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) Assets	Carrying amount (Note) (Millions of yen) Liabilities	Average rate, etc.	
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) Assets	Carrying amount (Note) (Millions of yen) Liabilities	Average rate, etc.	
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.

2. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2022 and 2023

(Millions of yen)

		2022		**2023**
Assets				
Current assets				
Cash and deposits		193,376		177,685
Accounts receivable-trade	*2	31,739	*2	33,949
Securities		18,000		—
Merchandise and finished goods		25,424		38,008
Semi-finished goods		84,534		80,783
Work in process		1,815		988
Raw materials and supplies		32,017		38,491
Advance payments-trade		2,440		400
Prepaid expenses		5,040		6,165
Short-term loans receivable from subsidiaries and affiliates		38,649		33,831
Other	*2	26,255	*2	15,967
Allowance for doubtful accounts		(29)		(31)
Total current assets		459,260		426,237
Noncurrent assets				
Property, plant and equipment				
Buildings		69,893		67,108
Structures		2,066		1,891
Machinery and equipment		34,722		27,462
Vehicles		536		305
Tools, furniture and fixtures		9,996		9,652
Land		47,298		46,171
Construction in progress		533		5,994
Total property, plant and equipment		165,044		158,583
Intangible assets				
Patent right		194		163
Right of trademark		49,196		32,783
Software		11,652		8,331
Goodwill		107,313		71,542
Other		7,337		13,668
Total intangible assets		175,692		126,487
Investments and other assets				
Investment securities		22,358		21,753
Shares of subsidiaries and affiliates		1,495,647		1,502,043
Long-term loans receivable from subsidiaries and affiliates		6,069		5,558
Long-term prepaid expenses		7,335		10,593
Deferred tax assets		16,987		24,694
Other		15,030		18,110
Allowance for doubtful accounts		(154)		(108)
Total investments and other assets		1,563,271		1,582,644
Total noncurrent assets		1,904,007		1,867,714
Total assets		2,363,267		2,293,951

(Millions of yen)

		2022		**2023**
Liabilities				
Current liabilities				
Accounts payable-trade	*2	10,445	*2	7,279
Short-term borrowings		—		158,000
Current portion of bonds	*1	60,000		—
Current portion of long-term borrowings		—		20,000
Lease obligations	*2	230	*2	138
Accounts payable-other	*2	72,620	*2	42,765
National tobacco excise taxes payable		72,925		70,378
National tobacco special excise taxes payable		8,791		8,484
Local tobacco excise taxes payable		82,013		79,077
Income taxes payable		1,863		5,624
Accrued consumption taxes		28,711		27,323
Cash management system deposits received	*3	318,412	*3	300,833
Provision for bonuses		5,675		5,498
Other provisions		—		1,331
Other		20,565		28,933
Total current liabilities		682,250		755,663
Noncurrent liabilities				
Bonds payable	*1	65,000	*1	125,000
Long-term borrowings		140,000		120,000
Lease obligations	*2	152	*2	45
Provision for retirement benefits		101,421		101,387
Other	*2	5,800	*2	12,278
Total noncurrent liabilities		312,374		358,711
Total liabilities		994,623		1,114,374

(Millions of yen)

	2022	**2023**
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Other capital surplus	—	78
Total capital surplus	736,400	736,478
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	331	326
Reserve for reduction entry	34,780	32,922
Special account for reduction entry	574	914
Retained earnings brought forward	956,333	775,229
Total retained earnings	1,010,794	828,167
Treasury shares	(490,183)	(489,194)
Total shareholders' equity	1,357,011	1,175,451
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6,903	6,545
Deferred gains or losses on hedges	3,728	(2,975)
Total valuation and translation adjustments	10,631	3,569
Subscription rights to shares	1,001	557
Total net assets	1,368,643	1,179,577
Total liabilities and net assets	2,363,267	2,293,951

B. Nonconsolidated Statement of Income

Years Ended December 31, 2022 and 2023

(Millions of yen)

		2022		**2023**
Net sales	*5	542,181	*5	537,261
Cost of sales	*5	173,609	*5	191,861
Gross profit		368,572		345,399
Selling, general and administrative expenses	*1,*5	303,998	*1,*5	325,269
Operating income		64,574		20,131
Non-operating income				
Interest income	*5	78	*5	135
Dividends income	*5	204,825	*5	162,991
Other	*5	8,205	*5	11,937
Total non-operating income		213,108		175,064
Non-operating expenses				
Interest expenses	*5	1,686	*5	1,633
Interest on bonds		456		846
Foreign exchange losses		—		5,960
Other	*5	1,806	*5	1,090
Total non-operating expenses		3,948		9,529
Ordinary income		273,734		185,665
Extraordinary income				
Gain on sales of noncurrent assets	*2	6,459	*2	17,001
Gain on sale of businesses	*7	39,005		—
Other		5,504		1,698
Total extraordinary income		50,968		18,699
Extraordinary losses				
Loss on sales of noncurrent assets	*3	478	*3	214
Loss on retirement of noncurrent assets	*4,*5	3,857	*4,*5	2,715
Impairment loss		4,381		4,506
Business restructuring costs	*5,*6	1,642		—
Other		4,290		1,854
Total extraordinary losses		14,647		9,289
Income before income taxes		310,055		195,075
Income taxes-current		17,701		14,905
Income taxes-deferred		8,893		(4,618)
Total income taxes		26,594		10,287
Net income		283,461		184,788

C. Nonconsolidated Statement of Changes in Net Assets
Years Ended December 31, 2022 and 2023

(Millions of yen)

	Shareholders' equity								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	Total retained earnings
As of January 1, 2022	100,000	736,400	736,400	18,776	356	37,715	425	935,204	992,476
Cumulative effects of changes in accounting policies								1,117	1,117
Restated balance	100,000	736,400	736,400	18,776	356	37,715	425	936,321	993,593
Changes of items during the period									
Provision of reserve for investment loss on developing new business					331			(331)	–
Reversal of reserve for investment loss on developing new business					(356)			356	–
Provision of reserve for reduction entry						690		(690)	–
Reversal of reserve for reduction entry						(3,624)		3,624	–
Provision of special account for reduction entry							574	(574)	–
Reversal of special account for reduction entry							(425)	425	–
Dividends from surplus								(266,203)	(266,203)
Net income								283,461	283,461
Purchase of treasury shares									
Disposal of treasury shares								(57)	(57)
Net changes of items other than shareholders' equity									
Total changes of items during the period	–	–	–	–	(25)	(2,934)	149	20,012	17,201
As of December 31, 2022	100,000	736,400	736,400	18,776	331	34,780	574	956,333	1,010,794

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments				
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
As of January 1, 2022	(490,899)	1,337,977	5,833	(316)	5,517	1,202	1,344,696
Cumulative effects of changes in accounting policies		1,117					1,117
Restated balance	(490,899)	1,339,094	5,833	(316)	5,517	1,202	1,345,813
Changes of items during the period							
Provision of reserve for investment loss on developing new business		–			–		–
Reversal of reserve for investment loss on developing new business		–			–		–
Provision of reserve for reduction entry		–			–		–
Reversal of reserve for reduction entry		–			–		–
Provision of special account for reduction entry		–			–		–
Reversal of special account for reduction entry		–			–		–
Dividends from surplus		(266,203)			–		(266,203)
Net income		283,461			–		283,461
Purchase of treasury shares	(1)	(1)			–		(1)
Disposal of treasury shares	717	660			–		660
Net changes of items other than shareholders' equity			1,070	4,045	5,114	(200)	4,914
Total changes of items during the period	716	17,917	1,070	4,045	5,114	(200)	22,831
As of December 31, 2022	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings					Total retained earnings
						Other retained earnings				
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
As of January 1, 2023	100,000	736,400	―	736,400	18,776	331	34,780	574	956,333	1,010,794
Cumulative effects of changes in accounting policies									―	―
Restated balance	100,000	736,400	―	736,400	18,776	331	34,780	574	956,333	1,010,794
Changes of items during the period										
Provision of reserve for investment loss on developing new business						326			(326)	―
Reversal of reserve for investment loss on developing new business						(331)			331	―
Provision of reserve for reduction entry							628		(628)	―
Reversal of reserve for reduction entry							(2,487)		2,487	―
Provision of special account for reduction entry								914	(914)	―
Reversal of special account for reduction entry								(574)	574	―
Dividends from surplus									(367,415)	(367,415)
Net income									184,788	184,788
Purchase of treasury shares										
Disposal of treasury shares			78	78					―	―
Net changes of items other than shareholders' equity										
Total changes of items during the period	―	―	78	78	―	(5)	(1,858)	341	(181,104)	(182,627)
As of December 31, 2023	100,000	736,400	78	736,478	18,776	326	32,922	914	775,229	828,167

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
As of January 1, 2023	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
Cumulative effects of changes in accounting policies		―					―
Restated balance	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
Changes of items during the period							
Provision of reserve for investment loss on developing new business		―			―		―
Reversal of reserve for investment loss on developing new business		―			―		―
Provision of reserve for reduction entry		―			―		―
Reversal of reserve for reduction entry		―			―		―
Provision of special account for reduction entry		―			―		―
Reversal of special account for reduction entry		―			―		―
Dividends from surplus		(367,415)			―		(367,415)
Net income		184,788			―		184,788
Purchase of treasury shares	(1)	(1)			―		(1)
Disposal of treasury shares	990	1,068			―		1,068
Net changes of items other than shareholders' equity			(358)	(6,704)	(7,062)	(444)	(7,506)
Total changes of items during the period	989	(181,560)	(358)	(6,704)	(7,062)	(444)	(189,066)
As of December 31, 2023	(489,194)	1,175,451	6,545	(2,975)	3,569	557	1,179,577

D.Notes to Nonconsolidated Financial Statements
Years Ended December 31, 2022 and 2023

(Preparation Policy)

The Company's nonconsolidated financial statements are prepared based on the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No.59 of 1963).

(Significant Accounting Policies)

1. Basis and Method of Valuation for Securities

(1) Shares of Subsidiaries and Affiliates:

Stated at cost determined by the moving-average method.

(2) Available-for-sale Securities:

A. Securities with a market price:

Stated at fair value based on market prices as of the closing date of the accounting period. (Valuation difference is stated as a component of net assets and the cost of securities sold is calculated by applying the moving-average method.)

B. Securities without a market price:

Stated at cost determined by the moving-average method.

2. Basis and Method of Valuation for Derivatives

Stated based on the fair value method.

3. Basis and Method of Valuation for Inventories

Stated at cost as determined by the average cost method.

(Balance sheet amounts are measured at the lower of cost or net selling value.)

4. Depreciation Methods for Depreciable Assets

(1) Property, Plant and Equipment (Excluding Lease Assets)

The declining-balance method is applied. However, the straight-line method is applied for buildings (excluding accompanying facilities) acquired on or after April 1, 1998 and for accompanying facilities and structures acquired on or after April 1, 2016.

The main useful lives are as follows:

Buildings (excluding accompanying facilities):	38 to 50 years
Machinery and equipment:	10 to 18 years

(2) Intangible Assets (Excluding Lease Assets)

The straight-line method is applied.

The main useful lives are as follows:

Patent right:	8 years
Right of trademark:	10 years
Software:	5 years
Goodwill:	10 years

(3) Lease Assets

For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mainly computed by the straight-line method over the lease period as the useful life assuming no residual value.

5. Policy on Translation of Assets and Liabilities Denominated in Foreign Currency into Japanese Yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing as of the closing date of the accounting period with translation differences treated as gains or losses.

6. Policy on Accounting of Provisions

(1) Allowance for Doubtful Accounts

Provided for possible losses from bad debts at an amount based on the historical default rate for ordinary receivables and the individual recoverability of specific doubtful receivables from customers experiencing financial difficulties.

(2) Provision for Bonuses

Provided based on the estimated payable amount to provide for the payment of bonuses to employees and directors.

(3) Provision for Retirement Benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefit obligations and fair value of plan assets as of the end of this fiscal year. In calculating retirement benefit obligations, the benefit formula basis is used as the method of attributing expected benefit to periods up to the end of this fiscal year.

Past service cost is amortized using the straight-line method over the average remaining years of service of the employees (10 years).

Actuarial gains and losses are amortized from the year following the year in which the gains or losses are recognized using the straight-line method over the average remaining years of service of the employees (10 years).

Also included in the provision for retirement benefits is the portion of public pension expenses for mutual assistance association during certain periods in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees).

7. Policy on accounting of revenue and expense

Revenue from contracts with customers

Revenue is recognized based on the following five-step approach.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Company mainly engages in the sale of tobacco products and prescription drugs. The Company evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax.

The tobacco excise taxes are excluded from revenue. The amount after deducting the tobacco excise taxes and other transactions is presented as "Net sales" in the nonconsolidated statement of income.

8. Method of Hedge Accounting

Deferral hedge accounting is applied.

For interest rate and currency swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items (accounting by applying foreign exchange rate stipulated in the contracts; exceptional treatment), they are accounted for by incorporating swaps into underlying accounting items.

9. Other Significant Accounting Policies

(1) Accounting Treatment relating to Retirement Benefits

With regard to unrecognized actuarial gains and losses and unrecognized past service cost relating to retirement benefits, different accounting treatments have been applied compared to those in the consolidated financial statements.

(2) Adoption of Group Tax Sharing System

The Company adopted the group tax sharing system.

(Changes in accounting policies)

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter, "Implementation Guidance on Fair Value Measurement Accounting Standard") has been applied from the beginning of the current fiscal year. In accordance with the transitional treatment set forth in Paragraph 27-2 of the Implementation Guidance on Fair Value Measurement Accounting Standard, this accounting standard has been prospectively applied from the beginning of the current fiscal year.

There was no impact on the financial statements.

(Changes in presentation method)

Foreign exchange gains and losses had previously been included in "Other" under non-operating income or non-operating expenses in nonconsolidated statement of income. However, in the current fiscal year, it is presented separately as "Foreign exchange losses" under non-operating expenses as the amount became material. In the previous fiscal year, the foreign exchange gains included in "Other" under non-operating income was ¥ 469 million.

(Significant accounting estimates)

The following are the estimates and assumptions that have material impacts on the amounts recognized in the nonconsolidated financial statements.

In relation to the recent situation in Russia and Ukraine, there is no material impact on the accounting estimates and judgments at present.

Evaluation of shares of subsidiaries and affiliates

(1) Amounts recorded in the nonconsolidated financial statements for the current fiscal year

Shares of subsidiaries and affiliates ¥1,502,043 million (Previous fiscal year: ¥1,495,647 million)

(2) Information that helps understanding of the content of accounting estimates

Of the shares of subsidiaries and affiliates recorded in the balance sheet at the end of the current fiscal year, the shares of JT International Holding B.V., a subsidiary, amounted to ¥ 1,356,191 million. JT International Group Holding B.V. , a former subsidiary, was extinguished due to an absorption-type merger with JT International Holding B.V., on August 23, 2023. Whether or not to recognize impairment of the shares of that company is determined by comparing the carrying amount of those shares to the actual value calculated based on net assets of that company.

In addition, the Company determines whether the actual value of those shares has declined significantly by referring to the result of the impairment test of goodwill allocated to the tobacco cash-generating unit in the consolidated financial statements in accordance with IFRS. (For details of the impairment test, please refer to “14. Goodwill and Intangible Assets (3) Impairment Test for Goodwill” in “Consolidated Financial Statements”.) The assumptions used in the impairment test are based on management’s best estimates and judgment. However, they may be affected by the results of changes in uncertain future economic conditions, and if a review is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(Change in accounting estimates)

(Change in the estimated useful lives of tobacco production machinery)

The Company had previously used a period of 10 years for the estimated useful lives of tobacco production machinery. However, in consideration of changes in the business environment, the Company has, from the current fiscal year, revised the estimated useful lives for some tobacco production machinery to 18 years based on estimated economically useful lives that are more consistent with actual conditions and applied this change prospectively. As a result, operating profit for the current fiscal year increased by ¥1,173 million compared to the figure calculated using the previous method.

(Accounting Standards Not Yet Adopted)

・“Accounting Standards for Current Income Taxes” (ASBJ Statement No.27 October 28, 2022)

(1) Overview

Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No.28, February 16, 2018) (hereinafter, "ASBJ Statement No.28"), etc. were published and the transfer of authority for practical guidelines on tax effect accounting in the Japanese Institute of Certified Public Accountants to the ASBJ was completed. In the process of the relevant deliberations, it was decided that the following issue would be examined again after the publication of ASBJ Statement No.28, etc. The issue was examined and released at this time.

・Classification of tax expenses

(2) Scheduled Date of Adoption

This accounting standard will be applied from the beginning of the fiscal year ending December 31, 2025.

(3) Effects of Adoption

The impact of the adoption on the nonconsolidated financial statements is currently under evaluation.

(Notes to Nonconsolidated Balance Sheet)

*1. Pursuant to Article 6 of the Japan Tobacco Inc. Act, the Company's assets are pledged as general collateral for corporate bonds issued by the Company. Bondholders have the right to receive payment of their own claims for assets of the Company in preference to other general creditors (with the exception of national taxes, local taxes and other obligations of a public nature).

*2. Inter-company receivables and payables excluding those separately presented as of December 31 are as follows:

(Millions of yen)

	2022	**2023**
Short-term receivables	13,356	14,723
Short-term payables	33,363	10,944
Long-term payables	27	27

*3. "Cash management system deposits received" represents the fund entrusted in the cash management system of domestic group companies.

4. Contingent obligations

Guarantees provided for bank loans, bonds and others of subsidiaries and affiliates as of December 31 are as follows:

Bank loans and others

2022				2023			
(Millions of yen)				(Millions of yen)			
JT International Company Netherlands B.V.	61,759	(EUR	437 million)	JT International Company Netherlands B.V.	69,726	(EUR	445 million)
JT International spol. s r.o.	36,323	(CZK	6,188 million)	JT International Hellas A.E.B.E.	30,682	(EUR	196 million)
			others				
JT International Hellas A.E.B.E.	27,730	(EUR	196 million)	Gallaher Ltd.	28,518	(USD	201 million)
JT International S.A.	23,671	(USD	94 million)				others
		(CHF	57 million)	JT International spol. s r.o.	19,699	(CZK	3,105 million)
			others				others
JT International Group Holding B.V.	15,884	(EUR	90 million)	JT International Germany GmbH	16,100	(EUR	103 million)
			others				
JT International Germany GmbH	12,773	(EUR	90 million)	JT International S.A.	14,359	(CHF	44 million)
JT International Korea Inc.	10,464	(KRW	99,452 million)			(USD	26 million)
						(EUR	20 million)
							others
				PT. Karyadibya Mahardhika	11,247	(IDR	1,220,960 million)
				JT Canada LLC Inc.	10,535	(CAD	98 million)
				JT International Zagreb d.o.o.	10,200	(EUR	65 million)
Other (56 companies)	116,592			Other (42 companies)	91,566		
Total	305,195			Total	302,631		

Bonds

2022				2023			
	(Millions of yen)				(Millions of yen)		
JT International Financial Services B.V.	622,737	(EUR (USD (GBP	2,050 million) 2,025 million) 400 million)	JT International Financial Services B.V.	670,539	(EUR (USD (GBP	2,022 million) 1,986 million) 400 million)
Total	622,737			Total	670,539		

(Note) Guarantee obligations denominated in foreign currencies were translated into yen amounts using the exchange rate as of the closing date of the accounting period.

(Notes to Nonconsolidated Statement of Income)

*1. The main components of “Selling, general and administrative expenses” for each year are as follows:

(Millions of yen)

	2022	**2023**
Promotion expenses	30,422	26,194
Compensations, salaries and allowances	26,552	25,688
Provision for bonus	3,976	3,802
Employee benefit expenses	6,379	6,206
Commission	46,557	64,595
Depreciation and amortization	61,687	60,574
Research and development expenses	53,528	60,963
Selling expenses ratio	42%	36%
General and administrative expenses ratio	58%	64%

*2. The main component of “Gains on sales of noncurrent assets” for each year is as follows:

(Millions of yen)

	2022	**2023**
Land	6,254	16,932

*3. The main components of “Losses on sales of noncurrent assets” for each year are as follows:

(Millions of yen)

	2022	**2023**
Buildings	288	1
Structures	51	17
Tools, furniture and fixtures	28	64

*4. The main components of “Losses on disposal of noncurrent assets” for each year are as follows:

(Millions of yen)

	2022	**2023**
Buildings	2,545	1,054
Machinery and equipment	438	596

*5. Amounts of transactions with subsidiaries and affiliates for each year are as follows:

(Millions of yen)

	2022	**2023**
Net sales	40,164	51,022
Purchase of goods	45,908	67,184
Selling, general and administrative expenses	65,286	82,632
Dividends income	204,586	162,733
Amount of non-operating transactions	51,963	15,521

*6. Business restructuring costs for the previous fiscal year are related to costs of measures to strengthen the operations in tobacco business, mainly related to redundancy pay associated with early retirement and impairment losses on non-current assets associated with Kyushu Factory closure.

*7. Gain on sale of businesses for the previous fiscal year is related to sale of China business.

(Securities)

Investments in Subsidiaries and Affiliates as of December 31 are as follows:

2022

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	44,872	3,292
Total	41,580	44,872	3,292

2023

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	54,743	13,162
Total	41,580	54,743	13,162

(Note) Balance sheet amount of investments in subsidiaries and affiliates with no market prices as of December 31 is as follows:

(Millions of yen)

Type	**2022**	**2023**
Investments in subsidiaries	1,453,953	1,460,350
Investments in affiliates	113	113

The above are not included in “Investments in subsidiaries and affiliates” because they do not have market prices.

(Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause
As of December 31, 2022 and 2023

(Millions of yen)

	2022	**2023**
Deferred tax assets		
Provision for retirement benefits	23,526	24,502
Obligations pertaining to mutual assistance pension benefits	6,561	5,376
Investments in subsidiaries	6,919	6,755
Accounts payable to employees who have agreed to early retirement	4,098	1,796
Other	36,863	46,002
Subtotal	77,966	84,432
Less valuation allowance	(18,596)	(18,534)
Total	59,370	65,898
Deferred tax liabilities		
Reserve for reduction entry	(15,213)	(14,400)
Deferred gains or losses on hedges	(11,656)	(11,157)
Valuation difference on available-for-sale securities	(3,019)	(2,863)
Other	(12,494)	(12,785)
Total	(42,383)	(41,204)
Net deferred tax assets/liabilities	16,987	24,694

2. Reconciliation between the effective statutory tax rate and the actual effective tax rate after applying tax effect accounting, if there is a significant difference
As of December 31, 2022 and 2023

(%)

	2022	**2023**
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.38	0.60
Permanent difference arising from non-taxable items including dividends income	(19.11)	(24.16)
Tax credit of items including research and development expenses	(0.86)	(2.33)
Changes in valuation allowance	(1.89)	(0.03)
Other	(0.37)	0.77
Actual effective tax rate after applying tax effect accounting	8.58	5.27

3. Accounting for corporate tax and local corporate tax or tax effect accounting related to these taxes

Following the adoption of the group tax sharing system, the Company applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021) for the accounting treatment and disclosure of corporate tax and local corporate taxes or tax effect accounting related to these taxes.

(Business combination)

No items to report.

(Significant Subsequent Events)

(The reduction of the amount for legal capital surplus)

The Company resolved at the Board of Directors held on February 13, 2024 to submit a proposal for a reduction in the amount of legal capital surplus to the 39th Ordinary General Meeting of Shareholders held on March 22, 2024, and the proposal was approved at the meeting.

1. Purpose of the reduction in the amount of legal capital surplus

   To ensure that future capital policies will be executed in a prompt and flexible manner, the Company will reduce a portion of legal capital surplus and reclassify the reduced amount as other capital surplus in accordance with the provision stipulated in Paragraph 1, Article 448 of the Companies Act.

2. Outline of the reduction in the amount of legal capital surplus

   (1) Amount to be reduced in legal capital surplus

   Legal capital surplus will be reduced by ¥ 100,000 million, from ¥ 736,400 million to ¥ 636,400 million.

   (2) Method of reducing amount of legal capital surplus

   The amount of legal capital surplus to be reduced will be reclassified as other capital surplus.

3. Schedule for the reduction in the amount of legal capital surplus

   (1) Resolution at the Board of Directors: February 13, 2024

   (2) Resolution at the Ordinary General Meeting of Shareholders: March 22, 2024

   (3) Creditor objection statement notice: April 8, 2024 (planned)

   (4) Creditor objection statement final deadline: May 8, 2024 (planned)

   (5) Effective date: June 28, 2024 (planned)

4. Future Outlook

   This matter is a transfer between accounts within the Company’s net assets and will affect neither the amount of the Company’s net assets nor its operating performance.

E. Supplementary Statements

Detailed Schedule of Property, Plant and Equipment and Others

(Millions of yen)

	Type of assets	As of January 1, 2023	Increase in the year ended December 31, 2023	Decrease in the year ended December 31, 2023	Depreciation during the year ended December 31, 2023	As of December 31, 2023	Accumulated depreciation or accumulated amortization as of December 31, 2023
Property, plant and equipment	Buildings	69,893	8,392	258 (201)	10,919	67,108	183,726
	Structures	2,066	79	24 (2)	229	1,891	10,174
	Machinery and equipment	34,722	2,922	4,442 (3,928)	5,740	27,462	172,434
	Vehicles	536	86	27	289	305	1,877
	Tools, furniture and fixtures	9,996	4,617	554 (245)	4,406	9,652	64,045
	Land	47,298	2	1,129	—	46,171	—
	Construction in progress	533	5,759	298	—	5,994	—
	Total property, plant and equipment	165,044	21,855	6,732 (4,375)	21,584	158,583	432,256
Intangible assets	Patent right	194	—	—	31	163	—
	Right of trademark	49,196	—	16	16,397	32,783	—
	Software	11,652	2,245	180 (131)	5,385	8,331	—
	Goodwill	107,313	—	—	35,771	71,542	—
	Other	7,337	6,903	505	68	13,668	—
	Total intangible assets	175,692	9,148	701 (131)	57,652	126,487	—

(Note 1) The figures in parentheses in the “Decrease in the year ended December 31, 2023” column represent decreases due to impairment loss included in the figures above.

(Note 2) Other includes software in progress.

Detailed Schedule of Reserve Allowances

(Millions of yen)

Category	As of January 1, 2023	Increase in the year ended December 31, 2023	Decrease in the year ended December 31, 2023	As of December 31, 2023
Allowance for doubtful accounts	183	2	46	139
Provision for bonuses	5,675	5,498	5,675	5,498
Other provisions	—	1,331	—	1,331

(2) Major Assets and Liabilities

Note is omitted due to the fact that the relevant parts are prepared in the consolidated financial statements.

(3) Others

No items to report.

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

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.

<table>
<tr><th colspan="2">Contingencies of Smoking and Health Litigation in Canada</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 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.</td>
<td>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.</td></tr>
</table>

<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>

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Statements and Independent Auditor's Report, but does not include (1) Consolidated Financial Statements, (2) Nonconsolidated Financial Statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

Deloitte Touche Tohmatsu LLC

March 22, 2024

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www2.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

<Audit of Nonconsolidated Financial Statements>

Opinion

We have audited the nonconsolidated financial statements of Japan Tobacco Inc. (the "Company"), which comprise the nonconsolidated balance sheet as of December 31, 2023, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 39th fiscal year from January 1, 2023 to December 31, 2023, and notes to the nonconsolidated financial statements, including a summary of significant accounting policies and supplemental schedules.

In our opinion, the accompanying nonconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Nonconsolidated Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the nonconsolidated financial statements of the current period. The matter was addressed in the context of our audit of the nonconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

<table>
<tr><th colspan="2">Evaluation of Shares of Subsidiaries</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 "Significant accounting estimates" in notes to the nonconsolidated financial statements, on the Company's balance sheet as of the end of this fiscal year, Shares of subsidiaries and affiliates was ¥1,502,043 million (approximately 65.5% of Total assets), which includes the shares of JT International Holding B.V., one of the subsidiaries, of ¥1,356,191 million.

The tobacco business manufactures and sells tobacco products in various countries mainly through JT International S.A. The Company invests in JT International Holding B.V., which consolidates the financial results of the tobacco business, including JT International S.A.

The Company considers whether to recognize impairment of shares of JT International Holding B.V. by comparing the carrying amount of JT International Holding B.V. shares with the net assets value calculated using the net assets on the balance sheet of JT International Holding B.V. In addition, the Company determines whether the net assets value of JT International Holding B.V. shares has declined significantly referring to the results of the impairment test of goodwill allocated to the tobacco cash-generating unit.

The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, and the Company conducts an impairment test on goodwill allocated to the tobacco cash-generating unit annually based on International Accounting Standard 36 "Impairment of Assets."

The recoverable amount of the tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Company sets a growth rate from 4.9% in the fourth year to 3.7% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the consideration, the Company concluded that it was not necessary to recognize an impairment on JT International Holding B.V. shares.</td><td>In response to this key audit matter, we obtained and inspected the results of Company's evaluation of JT International Holding B.V. shares.

In addition, we performed the following procedures in relation to 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.</td></tr>
</table>

The three-year business plan used in the evaluation of JT International Holding B.V. shares, and the underlying assumptions for growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and a fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards. Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of JT International Holding B.V. shares to be a key audit matter.	• We discussed with management regarding the results of the impairment test of goodwill allocated to the tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Statements and Independent Auditor's Report, but does not include (1) Consolidated Financial Statements, (2) Nonconsolidated Financial Statements and our auditor's reports thereon.

Our opinion on the nonconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the nonconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the nonconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the nonconsolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the nonconsolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Company 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 Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Nonconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the nonconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 nonconsolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the nonconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the nonconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the nonconsolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the nonconsolidated financial statements, including the disclosures, and whether the nonconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the nonconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Fee-Related Information>

Fee-related information is disclosed in independent auditor's report on the consolidated financial statements as of and for the year ended December 31, 2023.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

March 22, 2024