

At a glance

The JT Group is a leading global tobacco company operating in over 70 markets and our products are sold in over 130 markets. In addition to the tobacco business, we are developing pharmaceutical and processed food businesses.



Tobacco Business

The tobacco business, headquartered in Geneva, Switzerland since 2022, manufactures and offers tobacco products all over the world.

Its key markets include Japan, the Philippines, Taiwan, Italy, Spain, the U.K., Romania, Russia, and Turkey, with leading brands in combustibles, such as Winston, Camel, MEVIUS and LD, as well as in RRP (Reduced-Risk Products), * such as Ploom and Logic.

* RRP (Reduced-Risk Products): Products with the potential to reduce the risks associated with smoking.



Pharmaceutical Business

The pharmaceutical business focuses on the R&D, manufacturing, and sale of prescription drugs, concentrating on three specific therapeutic areas: Cardiovascular, Renal and Metabolism (CVRM); immunology; and neuroscience. Its products include CORECTIM® Ointment 0.25% and CORECTIM® Ointment 0.5%, Riona® Tablets 250mg and ENAROY® Tablets 2 mg • 4 mg, among others.



Processed Food Business

The processed food business handles the frozen and ambient food business, mainly for frozen noodles, packaged cooked rice, and frozen okonomiyaki (Japanese savory pancakes); the seasonings business, focusing on seasonings including yeast extracts; and the bakery business through bakery chain outlets, mainly in the Tokyo metropolitan area.

Major products include *Reito-Sanuki-Udon* (frozen noodles), *Takitata-Gohan* (packaged cooked rice), and the and the *HIMAX* (yeast extract seasoning) in particular.



Global business foundation

The Group's tobacco business has the third largest sales volume in the world* and includes three of the top ten global-selling brands in its product portfolio.

The Group has a global manufacturing footprint and aims to manufacture quality tobacco products that secure

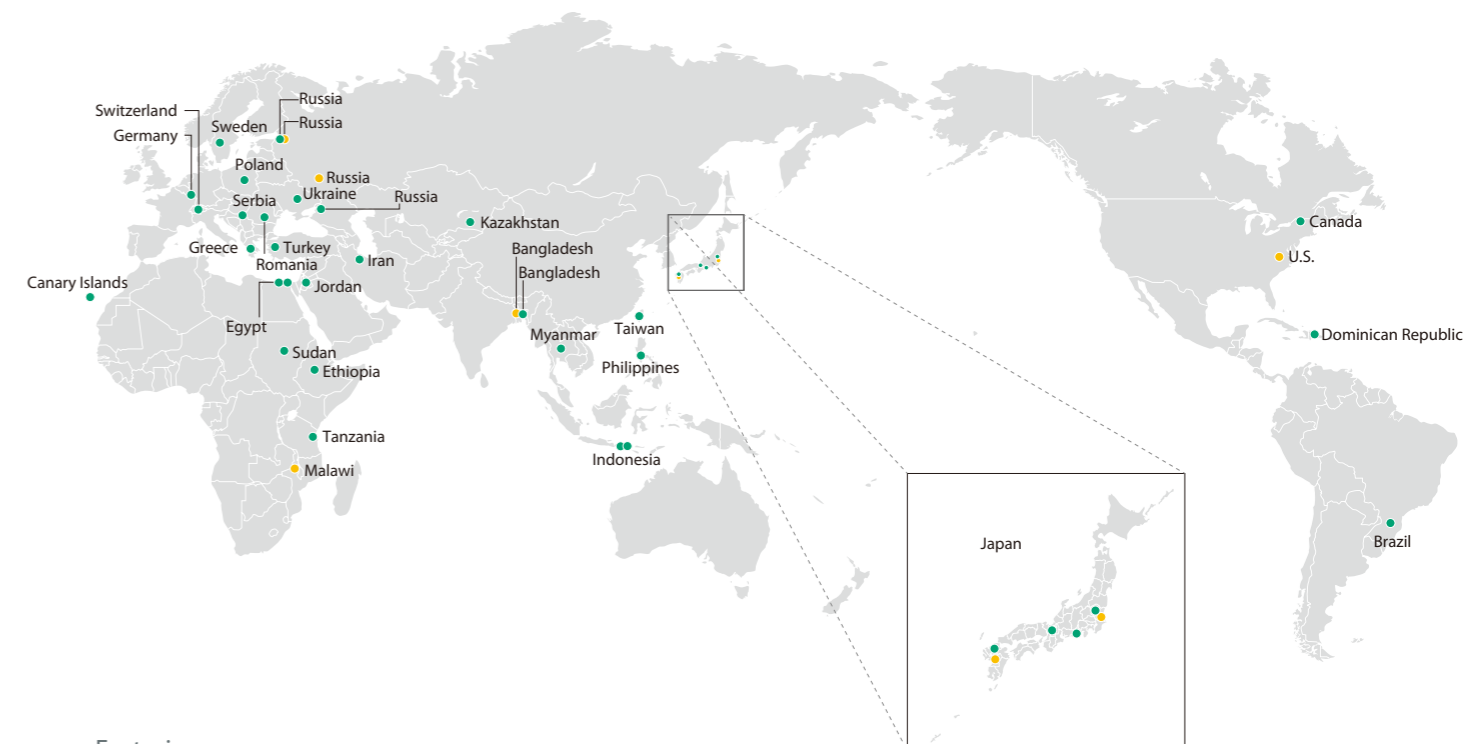
consumers' trust. As of the end of 2021, the Group operates six factories in Japan (four manufacturing tobacco and two tobacco-related factories), and 33 factories in 28 other countries (including tobacco-related factories).

* Excluding China National Tobacco Corporation

Location of Factories related to Tobacco Manufacturing

(As of December 31, 2021)

● Factories manufacturing finished goods ● Other tobacco-related factories



Factories



Tobacco business **39** factories

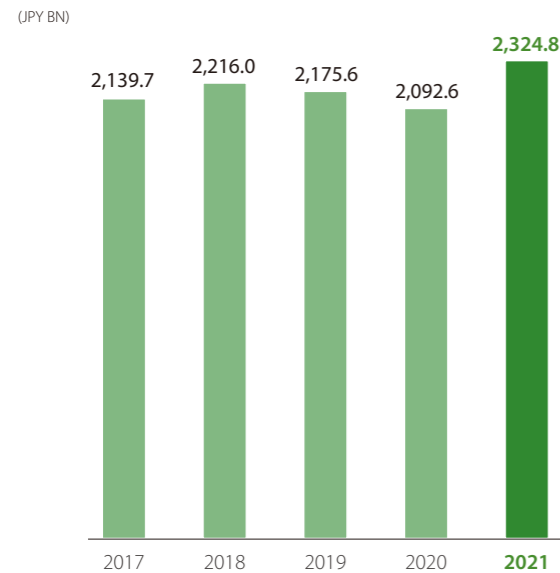
Processed food business **5** factories

*There are no factories in the pharmaceutical business.

Key performance indicators

Financial performance review

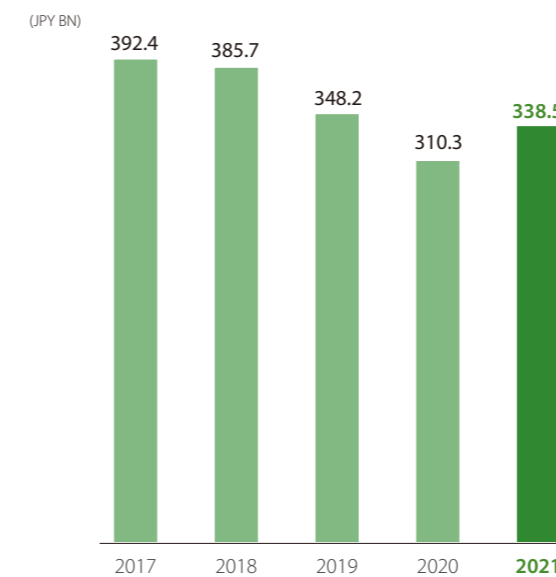
Revenue



JPY2,324.8BN
11.1% YoY increase

Despite continued market share growth and positive price effects in the international tobacco business, consolidated revenue decreased for two consecutive years through 2020, mainly as a result of negative foreign-exchange effects, growth in the Japanese RRP (Reduced-Risk Products) market and a continued downtrend in the Japanese market as a whole. In 2021, consolidated revenue grew 11.1% year on year to 2,324.8 billion yen, driven mainly by positive foreign exchange effects in addition to robust market-share growth and buoyant overall demand in the international tobacco business.

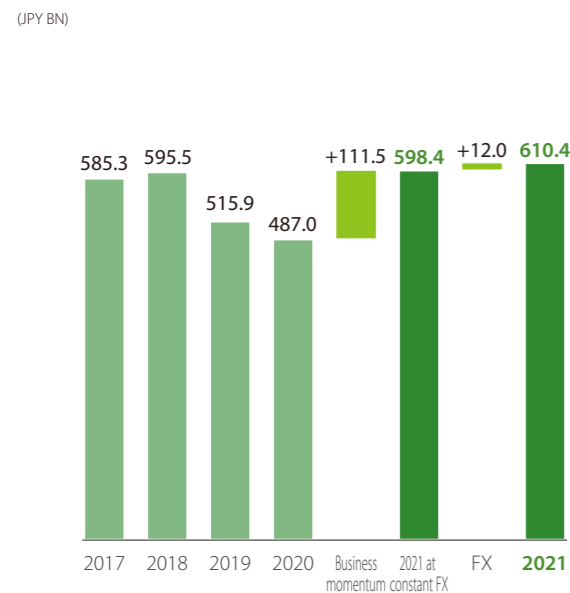
Profit



JPY338.5BN
9.1% YoY increase

Profit decreased from 2017 through 2020, mainly as a result of a decline in operating profit and increasing financial costs net of financial income. In 2021, however, profit grew 9.1% year on year to 338.5 billion yen by virtue of operating profit growth.

Adjusted operating profit

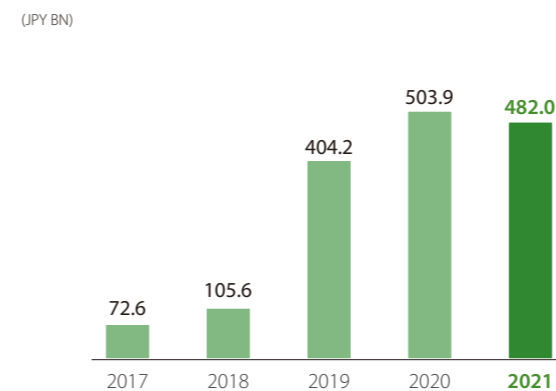


22.9% YoY increase on constant FX basis

JPY610.4BN (reported basis)
25.4% YoY increase

Adjusted operating profit on a reported basis declined in both 2019 and 2020, mainly as a result of negative foreign-exchange effects in the international tobacco business and reduced revenue in the Japanese-domestic tobacco business. In 2021, adjusted operating profit increased 25.4% to 610.4 billion yen, boosted mainly by revenue growth and positive foreign-exchange effects in the international tobacco business. AOP at constant FX grew 22.9% year on year to 598.4 billion yen.

Free cash flow



JPY482.0BN
JPY21.9BN YoY decrease

In terms of free cash flow, the cash-generating capacity of our businesses is stable. In 2021, free cash flow decreased 21.9 billion yen to 482.0 billion yen, largely because of non-recurrence of the cash inflow a year earlier from the sale of the former JT head office building.

Dividend per share



JPY140

Until 2019, we had been increasing our dividend per share every year. Based on the change in our shareholder returns policy, we paid total dividends of 140 yen per share for 2021.

Please see at P.29 for details of our resource allocation policy, including our shareholder returns policy.

Risk factors

The JT Group is a leading global tobacco company, selling products in more than 130 markets. It also operates pharmaceutical and processed food businesses. Our operations are subject to various risks stemming from their attributes, changes in business environments, and other factors.

We identify and closely monitor risks that could affect our operations and implement measures to prevent them from materializing and mitigate their impacts in the event that they come to pass.

We have established an integrated system for identifying and managing all identified risks. We promote a four-step risk management process: (1) identify risks, (2) assess them, (3) formulate plans to address them and (4) monitor the plans' progress.

The risks enumerated below are not all-inclusive. Other risks exist that could affect our operations and/or financial results.

This following discussion of risk factors should be read together with "FORWARD-LOOKING STATEMENTS" at P.129.

Risk factors	Risk description	Potential impact(s)	Main measures to address risk
1 Large or repeated tax increases	Tobacco products are subject to tobacco taxes or other similar taxes in addition to sales tax or VAT. Some countries have been raising tobacco taxes or discussing tax increases from a fiscal and/or public health standpoint. Additionally, VAT rates generally tend to increase over time. Our policy with respect to tax increases is to raise prices to pass on the tax increase to consumers*, taking into account not only the tax increase's magnitude but also the price elasticity of demand for tobacco products. We also endeavor to minimize tax increases' impact on our operations through measures to drive top-line growth and improve cost efficiency. Most governments have adopted a reasonable approach to taxation, recognizing that large or repeated tax increases may end up reducing tax revenues. In some instances, however, past tax increases have materially affected our business in certain markets.	Large or repeated increases in taxes on tobacco products tend to lead to reduced consumption of, and/or increased illicit trade in, tobacco products. They may also induce consumers* to switch to lower-priced products. Consequently, they may result in reductions in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> Promote understanding among relevant authorities that large or repeated tax increases may have counterproductive consequences, such as growth in illicit trade and decreased tax revenue due to reduced demand Optimize product portfolio for adaptability to changes in consumers* preferences and behavior Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets Further improve cost efficiency to ensure adequate profitability Set prices appropriately to minimize tax increase impact in affected markets
2 Growth in illicit trade	Illicit trade is a problem for not only the tobacco industry but also society as a whole. It harms the tobacco industry by diverting demand from law-abiding businesses. Its potential societal harms include reduction in government tax revenues, increased organized crime, and adverse health consequences due to poor production quality or inadequate post-production quality controls. Together with the rest of the tobacco industry, we continue to endeavor to eradicate illicit trade, particularly cigarette smuggling and counterfeiting. Illicit trade tends to grow following large or repeated tax increases. Additionally, regulations on cigarette ingredients and packaging may facilitate illicit trade by making cigarettes easier to counterfeit and illegitimate products harder to detect.	Growth in illicit trade results in decreased demand for legitimate products and may lead to reductions in our unit sales, revenue and/or profits. Costs incurred to combat illicit trade may also weigh on profits. Additionally, circulation of counterfeit products may undermine trust in legitimate products and, in turn, impair the value of both the brand and brand owner for a number of reasons, including the low quality of counterfeit products.	<ul style="list-style-type: none"> Take action to eradicate illicit trade in cooperation with governments, regulatory authorities and law enforcement agencies Do business only with reputable parties in accord with stringent compliance policies Educate consumers* on negative consequences of purchasing illegitimate products For more details on activities to eradicate illicit trade, please see Tobacco Business: Regulatory environment and illegal trade (P. 57) for more details.
3 Tightening of tobacco regulations	The tobacco industry is subject to many regulations, most notably on sales promotion activities (including advertising). Regulatory developments may affect our operations and/or financial results. Such regulations can also lead to growth in illicit trade to the potential detriment of our law-abiding, above-board businesses. Additionally, if stricter regulations are imposed on communications with consumers*, they may preclude effective sales promotion activities and, in turn, adversely affect top-line growth. As a responsible company, we comply with the laws and regulations of every market in which we operate. We believe laws and regulations should rightfully differ from one country to another as a reflection of countries' respective legal systems, cultures and social conditions.	Imposition of stricter regulations on sales promotion activities may undermine top-line growth strategies' effectiveness by depriving us of opportunities to grow brand equity. It can also cause us to incur additional regulatory compliance costs under certain circumstances. Our unit sales, revenue and/or profits may decrease as a result of such impacts.	<ul style="list-style-type: none"> Expediently collect accurate information to learn of regulatory developments Pursue constructive dialogue with governments and regulatory authorities to encourage reasonable, unbiased regulation that fulfills its intended objective Please see Regulation and Key Laws (P. 84) for more details.
4 Competition	Our tobacco business is engaged in fierce competition with competitors. In the tobacco business, we have been expanding our operations through not only organic growth but also M&A, including acquisitions of RJR Nabisco Inc.'s non-U.S. tobacco business and Gallaher Group Plc. As a result of such acquisitions, we compete with both global tobacco companies and local players with strong footholds in their respective markets. Market shares fluctuate in response to various factors, including regulatory changes, shifts in consumer* preferences/behavior, and local economic conditions. Market shares are also prone to short-term fluctuations in response to one-off events such as competitors' new product launches and accompanying sales promotion campaigns.	Market share fluctuations may affect our financial results. Additionally, markets in which we operate sometimes become embroiled in price competition due to events such as a brand repositioning or a price cut in pursuit of market share gains. Such price competition may negatively impact our profit margins in individual markets.	<ul style="list-style-type: none"> Optimize product portfolio by offering products that meet consumers* needs and changing preferences/behavior, and by achieving strong brand positioning in every price segment Strengthen sales capabilities and conduct effective sales promotions Further improve cost efficiency to ensure profitability Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets

*Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.

Risk factors

Risk factors	Risk description	Potential impact(s)	Main measures to address risk
5 Country risk	To realize long-term growth, we have continued to expand our earnings foundation through M&A, entry into new markets and organic growth in existing markets, mainly in our tobacco business. Such geographic expansion has been accompanied by increased exposure to country risk. If political, economic or social turmoil were to occur in a market in which we operate, our operations and/or financial results may be affected. As announced in 10th of March 2022, concerning the recent Russia-Ukraine war, the Company suspended all new investments and marketing activities in the Russian market. In addition, as announced in 28th of April 2022, given the challenging and unpredictable environment, the Company has continued to evaluate various options for the Russia business, including the potential transfer of ownership. Since the challenges of operating in Russia at this time are unprecedented, the Company is unable to reasonably estimate the outlook and the impact on financial results as of the issued date of Integrated Report 2021.	Political instability, economic recession, social unrest or other such events could disrupt our operations in the market in question. The disruption includes interruption in supply chains or distribution, damage to assets or facilities, or difficulties in staffing and sales management. This may lead to a decrease in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> Collect and monitor information related to country risk in markets in which we operate to maintain stable operations Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets
6 Currency risk	Our operations' global scope exposes us to currency risk. While we prepare our consolidated financial statements in Japanese yen, our overseas subsidiaries prepare their financial statements in various other currencies, including the Russian ruble, euro, pound sterling, Taiwanese dollar, U.S. dollar and Swiss franc. Changes in such foreign currencies' exchange value against the yen affect our reported earnings. Additionally, in our international tobacco business, JT International Holding B.V. consolidates its foreign subsidiaries' financial statements into financial statements presented in U.S. dollars. Its financial statement data are affected by changes in exchange rates between the U.S. dollar and other local currencies used by those foreign subsidiaries. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We hedge this risk with foreign-currency debt, a portion of which is designated as net-investment hedges. Additionally, gains or losses on the sale or liquidation of subsidiaries that were acquired in a transaction denominated in a non-yen currency and impairment losses recognized against such subsidiaries are affected by changes in the acquisition currency's exchange value against the yen between the acquisition date and the date of the sale, liquidation or impairment.	Our consolidated financial results are affected by changes in other currencies' exchange value against the yen. The international tobacco business's financial results, the reporting currency for which is the U.S. dollar, are affected by changes in other currencies' exchange rate against the U.S. dollar. Subsidiaries' transactions in currencies other than their respective reporting currencies are also subject to currency risk.	<ul style="list-style-type: none"> Formulate foreign-exchange hedging policies that comprehensively take into account prevailing foreign-exchange market conditions, among other factors, and mitigate currency risk by hedging with foreign-currency debt or other suitable instruments in accordance with said policies
7 Pandemics	We operate businesses globally. Global pandemics have the potential to severely impact our operations. In recent years, the global spread of COVID-19 has triggered a global economic slowdown and wrought unprecedented changes in lifestyles. We must closely monitor the COVID-19 pandemic's impact on our businesses, including mid to long-term consumption/demand trends. We are not currently experiencing any business disruptions due to the pandemic, but our financial results could be adversely affected in the event of renewed spread of COVID-19 or an outbreak of another pandemic.	Global pandemics could adversely affect our operations and/or financial results through such occurrences as a global economic slowdown or lifestyle changes.	<ul style="list-style-type: none"> Implement various preventive/anti-pandemic measures, including proactively utilizing telecommuting and imposing stricter workplace hygiene controls, to prevent infections and keep employees and their families safe Build stable supply chains from business continuity standpoint through such means as sourcing from multiple suppliers and maintaining safe production operations through such means as stringent process hygiene controls
8 Unfavorable litigation developments	Certain JT Group companies are being sued for damages due to smoking, marketing of tobacco products and exposure to secondhand smoke. Lawsuits involving smoking-related health claims are pending against certain JT Group companies, including suits where we may be found to have indemnity obligations pursuant to the agreement under which we acquired RJR Nabisco Inc.'s non-U.S. tobacco business. We cannot predict the outcome of any current or future lawsuits. Additionally, we may be sued on grounds other than smoking-related health claims. For example, we could be sued on a product liability claim in the event that a product-quality problem were to arise.	If a lawsuit is decided against us, we may be held liable for substantial damages, and/or incur other consequences, that could adversely affect our financial results. Additionally, critical media coverage of ongoing lawsuits against us could make the public less tolerant of our products and lead to stricter public regulation of smoking. Such media coverage could also lead to subsequent lawsuits against us and additional litigation expenses.	<ul style="list-style-type: none"> Establish internal and external coordination channels, swiftly ascertain information on litigation and related matters and share it with management and concerned organizational units Continue to appropriately defend against litigation claims in coordination with external legal counsel <p>▶ Please see Litigation (P. 87) for more details.</p>
9 Natural disasters	Our financial results could be adversely affected by earthquakes, typhoons, floods and/or other natural disasters' consequences, potentially including employee casualties, supply shortages due to damage to suppliers' facilities, disruptions in transportation, distribution services and/or sales channels, power outages, water service interruptions, and reduced demand for our products. To minimize natural disasters' impact on our operations, we have adopted a Business Continuity Plan, the scope of which includes global supply-chain optimization.	Natural disasters could disrupt not only our own operations but also any of our value-chain partners' operations. Such disruptions could adversely affect our financial results.	<ul style="list-style-type: none"> Routinely gather and relay information related to crisis management on ongoing basis Periodically review business continuity plans and revise them as warranted Conduct initiatives such as disaster preparedness drills and foster disaster-preparedness mindset among employees
10 Climate change	Climate change associated with global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change and biodiversity loss. Such impacts' potential consequences include supply chain disruptions and changes in the environments in which tobacco leaf and/or other agricultural commodities we use in our products are grown or raised. Such consequences may adversely affect our products and/or financial results through deterioration in these inputs' quality and/or increases in their prices/sourcing costs. Additionally, if a carbon tax is imposed on energy derived from fossil fuels in conjunction with the transition to a decarbonized society to mitigate climate change's impacts, our profits may be reduced by increased operating expenses.	Climate change could adversely affect our operations and/or value chains and, in turn, our financial results. Additionally, our financial results could be adversely affected by increases in operating expenses stemming from the transition to a decarbonized society.	<ul style="list-style-type: none"> Conduct climate scenario analysis in accord with TCFD Recommendations and develop the capability to more accurately ascertain climate change's potential impacts on our operations and take appropriate action to mitigate them Strive to reduce greenhouse gas emissions to net zero across our value chain to mitigate climate change's impacts Implement the measures in Section 9 above to address risks posed by natural disasters, which may be exacerbated by climate change <p>▶ Please see Improving Our Environmental Impact (P. 76) for more details.</p>

Regulation and key laws

Tobacco business

The tobacco regulatory environment has been becoming increasingly stringent since the WHO Framework Convention on Tobacco Control (FCTC) took effect in February 2005.

The FCTC's objective is to "reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke." The FCTC covers price and tax measures to reduce tobacco demand, non-price measures to reduce tobacco demand (e.g., protection from exposure to secondhand smoke, regulation of tobacco products' contents and emissions, regulation of tobacco product disclosures, regulation of tobacco products' packaging and labeling, regulation of tobacco advertising, promotion and sponsorship) and measures to reduce the supply of tobacco products (e.g., measures to prevent illicit trade in tobacco products and sales of tobacco products to minors*). The Japanese government ratified the FCTC in June 2004.

While the FCTC requires its signatory countries to develop, implement, periodically update and review national tobacco control strategies, plans and programs, it leaves to the discretion of each country the specifics of national regulations' content, scope and methods. The FCTC's governing body, the Conference of the Parties (COP), has been meeting regularly since the FCTC first took effect. The COP is a forum for ongoing discussions among FCTC-signatory countries on issues such as formulating FCTC Article-specific guidelines and protocols (which must be separately ratified or otherwise agreed to by the parties).

Among FCTC-signatory countries, Russia, one of our key markets, enacted a comprehensive tobacco control law in February 2013 and phased it in from June 2013. The law restricts retail sales locations and point-of-sale displays of tobacco products; prohibits advertising, sales promotions and sponsorship; sets minimum retail prices; bans smoking in public; and combats illicit trade in tobacco products.

The EU revised its July 2001 Tobacco Products Directive (TPD) effective May 2014. The revised TPD tightened restrictions on tobacco product packaging and labeling, added new regulations on tobacco product additives and E-Vapor products, and also included measures to address illicit trade. EU-member countries have implemented regulations associated with the revised EU TPD.

Australia mandates generic packaging of tobacco products under its Tobacco Plain Packaging Act, which took effect in December 2012. The law prohibits tobacco packaging from bearing logos, brand images, promotional text or anything else except the product name printed in a standardized font and color. Plain packaging regulations have since been adopted elsewhere, including in France and the U.K. A number of other countries are exploring the possibility of following suit or have already decided to follow.

In Japan, the Tobacco Business Act (TBA) prescribes that we are obligated to purchase a grower's entire tobacco crop excluding any portion not suitable for manufacturing tobacco products and that our own tobacco products as well as tobacco products imported by a designated distributor may be sold by retailers only at prices approved by the Minister of Finance. Tobacco product sales and promotional activities in Japan are regulated under the TBA, related laws/regulations and voluntary industry standards. One regulatory requirement is that advertisements and product packaging must carry a cautionary statement about the health implications of consuming tobacco products. In accordance with the Tobacco Institute of Japan (TIOJ)'s voluntary standards, which were revised in 2020, the cautionary statement on tobacco product packaging was changed to be consistent with the latest scientific knowledge, and the area it occupied on the packaging was enlarged. Revisions to the TIOJ's advertising voluntary standard included measures to more effectively shield minors* from tobacco product ads, including online, and new restrictions on point-of-sale ad size and display methods.

In July 2018, the Health Promotion Act (HPA) was amended to better prevent unwanted exposure to secondhand smoke in facilities frequented by the public. We recognize public places that allow smoking are going to decrease in number under the amended HPA, which fully took effect from April 1, 2020. While it is difficult to predict smoking environment changes in detail, we expect our financial results to be affected to some extent.

In relation to RRP (Reduced-Risk Products), the U.S. and European countries are starting to establish new guidelines and frameworks for scientifically assessing the reduction in health risks associated with smoking. Tobacco makers have been stepping up activities to obtain official certification of risk-reduction benefits. Some countries have applied

existing tobacco product regulations to RRP while others have newly adopted separate regulations. The U.S., for example, banned the sale of certain flavored E-Vapor cartridges in February 2020. With a global regulatory consensus yet to take shape, regulatory treatment of RRP varies widely among markets/countries.

Regulatory impacts on our operating performance

While the future content of laws, regulations and industry guidelines on smoking, tobacco products and tobacco product marketing, sales promotions, packaging and labeling is impossible to accurately predict, we expect the regulations discussed above to expand in scope and/or new regulations (including municipal regulations) to be imposed in Japan and overseas markets in which we sell products.

We are supportive of reasonable and appropriate regulation of tobacco, but if tobacco regulations like those described above are tightened or if we are not afforded enough time to adequately adapt to such regulatory tightening, our financial results may be adversely affected by contraction in tobacco product demand, loss of market share and/or increased regulatory compliance expenses.

Self-regulation of marketing

In addition to complying with the regulations of every country in which we operate, we also operate in accord with our own Global Marketing Principles (GMPs), the principles based on our recognition of the importance of responsibly marketing tobacco products. Our GMPs include not marketing to minors* and not encouraging anyone, including adults*, to start smoking or dissuading anyone from quitting. We believe that preventing minors* from smoking is an issue that requires society-wide engagement. We are pursuing various initiatives to address this issue in coordination with governments and concerned organizations in addition to appropriately operating in accord with our GMPs.

Please visit JTI.co.jp (Japanese only) for more details.

*Minimum legal age for smoking varies in accordance with the legislation in each country. In Japan, smoking is not permitted for those under 20 years of age.

Pharmaceutical business

Pharmaceutical R&D, manufacturing, sales and marketing are stringently regulated in Japan and major overseas markets. Additionally, regulatory authorities globally have been reviewing new drug applications (NDA) increasingly rigorously in recent years in response to a growing imperative to ensure drug safety. Given the need to demonstrate safety in larger sample sizes over sufficiently long timeframes, clinical trials are growing in both scale and duration. Meanwhile, with required NDA documentation being internationally standardized both qualitatively and quantitatively, drug companies now commonly use a single set of data available in multiple countries for drug development, a practice that increases development efficiency and reduces costs.

In Japan, pharmaceutical manufacturing and sales are regulated by the Ministry of Health, Labour and Welfare (MHLW) and/or prefectural authorities under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (the "Pharmaceutical and Medical Device (PMD) Act"). The PMD Act requires companies that manufacture and sell pharmaceuticals to be licensed in every prefecture in which they operate and to renew those licenses every five years. Additionally, every pharmaceutical manufactured or sold in Japan must be approved by the MHLW.

Japan's National Health Insurance (NHI) program maintains a drug formulary and sets official drug prices. The NHI is planning to radically reform drug pricing. The planned reforms include annual drug price revisions, paring-down of the list of drugs qualifying for premium pricing intended to incentivize drug discovery and reduce off-label drug use, and tiered reductions in long-listed drug prices based on generic substitution rates.

Regulation and key laws

Processed food business

Our processed food business is regulated as a food product manufacturer and distributor, mainly under the Food Safety Basic Act, Food Sanitation Act and Food Labeling Act.

The Food Safety Basic Act, enacted and effective from 2003 with the purpose to ensure food safety and protect consumers, charges food companies with a responsibility to implement safeguards necessary to ensure food safety from a scientific standpoint through risk control, assessment and communication at each stage of their entire supply chains. The Food Sanitation Act aims to keep food and beverages free of hygienic hazards and protect the health of consumers. It requires food companies to acquire knowledge and technology, verify ingredient safety, inspect their facilities, and otherwise act diligently to fulfill their responsibilities to ensure the safety of their food products, additives, utensils, containers and/or packaging. As part of the revision in 2018, additional requirements such as hygiene management in line with the HACCP (Hazard Analysis and Critical Control Point) are in place. The Food Labeling Act, aiming to uphold consumer interests and contribute to making food production support the protection and/or promotion of consumer health, sets labeling standards for food products offered for sale, including with respect to allergen content, shelf life, ingredients, and place of origin. Food companies are required to label their products in compliance with these standards.

In addition to meticulously complying with these and other applicable laws and regulations, our processed food business is working to upgrade our safety management from four standpoints - food safety, food defense, food quality and food communication - so that it can provide consumers with safe, quality food products that they can enjoy with peace of mind.

Japan Tobacco Inc. Act

JT was established pursuant to the Japan Tobacco Inc. Act (the "JT Act") to manufacture, sell and import tobacco products. Under the JT Act, the Japanese government must always own at least one-third of our total issued shares (excluding any non-voting share classes^{*1}). The Minister of Finance must approve any offerings of newly-issued stock or subscription rights to shares, as well as any issuance of stock, subscription rights to shares or bonds cum subscription rights to shares in conjunction with a stock swap. In addition to manufacturing, selling and importing tobacco products and operating businesses incidental thereto, we are permitted by the JT Act to engage in other businesses as required to fulfill our purpose and subject to the Minister of Finance's approval. Other matters requiring the Minister of Finance's approval include appointment/dismissal of Directors, Executive Officers and Audit & Supervisory Board members, amendments to our Articles of Incorporation, appropriations of capital surplus (excluding appropriations to rectify an accumulated deficit), mergers, split-ups and dissolution. We are also required to submit a statement of financial position, statement of income and business report to the Minister of Finance within three months of every fiscal year-end.

The Reconstruction Financing Act^{*2}, which took effect on December 2, 2011, directed the government to reassess state involvement in the tobacco industry under the Tobacco Business Act by March 31, 2023, and to explore the possibility of divesting its JT shareholdings.

^{*1} Defined as classes of shares with no right to vote on any resolutions at general meetings of shareholders.

^{*2} The Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake.

Litigation

Some of JT'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. There are lawsuits involving smoking/vaping and health-related cases pending in which some of JT's subsidiaries are named as defendants or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s non-U.S. tobacco business. In addition, JT and/or some of its subsidiaries are also defendants in lawsuits other than the smoking/vaping and health-related cases.

There are ten ongoing health care cost recovery cases in Canada pending against JTI-Macdonald Corp. (hereinafter referred to as JTI-Mac), our Canadian subsidiary and JT's indemnitees (RJR Nabisco Inc.'s affiliates), brought by Canadian provinces. In addition, there are 8 pending class actions in Canada where plaintiffs are seeking damages for harm allegedly caused by smoking of cigarettes. Damages claimed in some of these cases reach sums in the multi-billion-dollar range. We will continue to take all appropriate actions to defend such claims vigorously and believe there are a number of valid defenses.

On March 8, 2019, JTI-Mac filed for protection from its creditors under Canada's Companies' Creditors Arrangement Act (CCAA). The Ontario Superior Court granted the CCAA application on the same date and extended the protection in favor of JTI-Mac. All the Canadian matters against JTI-Mac referred to herein have been stayed by the court order. JTI-Mac carries on business in the ordinary course under the CCAA.

In recent decades, numerous, large-scale, smoking and health-related cases have been brought against tobacco product manufacturers in the U.S. and some of the cases initially resulted in verdicts with massive damage awards. We are not defendants in any of these lawsuits, nor are we subject to any indemnity claims with respect to them. The JT Group's U.S. tobacco business does not include the business that it acquired from RJR Nabisco Inc. in 1999, as well as the Natural American Spirit' non-U.S. business that it acquired from Reynolds American Inc. group in January 2016.

There is ongoing litigation in the U.S. alleging health effects associated with E-Vapor use and harm caused to consumers* by misleading representations and advertising for which plaintiffs are seeking damages and/or demanding health warnings against E-Vapor manufacturers in the U.S. One such case has been brought against a number of E-Vapor manufacturers including JT subsidiaries. This case has been stayed by the court order. We believe that we have valid grounds to defend this claim and intend to do so vigorously.

Even now, the scale of the JT Group's U.S. tobacco business remains small. Hence, we believe that litigation in the U.S. will not materially affect its businesses in the near future.

Please see "Contingent Liabilities" of our Consolidated Financial Statements' "Contingencies" note for major lawsuits to which some of JT's subsidiaries or indemnitees are named as defendants.

To date, JT Group have never lost a case or paid any settlement award in connection with smoking/vaping and health-related litigation. However, the Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the JT Group and payment of substantial amount of monetary compensation could materially affect its financial performance. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance. Apart from smoking/vaping and health-related ones, the JT Group also may become the defendant in further litigation. Should any problems arise on the Group's product quality, this may lead to claims seeking profit liability. Such litigation cases may negatively affect the Group's business performance or the manufacture, sale and import and export of its products, should the outcome of any such claims prove unfavorable.

*Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.