 31, 2024**		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	108,150	229,184	337,335	98,999	255,731	354,730
Deferred members	2,917	54,171	57,088	2,070	43,498	45,568
Pensioners	28,530	286,021	314,551	23,683	302,479	326,162
Total	139,597	569,376	708,974	124,752	601,708	726,460

(Note 3) The schedule of mutual pension benefits obligations included in the category of Japan is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	17,346	14,390
Interest expense	243	187
Remeasurement gains and losses	(855)	(700)
Benefits paid	(2,344)	(2,075)
As of December 31	14,390	11,802

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2023	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
Interest income	736	15,680	16,416
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(495)	974	479
Contributions by the employer (Notes 1, 2)	743	7,943	8,686
Contributions by plan participants	—	3,626	3,626
Benefits paid	(3,515)	(27,787)	(31,302)
Effect of business combination	—	13,631	13,631
Exchange differences on translation of foreign operations	—	31,873	31,873
As of December 31, 2024	41,436	497,360	538,796

(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 ¥8,558 million in the year ending December 31, 2025.

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, 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

As of December 31, 2024

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	28,442	433,246	461,689
Fair value of the plan assets	(41,436)	(497,360)	(538,796)
Subtotal	(12,994)	(64,113)	(77,107)
Present value of the unfunded defined benefit obligations	96,310	168,461	264,771
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	83,316	104,348	187,663
Retirement benefit liabilities	97,510	179,726	277,236
Retirement benefit assets	(14,194)	(75,378)	(89,573)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	83,316	104,348	187,663

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, 2023			As of December 31, 2024		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	8,736	—	8,736	8,642	—	8,642
Equity instruments	2,945	—	2,945	3,311	—	3,311
Japan	1,487	—	1,487	1,730	—	1,730
Overseas	1,458	—	1,458	1,580	—	1,580
Debt instruments	5,575	—	5,575	5,829	—	5,829
Japan	4,435	—	4,435	4,565	—	4,565
Overseas	1,140	—	1,140	1,264	—	1,264
General account of life insurance companies (Note 1)	—	23,853	23,853	—	21,492	21,492
Other	827	2,032	2,860	1,009	1,154	2,163
Total	18,082	25,885	43,968	18,791	22,645	41,436

(Millions of yen)

Overseas

	As of December 31, 2023			As of December 31, 2024		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	64,428	—	64,428	75,865	—	75,865
Equity instruments	60,417	—	60,417	74,636	—	74,636
United Kingdom	3,167	—	3,167	2,689	—	2,689
North America	16,790	—	16,790	27,484	—	27,484
Other	40,460	—	40,460	44,463	—	44,463
Debt instruments	89,432	7,159	96,592	100,107	7,653	107,760
United Kingdom	817	—	817	902	—	902
North America	29,256	—	29,256	39,158	—	39,158
Other	59,360	7,159	66,519	60,046	7,653	67,699
Real estate	31,585	32	31,617	39,138	32	39,170
Other (Note 2)	14,196	184,170	198,366	16,241	183,688	199,929
Total	260,058	191,361	451,419	305,987	191,373	497,360

(Millions of yen)

	Total					
	As of December 31, 2023			As of December 31, 2024		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	73,164	—	73,164	84,508	—	84,508
Equity instruments	63,362	—	63,362	77,947	—	77,947
Debt instruments	95,007	7,159	102,167	105,936	7,653	113,589
Real estate	31,585	32	31,617	39,138	32	39,170
General account of life insurance companies (Note 1)	—	23,853	23,853	—	21,492	21,492
Other (Note 2)	15,023	186,202	201,225	17,250	184,842	202,092
Total	278,140	217,247	495,387	324,777	214,019	538,796

(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 ¥175,160 million and ¥174,212 million for the years ended December 31, 2023 and 2024, 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, 2023

(%)

	Japan	Overseas
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)

As of December 31, 2024

(%)

	Japan	Overseas
Discount rate	2.0	3.4
Inflation rate	—	2.3

(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, 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)

As of December 31, 2024

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(3,951)	(33,149)
	Decrease by 0.5%	4,226	36,310
Inflation rate	Increase by 0.5%	－	20,508
	Decrease by 0.5%	－	(19,816)
Mortality rate	Extended 1 year	1,660	17,627
	Shortened 1 year	(1,585)	(17,513)

F. Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost for each year is as follows:

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

Year ended December 31, 2024

(Millions of yen)

	Japan	Overseas	Total
Current service cost	7,759	11,515	19,274
Past service cost and gains and losses on settlement	—	384	384
Interest expense (income)	1,693	3,722	5,416
Defined benefit cost through profit or loss	9,452	15,621	25,074
Actuarial gains and losses arising from changes in demographic assumptions	(1,609)	(516)	(2,125)
Actuarial gains and losses arising from changes in financial assumptions	(1,649)	(11,664)	(13,313)
Actuarial gains and losses arising from experience adjustments	(7,457)	3,591	(3,866)
Return on plan assets (excluding amounts included in interest income)	495	(974)	(479)
Defined benefit cost through other comprehensive income	(10,220)	(9,563)	(19,783)
Total of defined benefit cost	(768)	6,058	5,290

(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 ¥12,486 million for the year ended December 31, 2023 and ¥14,635 million for the year ended December 31, 2024 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:

(Millions of yen)

	2023	**2024**
Remuneration and salary	294,712	340,972
Bonus to employees	114,114	133,619
Legal welfare expenses	54,579	61,249
Welfare expenses	51,066	56,211
Termination benefits	837	5,525

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2023 and 2024 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, 2023	2,000,000	100,000	736,400
Increase (decrease)	—	—	78
As of December 31, 2023	2,000,000	100,000	736,478
Increase (decrease)	—	—	220
As of December 31, 2024	2,000,000	100,000	736,697

(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, 2023	225,146	490,183
Increase (decrease) (Note 2)	(454)	(989)
As of December 31, 2023	224,692	489,194
Increase (decrease) (Note 2)	(283)	(615)
As of December 31, 2024	224,409	488,579

(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 0 thousand shares for the year ended December 31, 2023 and 0 thousand shares for the year ended December 31, 2024. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2024. The number of shares delivered upon exercise of share options are 260 thousand shares for the year ended December 31, 2023 and 121 thousand shares for the year ended December 31, 2024. The number of shares disposed for restricted stock remuneration are 158 thousand shares for the year ended December 31, 2023 and 125 thousand shares for the year ended December 31, 2024. The number of shares disposed for performance share unit remuneration are 37 thousand shares for the year ended December 31, 2023 and 38 thousand shares for the year ended December 31, 2024.

(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 of Japan. 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, 2023

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	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

Year ended December 31, 2024

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 22, 2024)	Ordinary shares	177,531	100	December 31, 2023	March 25, 2024
Board of Directors (August 2, 2024)	Ordinary shares	172,229	97	June 30, 2024	September 4, 2024

Dividends for which the effective date falls in the following year are as follows:

Year ended December 31, 2023

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 22, 2024)	Ordinary shares	177,531	100	December 31, 2023	March 25, 2024

Year ended December 31, 2024

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 26, 2025)	Ordinary shares	172,232	97	December 31, 2024	March 27, 2025

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, 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	2,590,910	94,875	153,854	1,439	2,841,077

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business	2,778,610	—	—	—	2,778,610
Other	117,945	94,464	157,183	1,556	371,149
Total	2,896,555	94,464	157,183	1,556	3,149,759

(Note) Revenues from RRP in core revenue from the "Tobacco Business" were ¥81,641 million and ¥98,873 million for the years ended December 31, 2023 and 2024, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

A. Tobacco Business

Tobacco business engages 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 include 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 include 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 include 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:

(Millions of yen)

	2023	**2024**
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	18,952	8,852
Other (Note)	11,076	22,350
Total	30,027	31,202

(Note) The amount of restructuring incomes included in each account is as follows:

(Millions of yen)

	2023	**2024**
Gain on sale of property, plant and equipment, intangible assets and investment property	17,808	7,865
Other	398	20
Total	18,207	7,885

27. Selling, General and Administrative Expenses

The breakdown of “Selling, general and administrative expenses” for each year is as follows:

(Millions of yen)

	2023	**2024**
Advertising expenses	39,291	52,758
Promotion expenses	140,863	167,491
Commission (Note 2)	79,315	81,949
Employee benefit expenses (Note 2)	365,408	408,286
Research and development expenses (Note 1)	75,098	78,614
Depreciation and amortization	103,000	104,613
Impairment losses on other than financial assets (Note 2)	13,710	17,370
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	4,344	2,515
Loss on litigation in Canada	-	375,636
Other (Note 2)	160,022	173,690
Total	981,052	1,462,924

(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)

	2023	**2024**
Employee benefit expenses	640	5,529
Impairment losses on other than financial assets	137	768
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	1,017	218
Other	2,984	(437)
Total	4,777	6,077

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	2023	**2024**
Dividend income		
Financial assets measured at fair value through other comprehensive income	833	2,526
Financial assets measured at fair value through profit or loss	—	96
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	41,983	64,940
Other	1,597	1,941
Total	44,414	69,503

(Millions of yen)

Financial Costs	2023	**2024**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	26,762	39,888
Other	1,731	2,596
Foreign exchange losses (Note 1)	51,885	81,806
Employee benefit expenses (Note 2)	5,201	5,416
Loss on net monetary position	6,485	18,435
Other	3,158	11,056
Total	95,222	159,198

(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, 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

Year ended December 31, 2024

(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	2,774	—	2,774	(435)	2,339
Remeasurements of defined benefit plans	19,783	—	19,783	(5,785)	13,998
Total of items that will not be reclassified to profit or loss	22,557	—	22,557	(6,220)	16,337
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	82,898	(2,687)	80,211	13,641	93,852
Net gain (loss) on derivatives designated as cash flow hedges	(3,558)	(1,226)	(4,785)	584	(4,201)
Hedge costs	34	—	34	(5)	29
Total of items that may be reclassified subsequently to profit or loss	79,374	(3,914)	75,460	14,220	89,680
Total	101,931	(3,914)	98,017	8,000	106,017

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)

	2023	**2024**
Profit for the period attributable to owners of the parent company	482,288	179,240
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic earnings per share	482,288	179,240

B. Weighted-average Number of Ordinary Shares Outstanding During the Period

(Thousands of shares)

	2023	**2024**
Weighted-average number of shares during the period	1,775,142	1,775,509

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2023	**2024**
Profit for the period used for calculation of basic earnings per share	482,288	179,240
Adjustment	–	–
Profit for the period used for calculation of diluted earnings per share	482,288	179,240

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

(Thousands of shares)

	2023	**2024**
Weighted-average number of ordinary shares during the period	1,775,142	1,775,509
Increased number of ordinary shares under subscription rights to shares	415	264
Weighted-average number of diluted ordinary shares during the period	1,775,557	1,775,773

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, 2023

(Millions of yen)

	As of January 1, 2023	Cash flows	Non-cash changes			As of December 31, 2023
			Acquisition through business combinations	Foreign exchange movement	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

Year ended December 31, 2024

(Millions of yen)

	As of January 1, 2024	Cash flows	Non-cash changes			As of December 31, 2024
			Acquisition through business combinations	Foreign exchange movement	Other	
Short-term borrowings and commercial paper	208,968	(150,105)	—	1,454	—	60,317
Long-term borrowings (Note)	147,390	344,842	211,229	33,458	1,417	738,335
Bonds (Note)	785,901	88,894	—	52,773	568	928,136
Lease liabilities	59,591	(26,218)	1,641	1,555	27,027	63,595
Total	1,201,850	257,413	212,870	89,240	29,012	1,790,384

(Note) Current portion is included.

32. Share-based Payments

(1) Share Option

The Company adopts 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)

	2023			**2024**		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	361,000	250,400	611,400	211,800	139,600	351,400
Exercised	—	(260,000)	(260,000)	—	(120,800)	(120,800)
Transferred	(149,200)	149,200	—	(47,600)	47,600	—
Balance as of December 31	211,800	139,600	351,400	164,200	66,400	230,600
Exercisable balance as of December 31	—	21,200	21,200	—	13,200	13,200

(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 ¥2,815 and ¥4,097 for the years ended December 31, 2023 and 2024, respectively.

(Note 5) The weighted-average remaining contract years of unexercised share options at the end of each period were 23.2 years and 22.0 years for the years ended December 31, 2023 and 2024, 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

	2023		**2024**	
Grant date		July 12, 2023		April 19, 2024
Number of allotted shares	Directors:	85,200	Directors:	70,200
	Executive Officers:	72,500	Executive Officers:	54,300
Fair value at the grant date		¥3,201		¥3,958
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) Restricted Stock Unit

The Company has the restricted stock unit plan, which delivers the Company's ordinary shares which are obtained by the board benefit trust to Executive Officers of certain subsidiary. 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.

In this plan, the board benefit trust which are funded and created by certain subsidiary acquires the Company's ordinary shares from the market. The share units determined in accordance with duties of Eligible Executive Officers are granted every year. The Company's ordinary shares equivalent to the amount of granted share units and the dividends during the vesting period shall be delivered after three years have passed since grant dates.

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.

Details of Restricted Stock Unit Plan

	2023	**2024**
Grant date	—	March 1, 2024
Number of allotted share units	—	159,259
Fair value at the grant date	—	¥3,879
Calculation methodology of fair value	—	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange on the grant date

(4) 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 and the restricted stock unit.

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, 2023 is ¥3,645 and for the year ended December 31, 2024 is ¥4,080.

Details of Performance Share Unit Remuneration

	2023		**2024**	
Grant date		July 12, 2023		April 19, 2024
Number of allotted shares	Directors:	19,208	Directors:	20,237
	Executive Officers:	17,811	Executive Officers:	17,777
Fair value at the grant date		¥3,201		¥3,958
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	

(5) Share-based Payment Expenses

The costs included in “Selling, general and administrative expenses” in the consolidated statement of income are as follows.

(Millions of yen)

	2023	**2024**
Restricted stock remuneration (equity-settled)	505	493
Restricted stock unit (equity-settled)	—	172
Performance share unit remuneration (cash-settled)	355	180

(6) 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.

(Millions of yen)

	2023	**2024**
Carrying amounts of liability	802	846

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:

(Millions of yen)

	2023	**2024**
Interest-bearing debt (Note)	1,142,259	1,726,789
Cash and cash equivalents	(1,040,206)	(1,084,567)
Net interest-bearing debt	102,053	642,222
Capital (equity attributable to owners of the parent company)	3,830,156	3,766,623

(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, 2023	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
Addition	6,111	－	43	28	6,182
Decrease (intended use)	(324)	－	－	－	(324)
Decrease (reversal)	(2,335)	－	(36)	(81)	(2,452)
Other	453	－	－	396	849
As of December 31, 2024	7,810	－	98	6,682	14,590

(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, 2023

(Millions of yen)

	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
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

As of December 31, 2024

(Millions of yen)

	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
Non-derivative financial liabilities								
Trade and other payables	659,510	659,510	659,510	–	–	–	–	–
Short-term borrowings	60,317	60,317	60,317	–	–	–	–	–
Current portion of long-term borrowings	2,935	2,935	2,935	–	–	–	–	–
Long-term borrowings	735,400	736,561	–	615,188	20,265	243	124	100,741
Current portion of bonds	115,416	115,524	115,524	–	–	–	–	–
Bonds	812,721	823,796	–	–	–	106,084	74,109	643,603
Lease liabilities	63,595	78,684	23,178	14,997	9,626	6,360	3,513	21,011
Subtotal	2,449,894	2,477,328	861,465	630,185	29,891	112,687	77,745	765,356
Derivative financial liabilities								
Foreign exchange forward contract	44,887	44,887	39,093	5,794	–	–	–	–
Interest rate swap	216	216	216	–	–	–	–	–
Subtotal	45,103	45,103	39,309	5,794	–	–	–	–
Total	2,494,997	2,522,431	900,774	635,979	29,891	112,687	77,745	765,356

The total of commitment lines and withdrawal as of December 31 are as follows:

(Millions of yen)

	2023	**2024**
Total committed line of credit	567,655	601,301
Withdrawing	135,000	912
Unused balance	432,655	600,389

(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)

	2023	**2024**
Profit before income taxes	(4,836)	(6,899)

(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.

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.

(Millions of yen)

	2023	**2024**
Profit before income taxes	3,092	(2,170)

(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, 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

As of December 31, 2024

	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	103 mil.	—	—	1,122	¥	143.58
EUR / USD	USD	792 mil.	—	5,665	713	€	0.91
GBP / USD	USD	250 mil.	—	773	55	£	0.78
USD / CHF	CHF	386 mil.	—	125	2,990	$	1.17
USD / PLN	PLN	1,078 mil.	—	106	1,333	$	0.25
EUR / PLN	PLN	612 mil.	—	1	341	€	0.23
Interest rate risk							
Interest rate swap							
Variable rate receipt and fixed rate payment	JPY	50,000 mil.	50,000 mil.	77	216		1.04%
US Treasury lock	USD	225 mil.	—	91	—		4.37%

(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)	Interest rate risk (Note)	Total
As of January 1, 2023	3,231	5,316	8,546
Other comprehensive income			
Amount arising (Note)	4,058	361	4,419
Reclassification adjustments (Note)	1,987	(769)	1,219
Tax effects	(1,087)	198	(888)
Basis adjustments	(4,150)	—	(4,150)
As of December 31, 2023	4,039	5,106	9,145
Other comprehensive income			
Amount arising (Note)	(3,558)	—	(3,558)
Reclassification adjustments (Note)	(398)	(828)	(1,226)
Tax effects	577	7	584
Basis adjustments	(918)	—	(918)
As of December 31, 2024	(259)	4,285	4,026

(Note) 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.

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, 2023

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					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

As of December 31, 2024

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	1,414 mil.	EUR	1,238 mil.	－	329,031	$	1.14
Bonds in GBP	GBP	391 mil.	GBP	391 mil.	－	77,733	$	1.32
Foreign exchange forward contract								
JPY / USD	USD	2,380 mil.	USD	600 mil.	－	31,107	¥	140.51

(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)

	2023	**2024**
As of January 1	6,809	(16,442)
Other comprehensive income		
Amount arising (Note 1)	(28,822)	(29,491)
Tax effects	5,571	13,641
As of December 31 (Note 2)	(16,442)	(32,293)

(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 ¥18,498 million and ¥32,241 million as of December 31, 2023 and 2024, 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, 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

As of December 31, 2024

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	738,335	—	738,281	—	738,281
Bonds (Note)	928,136	876,125	—	—	876,125

(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, 2023

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	19,187	—	19,187
Equity securities	22,696	—	11,585	34,281
Notes and accounts receivable	—	5,307	—	5,307
Other	686	4,799	14,976	20,461
Total	23,382	29,293	26,560	79,236
Derivative liabilities	—	25,076	—	25,076
Total	—	25,076	—	25,076

As of December 31, 2024

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	18,900	—	18,900
Equity securities	24,709	—	17,783	42,492
Notes and accounts receivable	—	22,884	—	22,884
Other	852	2,814	28,136	31,802
Total	25,561	44,598	45,920	116,078
Derivative liabilities	—	45,103	—	45,103
Total	—	45,103	—	45,103

(Note) The schedule of financial instruments that are classified in Level 3 is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	22,308	26,560
Total gain (loss)		
Profit or loss (Note 1)	(405)	(1,259)
Other comprehensive income (Note 2)	(575)	504
Purchases	4,807	6,977
Increase due to business combination	—	5,750
Sales	(320)	(2,902)
Other	745	10,289
As of December 31	26,560	45,920

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2023 and 2024 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, 2023 and 2024 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, 2024, the Japanese government held 33.34% 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 ¥321,006 million and ¥369,568 million for the years ended December 31, 2023 and 2024, respectively. The Group held trade receivables of ¥65,002 million and ¥74,959 million from CJSC TK Megapolis as of December 31, 2023 and 2024, 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)

	2023	**2024**
Remuneration and bonuses	1,132	1,145
Share-based payments	475	385
Total	1,607	1,530

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:

	2023		**2024**	
Reportable Segments	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	174	14	222	50
Pharmaceuticals	2	—	2	—
Processed Food	22	2	21	2
Other	23	2	23	1
Total	221	18	268	53

(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, 2024.
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:

(Millions of yen)

	2023	**2024**
Acquisition of property, plant and equipment	61,017	61,747
Acquisition of intangible assets	5,214	6,136
Total	66,230	67,883

(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 and 2024 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	182	175,175
(omission)		
31 December 2020	8,639	3,689
31 December 2021	36,131	882
31 December 2022	67,674	471
31 December 2023	110,511	288
31 December 2024	318,714	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	93	1,110
(omission)		
31 December 2020	281	370
31 December 2021	379	274
31 December 2022	563	184
31 December 2023	789	131
31 December 2024	1,037	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	182	1,476
(omission)		
31 December 2020	505	532
31 December 2021	687	391
31 December 2022	1,128	238
31 December 2023	1,859	144
31 December 2024	2,685	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	117	425
(omission)		
31 December 2020	182	272
31 December 2021	246	202
31 December 2022	329	151
31 December 2023	422	117
31 December 2024	495	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. Business Combinations

Acquisition of the Tobacco Company in the United States

(1) Summary of the Business Combination

On October 7, 2024, Eastern Daylight Time, the Group acquired all outstanding fully diluted shares of Vector Group Ltd. (VGR), a company operating tobacco business in the United States.

VGR has well-established brands such as “Montego” and “Eagle” in the value segment, growing in the United States.

The purpose of this acquisition is to expand the Group presence in the Unites States, the second largest tobacco market in net sales and one of the most profitable globally.

(2) Financial Impact on the Group

Since the acquisition date, the acquired business has contributed to consolidated revenue of ¥32,828 million and consolidated operating profit of ¥9,025 million. It is assumed that had the business been acquired on January 1, 2024, total consolidated revenue would have increased by ¥110,413 million to ¥3,260,172 million, and total consolidated operating profit would have increased by ¥24,488 million to ¥347,949 million (Unaudited). The above operating profit includes the amortization of trademarks and other intangible assets acquired from the business combination, etc.

(3) Consideration and Details (Total of the Acquisition)

The consideration was ¥344,643 million and paid fully in cash.

(4) Net Cash Outflow for the Business Combination (Total of the Acquisition)

(Millions of yen)

	Net cash outflow for the business combination
Cash consideration	344,643
Cash and cash equivalents in subsidiaries acquired	(78,976)
Net cash outflow for the business combination	265,667

(5) Fair Values of the Assets Acquired and Liabilities Assumed

	(Millions of yen)
	Fair value
Current assets	121,853
Trademarks	51,210
Non-current assets except the above	308,127
Total assets	481,189
Current liabilities	80,969
Non-current liabilities	303,652
Total liabilities	384,622
Goodwill	248,076

Goodwill represents excess earning power resulting from the effects of business integration synergies including enhanced business scale.

Non-current assets except trademarks include intangible assets related to contracts and licenses to operate tobacco businesses in the United States.

Fair value of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and may change during the measurement period (one year from the acquisition date).

Acquisition-related costs related to this business combination are expensed as "Selling, general and administrative expense" of ¥3,575 million and "Financial costs" of ¥1,187 millions.

Also, unamortized costs of ¥(1,142) million, which are not recorded as "Financial costs" at the end of the current fiscal year in origination costs related to debt financing for the acquisition deducted from the fair value of the borrowings at the initial recognition, are recorded as "Bonds and borrowings".

39. 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 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, the marketing of tobacco or E-Vapor products, or exposure to tobacco smoke. As of December 31, 2024, there were a total of 51 smoking and health related cases pending for which no provisions have been recorded, including some in which 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 an Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. Of these, a total of 18 class action and healthcare cost recovery litigations related to Canada have been provisioned as a result of a settlement reached after as of December 31, 2024. In addition, there were 84 lawsuits for which a provision has been made for contingent liabilities assumed in business combinations as a result of acquisitions.

The major ongoing smoking and health related cases are as follows:

A. Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

<u>South Africa Individual Claim (Joselowitz):</u>

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 was one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland and there were 114 individual cases brought against the Company's subsidiaries in the United States of America.

B. Class Actions

There is one ongoing class action in the United States of America against the Company's subsidiary.

<u>The United States of America Louisiana Class Action (Young):</u>

This class action was brought against tobacco industry members, including Liggett Group LLC, in November 1997. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allegedly suffered health injuries from exposure to tobacco smoke. This case has been stayed since October 2004.

(2) Other Legal Proceedings

The Company and some of its subsidiaries are also engaged in other legal proceedings such as commercial and tax disputes.

40. Subsequent Events

The Company entered into loan agreements with banks as follows:

(1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited

(2) Aggregate amount of borrowings : ￥100 billion

(3) Interest rates : Floating rates（TIBOR plus spread）

(4) Drawdown date : January 31, 2025

(5) Repayment date : January 31, 2055

The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2030.

(6) Collateral/Guarantee : None

(7) Use of proceeds : Repayment of the Existing Subordinated Loan

(8) Other borrowing terms :

a. Interest deferral clause

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

b. Subordination clause

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

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

c. Replacement restrictions

There is no contractual provision on replacement restrictions.

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

(2) Others

A. Semi-annual Information for the Year ended December 31, 2024

(Millions of yen)

	January 1, 2024 to June 30, 2024	January 1, 2024 to December 31, 2024
Revenue	1,569,892	3,149,759
Profit before income taxes for the period (year)	399,073	233,766
Profit attributable to owners of the parent company for the period (year)	305,172	179,240
Basic earnings per share for the period (year) (yen)	171.89	100.95

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in “39. Contingencies” in the notes to consolidated financial statements.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

<Audit of Consolidated Financial Statements>

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2024, 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 year then ended, 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, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

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.

Recognition of Provision for Loss on Litigation in Canada
Key Audit Matter Description
As described in Note 20 "Provisions" to the consolidated financial statements, on March 1, 2019, the Quebec Court of Appeal dismissed an appeal of two class action lawsuits related to smoking and health against JTI Macdonald Corp., a Canadian subsidiary of Japan Tobacco Inc. (the "Company") (hereinafter referred to as "JTI-Mac"), and its co-defendants (hereinafter referred to as "Tobacco Companies"). The Tobacco Companies applied to the Ontario Superior Court for protection under the Companies' Creditors Arrangement Act (hereinafter referred to as the "CCAA"), which was approved by the Ontario Superior Court and the Tobacco Companies have been participating in a court-ordered mediation process with representatives of multiple claimants, including the Quebec class action plaintiffs and all provincial and territorial governments in an attempt to reach a final resolution of all pending litigation.

On October 17, 2024, the court-appointed mediator and the CCAA monitor for JTI-Mac publicly proposed CCAA Plan of Compromise and Arrangement (hereinafter referred to as the "Plan"), under which the Tobacco Companies would pay a total of CAD 32.5 billion (approximately ¥3.56 trillion) in aggregate to settle the litigation (including 18 pending litigation against JTI-Mac). The Plan was approved at a creditors' meeting held on December 12, 2024. Following a court hearing in January 2025, on February 27, 2025, JTI-Mac reached an agreement with the other two co-defendants on the terms of allocation of payments among the Tobacco Companies, which had been an important outstanding issue.

As a result, the Company has retroactively recorded a provision for loss on litigation of ¥375,636 million in operating expenses in fiscal year 2024 as an adjusting subsequent event.

On March 6, 2025, the Ontario Superior Court released its decision to approve the Plan.

The Company's management is required to determine the timing of the recognition of provisions in accordance with the following recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets" (hereinafter referred to as the "IAS 37") considering the status of the mediation process:

- 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.

The determination of whether the recognition of provisions is necessary involves subjective judgments made by management.

The provision for loss on litigation in Canada is calculated as a present value of future payment required by the Plan.

The amount that JTI-Mac is expected to pay in future is a total of Upfront Payment and Annual Payments.

—Upfront Payment: The cash and cash equivalents it holds as at the month-end prior to the month in which the Plan is implemented.

—Annual Payments: A certain percentage of JTI-Mac's annual net after-tax income (85% for years 1–5, 80% for years 6–10, 75% for years 11–15, and 70% from year 16 onwards) which will continue until the total settlement amount (CAD 32.5 billion) is paid in aggregate by the Tobacco Companies, which the Company expects will take 20–30 years.

The Company calculates the provision as a total of present values of the Upfront Payment based on the cash and cash equivalents held at the month-end prior to the month in which the Plan is implemented and the Annual Payments estimated using JTI-Mac's annual net after-tax income for each year based on its business plan. The discount rate used in calculating the provision is a pre-tax discount rate of 6.09%, which reflects current market assessments of the time value of money and the risks specific to the provision.

JTI-Mac's business plan used in the estimation of the Annual Payments includes the following significant assumptions:

(1) Expected market volume of the tobacco business in Canada (Sales volume of tobacco products)

(2) Expected JTI-Mac's market share in the Canadian tobacco market

Of the above significant assumptions, (1) is affected by the external factors such as future trends of population and regulation on tobacco products, hence it includes the unexpectable uncertainty. In addition, (2) requires subjective judgments made by management and uncertainty that is difficult to prove, for the effect of the sales strategies including the pricing per the product category and the sales strategies of competitors.

Considering the above, a recognition and measurement of a provision for loss on litigation in Canada includes the matters requiring subjective judgments made by management, uncertainty that is difficult to prove and expertise knowledge, respectively.

<Matter for recognizing the provision as an adjusting subsequent event>

- A high-level accounting judgment to determine whether to recognize the provision as a result of the agreement with the other two co-defendants and record it as an adjusting subsequent event to the consolidated financial statements for the year ended December 31, 2024.

<Matter for calculating the provision>

- Subjective judgments made by management and uncertainty that is difficult to prove, on the timing and the amount of Annual Payments; and

- Reflecting the risks specific to the provision in the determination of the pre-tax discount rate.

All of the matters require complex and high-level audit judgment and considering the financial impact of the provision for loss on litigation in Canada to the consolidated financial position and financial performance, we have determined these matters regarding the provision for loss on litigation in Canada to be key audit matters.

How the Key Audit Matter Was Addressed in the Audit

We performed the following audit procedures to address the key audit matter on a reasonableness of recognizing the provision as an adjusting subsequent event for the year ended December 31, 2024:

- Evaluating internal controls to ensure that the judgments on recognizing the provision are appropriately made considering the status of the mediation process; and

- Assessing whether the Company appropriately considered the status of the mediation process and made judgments on the recognition of the provision as an adjusting subsequent event to the consolidated financial statements for the year ended December 31, 2024, in accordance with International Accounting Standard 10 "Subsequent Events" and IAS 37, with the following audit procedures:

  - ✓ Inspecting materials issued by the court and the CCAA monitor for JTI-Mac and publicly available information released by JTI-Mac and the other two co-defendants;

  - ✓ Inquiring of the Company's management and the Legal and Compliance Division of the Company to understand the Company's plan to respond to the mediation process; and

  - ✓ Reading the minutes of the Company's Board of Directors' meetings to understand the Company's plan to respond to the Plan, the decisions made and the process to reach the decisions.

In addition, we involved the component auditor to assist us to perform the following audit procedures to address the key audit matter on calculating the provision in accordance with IAS 37 and assessed compliance with the requirements of IAS 37 regarding the calculation of the provision. We also compared the Plan approved by the Ontario Superior Court with the Company's understanding to test the consistency:

- Evaluating the internal controls related to calculating the provision, including understanding of the Plan and developing JTI-Mac's business plan;

- Evaluating the reasonableness of the expected market size of the tobacco business in Canada, which is one of the significant assumptions in the calculation of Annual Payments, with testing the consistency with the market forecasts published by analysts and analyzing the historical sales results of JTI-Mac;

- Evaluating the reasonableness of the expected JTI-Mac's market share in the Canadian tobacco market, which is one of the significant assumptions in the calculation of Annual Payments, with assessing the level of uncertainty and existence of management bias and comparing actual results of JTI-Mac's market share to management's historical forecasts as well as expected market share;

- Evaluating the realizability of the sales strategies including the pricing per the product category, with testing the consistency with business plan approved by JTI-Mac's Board of Directors and evaluating the feasibility of the pricing effect by comparing it with the historical result of the pricing;

- Analyzing historical market share data, reading market forecasts published by analysts and testing the consistency with JTI-Mac's sales strategy to assess the reasonableness of the assumption on the other two co-defendants' payments that are the basis to determine the period of future payments; and

- Evaluating whether the risks specific to the liability were appropriately reflected to the calculation of the discount rate with the assistance of the valuation specialists in our network firm.

Evaluation of Goodwill Allocated to Tobacco Cash-Generating Unit
Key Audit Matter Description
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. The Group has a goodwill balance of ¥2,888,885 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, Natural American Spirit's non-U.S. tobacco operations in 2016 and Vector Group Ltd. in 2024. 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. 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 5.5% 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. 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. 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.
How the Key Audit Matter Was Addressed in the Audit
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: • 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:

- ✓ 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.

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 IFRS Accounting Standards as issued by the IASB, 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 IFRS Accounting Standards as issued by the IASB and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 IFRS Accounting Standards as issued by the IASB, 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.

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2024, which were charged by us and our network firms to Japan Tobacco Inc. and its subsidiaries were ¥1,894 million and ¥1,808 million, respectively.

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.

/s/Deloitte Touche Tohmatsu LLC

March 26, 2025

Japan Tobacco Inc.
Financial Statements and
Independent Auditor’s Report

Year Ended December 31, 2023

Index

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2022 and 2023

(Millions of yen)

	2022	**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

(Millions of yen)

	2022	**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						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	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						
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
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

F. 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 Policies,” 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 Group'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	2,417,741	82,908	155,542	2,656,191	9,495	(7,853)	2,657,832
Segment profit (loss)							
Adjusted operating profit (Note 1)	753,996	11,146	3,509	768,651	(40,821)	(52)	727,779
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	2,591,303	94,875	153,885	2,840,063	4,222	(3,208)	2,841,077
Segment profit (loss)							
Adjusted operating profit (Note 1)	749,757	17,409	6,848	774,014	(46,136)	124	728,002
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:

(Millions of yen)

	2022	**2023**
Cash and deposits	818,885	787,890
Short-term investments	48,000	252,316
Total	866,885	1,040,206

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:

(Millions of yen)

	2022	**2023**
Note and account receivables	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	477,239	535,302

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	691,906	832,611

(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•NICHIRES 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:

(Millions of yen)

	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:

(Millions of yen)

	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

(Millions of yen)

	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:

(Millions of yen)

Carrying Amount	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

(Millions of yen)

Acquisition Cost	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

(Millions of yen)

Accumulated Depreciation and Accumulated Impairment Losses	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:

(Millions of yen)

	2022	**2023**
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

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	26,023	1,076	27,098

As of December 31, 2023

(Millions of yen)

	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	25.15	21.93

(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, 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:

(Millions of yen)

	2022	**2023**
Accounts payable	273,028	299,738
Other payables	89,868	87,723
Other	177,193	205,341
Total	540,089	592,802

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	As of December 31, 2022 (Millions of yen)	As of December 31, 2023 (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
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
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
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:

(Millions of yen)

	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	2,417,409	82,908	155,539	1,976	2,657,832

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	2,590,910	94,875	153,854	1,439	2,841,077

(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:

(Millions of yen)

	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	20,262	30,027

(Note) The amount of restructuring incomes included in each account is as follows:

(Millions of yen)

	2022	**2023**
Gain on sale of property, plant and equipment, intangible assets and investment property	2,737	17,808
Other	39	398
Total	2,776	18,207

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	31,147	44,414

(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	91,272	95,222

(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

(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	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

(Millions of yen)

	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

(Millions of yen)

	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	
Number of allotted shares	Directors:	–	Directors:	19,208
	Executive Officers:	–	Executive Officers:	17,811
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.

(Millions of yen)

	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.

(Millions of yen)

	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:

(Millions of yen)

	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 note and account receivables, 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

(Millions of yen)

	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
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

(Millions of yen)

	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
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:

(Millions of yen)

	2022	**2023**
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 Policies," 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.

(Millions of yen)

	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 Policies."

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 materiality, 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

(Millions of yen)

	The change in fair value of the hedging instrument	The change in value of the hedged item
Interest rate risk	11,934	(7,381)

Year ended December 31, 2023

(Millions of yen)

	The change in fair value of the hedging instrument	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) (Millions of yen)		Average rate, etc.	
					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) (Millions of yen)		Average rate, etc.	
					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
Note and account receivables (Note 1)	—	1,703	—	1,703
Other	579	5,018	12,522	18,119
Total	22,130	31,006	22,308	75,444
Derivative liabilities	—	20,990	—	20,990
Total	—	20,990	—	20,990

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
Note and account receivables (Note 1)	—	5,307	—	5,307
Other	686	4,799	14,976	20,461
Total	23,382	29,293	26,560	79,236
Derivative liabilities	—	25,076	—	25,076
Total	—	25,076	—	25,076

(Note 1) Because of the increase in materiality, 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	22,308	26,560

(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:

	2022		**2023**	
Reportable Segments	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:

(Millions of yen)

	2022	**2023**
Acquisition of property, plant and equipment	36,933	61,017
Acquisition of intangible assets	3,530	5,214
Total	40,463	66,230

(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	182	60,740
(omission)		
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	93	845
(omission)		
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	182	1,022
(omission)		
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	117	362
(omission)		
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 Group'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 Group'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.

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.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

<Audit of Consolidated Financial Statements>

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. and its subsidiaries (the "Group"), which comprise 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 year then ended, 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 ("IFRSs").

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
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). 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. 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. 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": • 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. 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.	We performed the following audit procedures to address this key audit matter: • 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: ✓ 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.

<table>
<tr><th colspan="2">Evaluation of Goodwill Allocated to Tobacco Cash-Generating Unit</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>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.

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.

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.

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.

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.

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.</td><td>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:

• 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:

✓ 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.</td></tr>
</table>

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 IFRSs, 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 IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 IFRSs, 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.

<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 were ¥1,624 million and ¥1,818 million, respectively.

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.

/s/Deloitte Touche Tohmatsu LLC

March 22, 2024

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