Japan Tobacco Inc.
Financial Statements and
Independent Auditor's Report

Year Ended December 31, 2024

Index

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Assets		
Current assets		
Cash and cash equivalents (Note 7)	1,040,206	1,084,567
Trade and other receivables (Note 8)	535,302	568,982
Inventories (Note 9)	832,611	957,281
Other financial assets (Note 10)	58,633	120,211
Other current assets (Note 11)	789,888	826,766
Subtotal	3,256,639	3,557,807
Assets held for sale (Note 12)	2,921	19,765
Total current assets	3,259,561	3,577,572
Non-current assets		
Property, plant and equipment (Notes 13, 15)	821,499	907,700
Goodwill (Note 14)	2,616,440	2,914,254
Intangible assets (Note 14)	200,819	486,463
Investment property (Note 16)	9,338	3,716
Retirement benefit assets (Note 22)	65,856	89,573
Investments accounted for using the equity method	56,726	50,423
Other financial assets (Note 10)	155,267	151,940
Other non-current assets (Note 11)	7,212	5,500
Deferred tax assets (Note 17)	89,379	183,591
Total non-current assets	4,022,536	4,793,160
Total assets	7,282,097	8,370,732

(Millions of yen)

	2023	**2024**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	592,802	659,510
Bonds and borrowings (Note 19)	233,333	178,668
Income tax payables	29,647	24,621
Other financial liabilities (Note 19)	44,470	59,965
Provisions (Note 20)	18,634	195,918
Other current liabilities (Note 21)	1,008,390	1,029,925
Total current liabilities	1,927,276	2,148,607
Non-current liabilities		
Bonds and borrowings (Note 19)	908,926	1,548,120
Other financial liabilities (Note 19)	40,678	49,210
Retirement benefit liabilities (Note 22)	279,443	277,236
Provisions (Note 20)	45,527	253,949
Other non-current liabilities (Note 21)	127,170	120,427
Deferred tax liabilities (Note 17)	40,586	124,455
Total non-current liabilities	1,442,329	2,373,398
Total liabilities	3,369,605	4,522,005
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,478	736,697
Treasury shares (Note 23)	(489,194)	(488,579)
Other components of equity (Note 23)	290,550	381,599
Retained earnings	3,192,323	3,036,905
Equity attributable to owners of the parent company	3,830,156	3,766,623
Non-controlling interests	82,336	82,104
Total equity	3,912,491	3,848,727
Total liabilities and equity	7,282,097	8,370,732

B. Consolidated Statement of Income
Years Ended December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Revenue (Notes 6, 25)	2,841,077	3,149,759
Cost of sales (Notes 14, 22)	(1,225,974)	(1,407,462)
Gross profit	1,615,103	1,742,297
Other operating income (Note 26)	30,027	31,202
Share of profit in investments accounted for using the equity method	8,332	12,885
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(981,052)	(1,462,924)
Operating profit (Note 6)	672,410	323,461
Financial income (Notes 28, 33)	44,414	69,503
Financial costs (Notes 22, 28, 33)	(95,222)	(159,198)
Profit before income taxes	621,601	233,766
Income taxes (Note 17)	(136,292)	(51,171)
Profit for the period	485,310	182,596
Attributable to		
Owners of the parent company	482,288	179,240
Non-controlling interests	3,021	3,356
Profit for the period	485,310	182,596
Earnings per share		
Basic (Yen) (Note 30)	271.69	100.95
Diluted (Yen) (Note 30)	271.63	100.94

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

(Millions of yen)

	2023	**2024**
Operating profit	672,410	323,461
Amortization cost of acquired intangibles arising from business acquisitions	58,836	55,683
Adjustment items (income)	(18,651)	(15,621)
Adjustment items (costs)	15,407	388,345
Adjusted operating profit (Note 6)	728,002	751,868

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Profit for the period	485,310	182,596
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 29, 33)	2,414	2,339
Remeasurements of defined benefit plans (Notes 22, 29)	(13,538)	13,998
Total of items that will not be reclassified to profit or loss	(11,123)	16,337
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	189,299	93,852
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	4,749	(4,201)
Hedge costs	(17)	29
Total of items that may be reclassified subsequently to profit or loss	194,031	89,680
Other comprehensive income (loss), net of taxes	182,908	106,017
Comprehensive income (loss) for the period	668,217	288,612
Attributable to		
Owners of the parent company	660,663	285,454
Non-controlling interests	7,554	3,159
Comprehensive income (loss) for the period	668,217	288,612

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2023 and 2024

(Millions of yen)

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Hedge costs
As of January 1, 2023	100,000	736,400	(490,183)	1,001	85,796	8,546	－
Profit for the period	－	－	－	－	－	－	－
Other comprehensive income (loss)	－	－	－	－	185,014	4,749	(17)
Comprehensive income (loss) for the period	－	－	－	－	185,014	4,749	(17)
Acquisition of treasury shares (Note 23)	－	－	(1)	－	－	－	－
Disposal of treasury shares (Note 23)	－	78	990	(444)	－	－	－
Share-based payments (Note 32)	－	－	－	－	－	－	－
Dividends (Note 24)	－	－	－	－	－	－	－
Changes in the scope of consolidation	－	－	－	－	－	－	－
Changes in the ownership interest in a subsidiary without a loss of control	－	－	－	－	－	－	－
Transfer from other components of equity to retained earnings	－	－	－	－	－	－	－
Other increase (decrease)	－	－	－	－	－	(4,150)	－
Total transactions with the owners	－	78	989	(444)	－	(4,150)	－
As of December 31, 2023	100,000	736,478	(489,194)	557	270,810	9,145	(17)
Profit for the period	－	－	－	－	－	－	－
Other comprehensive income (loss)	－	－	－	－	93,999	(4,201)	29
Comprehensive income (loss) for the period	－	－	－	－	93,999	(4,201)	29
Acquisition of treasury shares (Note 23)	－	－	(2)	－	－	－	－
Disposal of treasury shares (Note 23)	－	220	617	(193)	－	－	－
Share-based payments (Note 32)	－	－	－	－	－	－	－
Dividends (Note 24)	－	－	－	－	－	－	－
Changes in the scope of consolidation	－	－	－	－	－	－	－
Changes in the ownership interest in a subsidiary without a loss of control	－	－	－	－	－	－	－
Transfer from other components of equity to retained earnings	－	－	－	－	－	－	－
Other increase (decrease)	－	－	－	－	－	(918)	－
Total transactions with the owners	－	220	615	(193)	－	(918)	－
As of December 31, 2024	100,000	736,697	(488,579)	364	364,809	4,026	12

(Millions of yen)

	Equity attributable to owners of the parent company						
	Other components of equity						
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2023	8,966	—	104,309	3,089,909	3,540,435	76,326	3,616,761
Profit for the period	—	—	—	482,288	482,288	3,021	485,310
Other comprehensive income (loss)	2,199	(13,571)	178,375	—	178,375	4,533	182,908
Comprehensive income (loss) for the period	2,199	(13,571)	178,375	482,288	660,663	7,554	668,217
Acquisition of treasury shares (Note 23)	—	—	—	—	(1)	—	(1)
Disposal of treasury shares (Note 23)	—	—	(444)	(505)	119	—	119
Share-based payments (Note 32)	—	—	—	505	505	22	526
Dividends (Note 24)	—	—	—	(367,415)	(367,415)	(2,945)	(370,360)
Changes in the scope of consolidation	—	—	—	—	—	(33)	(33)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	(0)	(0)	1,413	1,413
Transfer from other components of equity to retained earnings	(1,111)	13,571	12,460	(12,460)	—	—	—
Other increase (decrease)	—	—	(4,150)	—	(4,150)	—	(4,150)
Total transactions with the owners	(1,111)	13,571	7,866	(379,875)	(370,942)	(1,544)	(372,486)
As of December 31, 2023	10,054	—	290,550	3,192,323	3,830,156	82,336	3,912,491
Profit for the period	—	—	—	179,240	179,240	3,356	182,596
Other comprehensive income (loss)	2,333	14,054	106,214	—	106,214	(197)	106,017
Comprehensive income (loss) for the period	2,333	14,054	106,214	179,240	285,454	3,159	288,612
Acquisition of treasury shares (Note 23)	—	—	—	—	(2)	—	(2)
Disposal of treasury shares (Note 23)	—	—	(193)	(493)	151	—	151
Share-based payments (Note 32)	—	—	—	664	664	24	688
Dividends (Note 24)	—	—	—	(349,759)	(349,759)	(2,810)	(352,569)
Changes in the scope of consolidation	—	—	—	627	627	(66)	561
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	251	251	(539)	(287)
Transfer from other components of equity to retained earnings	1	(14,054)	(14,053)	14,053	—	—	—
Other increase (decrease)	—	—	(918)	—	(918)	—	(918)
Total transactions with the owners	1	(14,054)	(15,164)	(334,657)	(348,987)	(3,390)	(352,377)
As of December 31, 2024	12,388	—	381,599	3,036,905	3,766,623	82,104	3,848,727

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2023 and 2024

(Millions of yen)

	2023	**2024**
Cash flows from operating activities		
Profit before income taxes	621,601	233,766
Depreciation and amortization	177,409	179,837
Impairment losses	13,710	17,370
Interest and dividend income	(42,816)	(67,562)
Interest expense	28,493	42,485
Share of profit in investments accounted for using the equity method	(8,332)	(12,885)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(16,810)	(7,374)
(Gains) losses on sale of investments in subsidiaries	104	(1,722)
(Increase) decrease in trade and other receivables	(30,169)	45,770
(Increase) decrease in inventories	(136,232)	(96,566)
Increase (decrease) in trade and other payables	40,998	(46,221)
Increase (decrease) in retirement benefit liabilities	455	(7,175)
(Increase) decrease in prepaid tobacco excise taxes	(106,987)	13,802
Increase (decrease) in tobacco excise tax payables	102,787	4,973
Increase (decrease) in consumption tax payables	23,249	4,126
Increase (decrease) in provisions	(10,001)	381,670
Other	53,080	75,299
Subtotal	710,540	759,591
Interest and dividends received	41,189	65,353
Interest paid	(26,324)	(33,980)
Income taxes paid	(159,088)	(160,953)
Net cash flows from operating activities	566,317	630,011
Cash flows from investing activities		
Purchase of securities	(113,010)	(65,514)
Proceeds from sale and redemption of securities	84,363	81,318
Purchase of property, plant and equipment	(94,861)	(127,769)
Proceeds from sale of investment property	19,653	9,753
Purchase of intangible assets	(21,707)	(22,598)
Payments into time deposits	—	(48,262)
Payments for business combinations (Note 38)	—	(265,667)
Proceeds from sale of investments in associates	1,369	414
Other	(1,239)	(1,441)
Net cash flows from investing activities	(125,432)	(439,766)

(Millions of yen)

	2023	**2024**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(367,331)	(349,645)
Dividends paid to non-controlling interests	(2,594)	(2,701)
Capital contribution from non-controlling interests	431	130
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	143,042	(150,105)
Proceeds from long-term borrowings (Note 31)	2,890	581,380
Repayments of long-term borrowings (Note 31)	(14,909)	(236,538)
Proceeds from issuance of bonds (Notes 19, 31)	59,795	97,616
Redemption of bonds (Notes 19, 31)	(68,194)	(8,722)
Repayments of lease liabilities (Note 31)	(23,613)	(26,218)
Acquisition of treasury shares	(1)	(2)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(17)	(100)
Other	0	0
Net cash flows from financing activities	(270,500)	(94,906)
Net increase (decrease) in cash and cash equivalents	170,385	95,339
Cash and cash equivalents at the beginning of the period	866,885	1,040,206
Effect of exchange rate changes on cash and cash equivalents	2,935	(50,978)
Cash and cash equivalents at the end of the period (Note 7)	1,040,206	1,084,567

F. Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2024

1. Reporting Entity

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

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

The Group’s consolidated financial statements for the year ended December 31, 2024 were approved on March 26, 2025 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS Accounting Standards

The Group’s consolidated financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (hereinafter referred to as the “IFRS Accounting Standards”).

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. Material Accounting Policy Information

(1) Basis of Consolidation

The consolidated financial statements include financial statements of the Company and its subsidiaries, and interests in investments in associates and joint arrangements.

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group and the Group has control over the entity if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The acquisition date of a subsidiary is the date on which the Group obtains control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intergroup balances, transactions, income and expenses are eliminated on consolidation.

Comprehensive income for subsidiaries is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B. Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over the entity if it has the power to participate in the financial and operating policy decisions of the investee, but it does not have control or joint control over the investee. Investments in associates are accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence.

C. Joint Arrangements

A joint arrangement is a contractual arrangement in which two or more parties have joint control. Depending upon the rights and obligations of the parties to the arrangement, the Group classifies a joint arrangement into a joint operation whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement, and a joint venture whereby the Group has rights to the net assets of the arrangement only. The Group recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation while a joint venture is accounted for using the equity method.

(2) Business Combination

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and the equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. If the amount of initial accounting for a business combination is not determined by the end of the reporting period in which the combination occurs, the provisional amounts for the items for which the accounting is incomplete are reported and are adjusted during the measurement period, which is one year from the acquisition date. Acquisition-related costs incurred are recognized as expenses when the costs are incurred except the costs to issue debt and equity securities. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in retained earnings and no goodwill is recognized with respect to such transaction.

(3) Foreign Currency Translation

Consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group specifies its own functional currency and measures transactions based on it. Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at year end. Differences arising from the translation and settlement are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments designated as hedging instruments for net investment in foreign operations (foreign subsidiaries), financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognized as other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at year end, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. The resulting translation differences are recognized as other comprehensive income. However, the income and expenses of the Company's subsidiaries in the hyperinflationary economy are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date in accordance with the hyperinflationary accounting. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income, and amortized cost. The Group determines the classification at initial recognition.

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied consistently.

All financial assets are measured at fair value plus transaction costs that are attributable to the financial assets, except for the case of being classified in the category of financial assets measured at fair value through profit or loss.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the following classifications:

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other Financial Assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss.

However, changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decline in its fair value compared to its acquisition cost is significant. Dividends on the financial assets are recognized in profit or loss for the year.

(iii) Derecognition

Financial assets are derecognized when the rights to receive benefits from them expire or are transferred, or when substantially all the risks and rewards of the ownership are transferred.

B. Impairment of Financial Assets

With respect to financial assets measured at amortized cost, the Group recognizes an allowance for doubtful accounts for expected credit losses. The expected credit losses are calculated based on historical loss experience or future recoverable amounts.

An allowance for doubtful accounts for trade receivables is always recognized in an amount equal to the lifetime expected credit losses. In principle, with respect to financial assets except for trade receivables, an allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit losses. However, the allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses if a credit risk on the financial asset has increased significantly since initial recognition.

The Group assesses whether a credit risk on a financial asset has increased significantly based on a change of the default risk considering past due information, financial difficulties of obligors or downgrades of the internal credit rating.

The Group assesses a whole or part of the financial asset which is deemed extremely difficult to be collected as a default and recognizes it as a credit-impaired financial asset. If the Group reasonably determines that a whole or part of the financial asset is uncollectible, the carrying amounts of financial assets are written-off directly.

The expected credit losses on trade receivables which are not assessed as credit-impaired financial assets are measured collectively by an asset group consisting of a number of homogeneous counterparties.

An allowance for doubtful accounts for financial assets is recognized in profit or loss. If an event which causes a reduction in the allowance for doubtful accounts occurs, a reversal of an allowance for doubtful accounts is recognized in profit or loss.

C. Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the following classifications:

(a) Financial Liabilities Measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial Liabilities Measured at Amortized Cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition are recognized as profit or loss in the consolidated statement of income.

After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount of an allowance for doubtful accounts calculated in accordance with “B. Impairment of Financial Assets” above, and
- The amount initially measured less cumulative revenue recognized in accordance with IFRS 15 “Revenue from Contracts with Customers.”

(iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired.

D. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

E. Derivatives and Hedge Accounting

The Group utilizes derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value. Changes in the fair value of derivatives are recognized as profit or loss in the consolidated statement of income. However, the gains or losses on the hedging instrument relating to the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized as other comprehensive income in the consolidated statement of comprehensive income.

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of the hedging instruments, the hedged items, the nature of the risks being hedged and how the hedging relationship's effectiveness is assessed. These hedges are assessed on an ongoing basis to determine whether the hedging relationship is effective prospectively, even though it is expected that there is an economic relationship between the hedged item and the hedging instrument, that the effect of credit risk does not dominate the value changes that result from that economic relationship, and that the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of the hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio due to changes in an economic relationship between the hedged item and the hedging instrument but the risk management objective remains the same, the Group will adjust the hedge ratio so that it meets the qualifying criteria again. The Group discontinues hedge accounting for the portion that does not meet the requirement when the hedging relationship ceases to meet the qualifying criteria even after adjusting the hedge ratio. The Group performs highly effective hedging, and therefore generally expects that no significant ineffective portion should arise.

Hedges that meet the stringent requirements for hedge accounting are classified into the following categories and accounted for in accordance with IFRS 9 "Financial Instruments."

(i) Fair Value Hedge

The gain or loss on the hedging instrument is recognized as profit or loss in the consolidated statement of income. However, changes in the fair value of the hedging instrument are recognized as other comprehensive income in the consolidated statement of comprehensive income if the hedging instrument hedges an equity instrument designated as at fair value through other comprehensive income. Regarding the hedging gain or loss on the hedged item, the carrying amount of the hedged item is adjusted and the change is recognized as profit or loss in the consolidated statement of income. However, changes in the fair value of an equity instrument which the Group elected to present in other comprehensive income are recognized as other comprehensive income.

(ii) Cash Flow Hedge

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income. The time value of the foreign currency options is excluded from the designation of hedging instrument and recognized as hedge costs under other components of equity separately.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

If the hedged future cash flows are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. If the hedged future cash flows are still expected to occur, amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the future cash flows occur.

(iii) Hedge of Net Investment in Foreign Operations

Translation differences resulting from the hedge of net investment in foreign operations are accounted for similarly to a cash flow hedge. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized as profit or loss in the consolidated statement of income. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss.

F. Fair Value of Financial Instruments

Fair value of financial instruments that are traded in active financial markets at year end refers to quoted prices or dealer quotations.

If there is no active market, the fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value, and the costs are determined by using the weighted-average method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Leaf tobacco which is stored for more than 12 months before being used for production is included in current assets since it is held within the normal operating cycle.

(7) Property, Plant and Equipment

Property, plant and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalization.

Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

• Buildings and structures: 20 to 50 years

• Machinery and vehicles: 10 to 18 years

The estimated useful lives and depreciation method are reviewed at each year end and if there are any changes made to the estimated useful lives and depreciation method, such changes are applied prospectively as changes in estimate.

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized. It is allocated to cash-generating units that are identified according to types of businesses and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

B. Intangible Assets

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost at the initial recognition, and the costs of intangible assets acquired through business combinations are recognized at fair value at the acquisition date. Expenditures on internally generated intangible assets are recognized as an expense in the period when incurred, except for development expenses that satisfy the capitalization criteria.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each year end, and the effect of any changes in estimate would be accounted for on a prospective basis.

The estimated useful lives of major intangible assets with finite useful lives are as follows:

• Trademarks: 10 to 20 years

• Software: 5 years

Intangible assets with indefinite useful lives and intangible assets that are not ready to use are not amortized, but they are tested for impairment individually or by cash-generating unit annually or whenever there is any indication of impairment.

(9) Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group elects not to recognize right-of-use assets and lease liabilities for short-term leases within 12 months and leases of low-value assets.

If a contract is, or contains, a lease, except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets and lease liabilities on the consolidated statement of financial position at the commencement date. The Group recognizes the lease payments associated with short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term.

Right-of-use asset is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

An acquisition cost of a right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, and any initial direct costs. The right-of-use asset is depreciated using the straight-line method over its estimated useful life or lease term, whichever is shorter. The lease liability is initially measured at the present value of the lease payment that is not paid at the commencement date. The lease payments are apportioned between the financial cost and the reduction in the lease liability based on the effective interest method. The financial costs are recognized in the consolidated statement of income.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

(11) Impairment of Non-financial Assets

The Group assesses each year whether there is any indication that an asset may be impaired. If any such indication exists, or in cases where the impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases that the recoverable amount cannot be estimated for each asset, it is estimated by the cash-generating unit to which the asset belongs. The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs of disposal or its value in use. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs of disposal, the Group uses an appropriate valuation model supported by available fair value indicators.

The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

(12) Assets Held for Sale

An asset or asset group for which the value is expected to be recovered through a sales transaction rather than through continuing use is classified into an asset or disposal group held for sale when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs of disposal.

(13) Post-employment Benefits

The Group sponsors defined benefit plans and defined contribution plans as employee retirement benefit plans.

The Company is obligated to bear pension expenses for a mutual assistance association incurred with respect to services in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are calculated and included in liabilities related to retirement benefits.

For each plan, the Group calculates the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the year on high quality corporate bonds or government bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plans and minimum funding requirements, if necessary). Expected interest costs and interest income are recognized as financial costs.

Remeasurements of defined benefit plans are recognized in full as other comprehensive income in the period when they are incurred and transferred to retained earnings immediately. Past service costs are recognized as profit or loss in the period when incurred.

The cost for retirement benefits for defined contribution plans is recognized as an expense at the time of contribution.

(14) Share-based Payments

The Group has a share option plan, a restricted stock remuneration plan and a restricted stock unit as an equity-settled share-based payment plan. Share options are estimated at fair value at the grant date and are recognized as an expense over the vesting period in the consolidated statement of income after considering the number of share options that are expected to be eventually vested. The corresponding amount is recognized as an increase in equity in the consolidated statement of financial position. Restricted stock remuneration and Restricted stock unit are estimated at fair value at the grant date and are recognized as an expense from the grant date over the vesting period in the consolidated statement of income, and the corresponding amount is recognized as an increase in equity in the consolidated statement of financial position.

The Group has a performance share unit plan as a share-based payment plan with cash alternatives. Performance share units are accounted as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred. A portion as an equity-settled share-based payment transaction is estimated at fair value of granted shares of the Company and is recognized as an expense over the vesting period in the consolidated statement of income, and the corresponding amount is recognized as an increase in equity in the consolidated statement of financial position. As for a portion as a cash-settled share-based payment transaction, the services received and liability incurred are estimated at fair value of the liability and are recognized as an expense over the vesting period in the consolidated statement of income, and the corresponding amount is recognized as an increase in liability in the consolidated statement of financial position.

The fair value of the liability is remeasured at the end of reporting period and at the date of settlement with any changes in fair value recognized in profit or loss.

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably. If the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets,” the Group recognizes a provision for restructuring when it has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main scheme to those affected by it. Restructuring provisions include only the direct expenditures arising from the restructuring, which meet both of the following criteria:

- necessarily entailed by the restructuring;
- not associated with the ongoing activities of the entity.

(16) Revenue

A. Revenue from Contracts with Customers

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

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group mainly engages in the sale of tobacco products, prescription drugs, and processed foods. The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax.
The tobacco excise taxes and other transactions in which the Group is involved as an agent are excluded from revenue. The amount after deducting the tobacco excise taxes and other transactions is presented as "Revenue" in the consolidated statement of income.

B. Interest Income

Interest income is recognized using the effective interest rate method.

C. Dividend Income

Dividend income is recognized when the shareholders' right to receive payment is established.

(17) Government Grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.
In the case that the government grants are related to expense items, they are recognized in profit or loss on a systematic basis over the period in which the related costs for which the grants are intended to compensate are recognized. With regard to government grants for assets, the amount of the grants is deducted from the acquisition cost of the assets.

(18) Borrowing Costs

With respect to assets that necessarily take a substantial period of time to get ready for their intended use or sale, the borrowing costs that are directly attributable to the acquisition, construction or production of the assets are capitalized as part of the acquisition cost of the assets. Other borrowing costs are recognized as an expense in the period when they are incurred.

(19) Income Taxes

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the year. The current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Deferred income taxes are calculated based on the temporary differences between the tax base for assets and liabilities and the carrying amount at year end. Deferred tax assets are recognized for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction, affect neither accounting profit nor taxable profit or tax loss
- deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized
- taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by year end.

Assets and liabilities are recognized as estimated amounts if uncertain tax position of income taxes arising from interpretation of tax laws and regulations is probable.

The Company and certain subsidiaries apply for the group tax sharing system.

(20) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(21) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of dilutive potential ordinary shares.

(22) Dividends

Dividend distributions to the shareholders of the Company are recognized as liabilities in the period in which the Annual Shareholders' Meeting approves the distribution for year end and the Board of Directors approves the distribution for interim.

(23) Contingencies

A. Contingent Liabilities

The Group discloses contingent liabilities in the notes to consolidated financial statements if it has possible obligations at year end, whose existence cannot be confirmed at that date, or if the obligations do not meet the recognition criteria of a provision described in “20. Provisions.”

B. Contingent Assets

The Group discloses contingent assets in the notes to consolidated financial statements if an inflow of future economic benefits to the Group is probable, but not virtually certain at year end.

(24) Adjusted Financial Measures

The adjusted financial measures are calculated by adding certain adjustment items to the non-adjusted financial data or by deducting the items from the non-adjusted financial data.

The adjustment items are determined by management’s judgment, taking into consideration the nature and frequency of the income and costs such that they provide effective comparative information on the Group performance and that they reflect the way of managing our business appropriately. Adjusted financial measures are presented in the consolidated statement of income and “6. Operating Segments.”

The adjusted financial measures are not defined under IFRS Accounting Standards and are not comparable with equivalent indicators for other entities.

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the year ended December 31, 2024.

IFRS Accounting Standards		Description of new standards and amendments
IFRS 7	Financial Instruments: Disclosures	Providing requirements for disclosure relating to supplier finance arrangements
IAS 7	Statement of Cash Flows	

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

Part of the consolidated financial statements for the year ended December 31, 2023 has been reclassified to conform with the presentation for the year ended December 31, 2024.

4. Significant Accounting Estimates and Judgments

Preparation of consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the year end. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the year end. Given their nature, actual results may differ from those estimates and assumptions.
The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.
Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

A. Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount has declined below the carrying amount, the Group performs an impairment test.
Such indications include, but are not limited to, significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry or economic trends. With regard to goodwill, an impairment test is conducted at least once a year regardless of whether there are any indicators of impairment.
An impairment test is performed by comparing the carrying amount to the recoverable amount of the asset under assessment. If the recoverable amount is below the carrying amount, impairment losses are recognized. The recoverable amount is calculated based primarily on a discounted cash flow model. Certain assumptions must be made for the useful lives and future cash flows of the assets, the applicable discount rates as well as long-term growth rates. These assumptions are based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.
The method for calculating the recoverable amount is described in “13. Property, Plant and Equipment,” “14. Goodwill and Intangible Assets” and “16. Investment Property.” With regard to goodwill, the sensitivity analysis is described in “14. Goodwill and Intangible Assets.”

B. Post-employment Benefits

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan and the Company is legally obligated to bear a part of the pension costs of the plan.
The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions make use of estimates and judgments on a number of variables, including discount rates and inflation rate.
The Group obtains advice from external pension actuaries with respect to the appropriateness of their actuarial assumptions including the aforementioned variables.
The actuarial assumptions are determined based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, or by the publication or amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.
These actuarial assumptions and the related sensitivity analysis are described in “22. Employee Benefits.”

C. Provisions

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on best estimates of the expenditure required to settle the obligations, taking into account the pertinent risks and uncertainties which exist at the year end for those obligations.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively; however, they may be affected by the occurrence of unexpected events or changes in conditions which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in "20. Provisions."

D. Income Taxes

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, the Group reasonably estimates the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. Therefore, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to income taxes are described in "17. Income Taxes."

E. Contingencies

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the year end and by taking into account the probability of these contingencies and their impact on financial reporting.

The content of contingencies is described in "39. Contingencies."

F. Other information

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

5. New Accounting Standards Not Yet Adopted by the Group

By the date of approval of the consolidated financial statements, new accounting standards, amended standards and new interpretations that have been issued, but have not been early adopted by the Group are as follows.

The implications from adoption of these standards and interpretations are assessed by the Group.

IFRS Accounting Standards		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	Year ending December 2027	New standard that replaces existing IAS 1 to increase the comparability and the transparency in financial statements
IAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 2025	Year ending December 2025	Providing requirements for accounting treatment and disclosure relating to currencies that lack exchangeability
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined	Not yet determined	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture
IFRS 9 IFRS 7	Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026	Year ending December 2026	Clarifying classification of the financial instruments with ESG-linked features Clarifying derecognition of a financial liability settled through electronic transfer
IFRS 9 IFRS 7	Amendments regarding the Contracts for Renewable Electricity	January 1, 2026	Year ending December 2026	Providing requirements for accounting treatment and disclosure relating to power purchase agreements

6. Operating Segments

(1) Outline of Reportable Segments

The reportable segments of the Group are determined based on the operating segments that are components of the Group for which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. The reportable segments of the Group are composed of three segments: “Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.”

The “Tobacco Business” consists of the manufacture and sale of tobacco products in domestic areas and overseas. The “Pharmaceutical Business” consists of the research and development, manufacture, and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods and seasonings.

(2) Revenues and Performances of Reportable Segments

Revenues and performances of reportable segments are as follows. The Board of Directors assesses segment performance and determines resource allocation after reviewing revenues and adjusted operating profit. Since financial income, financial costs and income taxes are managed by the Group head office, these income and expense categories are excluded from segmental performance. Transactions within segments are primarily based upon prevailing market prices.

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,590,910	94,875	153,854	2,839,638	1,439	—	2,841,077
Intersegment revenue	393	—	31	425	2,783	(3,208)	—
Total revenue	2,591,303	94,875	153,885	2,840,063	4,222	(3,208)	2,841,077
Segment profit (loss)							
Adjusted operating profit (Note 1)	749,757	17,409	6,848	774,014	(46,136)	124	728,002
Other items							
Depreciation and amortization (Note 3)	163,584	4,586	7,057	175,227	2,189	(7)	177,409
Impairment losses on other than financial assets	13,613	—	28	13,641	70	—	13,710
Reversal of impairment losses on other than financial assets	486	—	—	486	—	—	486
Share of profit (loss) in investments accounted for using the equity method	8,294	—	58	8,352	(21)	—	8,332
Capital expenditures (Note 4)	101,560	6,582	5,818	113,961	6,755	—	120,715

¥2,478,625 million of the external revenue from the tobacco business is core revenue.

Breakdown of core revenue from tobacco business and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	796,919	603,254	1,078,451	2,478,625
Adjusted operating profit	245,845	231,446	272,466	749,757

Asia: All over Asia including Japan

Western Europe: Western Europe region

EMA: Africa, Middle East, Eastern Europe, Turkey, Americas and all duty-free markets

Asia includes Taiwan, Japan, the Philippines, etc.

Western Europe includes Italy, the United Kingdom, Spain, etc.

EMA includes Turkey, Romania, Russia, etc.

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,896,555	94,464	157,183	3,148,203	1,556	–	3,149,759
Intersegment revenue	431	–	28	458	3,037	(3,496)	–
Total revenue	2,896,986	94,464	157,211	3,148,661	4,593	(3,496)	3,149,759
Segment profit (loss)							
Adjusted operating profit (Note 1)	791,773	9,233	8,071	809,077	(57,214)	5	751,868
Other items							
Depreciation and amortization (Note 3)	162,129	4,950	7,312	174,391	5,452	(5)	179,837
Impairment losses on other than financial assets	16,549	–	12	16,561	810	–	17,370
Reversal of impairment losses on other than financial assets	825	–	–	825	–	–	825
Share of profit (loss) in investments accounted for using the equity method	12,793	–	26	12,819	66	–	12,885
Capital expenditures (Note 4)	134,963	7,001	6,116	148,081	2,610	–	150,691

¥2,778,610 million of the external revenue from the tobacco business is core revenue.
Breakdown of core revenue from tobacco business and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	802,325	688,921	1,287,364	2,778,610
Adjusted operating profit	219,645	257,106	315,022	791,773

Asia: All over Asia including Japan
Western Europe: Western Europe region
EMA: Africa, Middle East, Eastern Europe, Turkey, Americas and all duty-free markets

Asia includes Taiwan, Japan, the Philippines, etc.
Western Europe includes Italy, the United Kingdom, Spain, etc.
EMA includes Turkey, Romania, Russia, etc.

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

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	749,757	17,409	6,848	774,014	(46,136)	124	728,002
Amortization cost of acquired intangibles arising from business acquisitions	(58,836)	–	–	(58,836)	–	–	(58,836)
Adjustment items (income) (Note 6)	444	–	867	1,311	17,339	–	18,651
Adjustment items (costs) (Note 7)	(14,265)	–	(24)	(14,289)	(1,117)	–	(15,407)
Operating profit (loss)	677,101	17,409	7,691	702,201	(29,914)	124	672,410
Financial income							44,414
Financial costs							(95,222)
Profit before income taxes							621,601

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	791,773	9,233	8,071	809,077	(57,214)	5	751,868
Amortization cost of acquired intangibles arising from business acquisitions	(55,683)	–	–	(55,683)	–	–	(55,683)
Adjustment items (income) (Note 6)	5,568	–	446	6,013	9,607	–	15,621
Adjustment items (costs) (Note 7)	(387,074)	–	(511)	(387,585)	(760)	–	(388,345)
Operating profit (loss)	354,584	9,233	8,005	371,822	(48,367)	5	323,461
Financial income							69,503
Financial costs							(159,198)
Profit before income taxes							233,766

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

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

(Note 3) Depreciation of right-of-use assets included in “Depreciation and amortization” is as follows:

(Millions of yen)

	2023	**2024**
Tobacco	21,530	22,794
Pharmaceuticals	656	547
Processed Food	518	503
Other	1,364	3,174
Depreciation of right-of-use assets	24,068	27,018

(Note 4) The increase of right-of-use assets is excluded.

(Note 5) Core revenue from tobacco business does not include revenue related to the distribution business and contract manufacturing.

(Note 6) The breakdown of “Adjustment items (income)” is as follows:

(Millions of yen)

	2023	**2024**
Restructuring incomes	18,207	7,885
Other	444	7,736
Adjustment items (income)	18,651	15,621

Restructuring incomes for the years ended December 31, 2023 and 2024 mainly related to gains on sale of real estate. The breakdown of restructuring incomes is described in “26. Other Operating Income.” Other (income) for the year ended December 31, 2024 mainly related to gains on deconsolidation of subsidiaries.

(Note 7) The breakdown of “Adjustment items (costs)” is as follows:

(Millions of yen)

	2023	**2024**
Restructuring costs	4,534	6,077
Loss on litigation in Canada	—	375,636
Other	10,873	6,631
Adjustment items (costs)	15,407	388,345

Restructuring costs for the year ended December 31, 2024 mainly related to rationalization in a market in the “Tobacco Business.” Restructuring costs included in “Cost of sales” were ¥(243) million for the year ended December 31, 2023. Restructuring costs included in “Selling, general and administrative expenses” were ¥4,777 million and ¥6,077 million for the years ended December 31, 2023 and 2024, respectively. The breakdown of restructuring costs is described in “27. Selling, General and Administrative Expenses.” Loss on litigation in Canada for the year ended December 31, 2024 related to the settlement covering all pending tobacco-related claims in Canada, including all smoking and health related cases in Canada brought against the Company’s local subsidiary. Other (costs) for the year ended December 31, 2023 mainly related to losses on changes in estimates of asset retirement obligations and impairment loss on trademark in the “Tobacco Business.” Other (costs) for the year ended December 31, 2024 mainly related to impairment loss on trademark and transaction costs of the business combination in the “Tobacco Business.”

(3) Geographic Information

The regional breakdown of non-current assets as of December 31 is as follows:

Non-current Assets

(Millions of yen)

	2023	**2024**
Japan	636,639	575,799
Overseas	3,017,621	3,736,334
Consolidated	3,654,260	4,312,132

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

The regional breakdown of external revenue for each year is as follows:

External Revenue

(Millions of yen)

	2023	**2024**
Japan	685,373	668,005
Overseas	2,155,704	2,481,754
Consolidated	2,841,077	3,149,759

(Note) Revenue is segmented by the sales destination.

(4) Major customers Information

The “Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥370,970 million (13.1% of consolidated revenue) for the year ended December 31, 2023 and ¥416,186 million (13.2% of consolidated revenue) for the year ended December 31, 2024.

7. Cash and Cash Equivalents

The breakdown of "Cash and cash equivalents" as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Cash and deposits	787,890	913,681
Short-term investments	252,316	170,886
Total	1,040,206	1,084,567

Cash and cash equivalents are classified as financial assets measured at amortized cost.

The Group's Iranian subsidiaries' ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. "Cash and cash equivalents" include ¥115,779 million as of December 31, 2023 and ¥123,169 million as of December 31, 2024 held by the Group's Iranian subsidiaries.

JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary, is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the "Companies' Creditors Arrangement Act." "Cash and cash equivalents" include ¥143,791 million as of December 31, 2023 and ¥168,111 million as of December 31, 2024 held by JTI-Mac.

8. Trade and Other Receivables

The breakdown of "Trade and other receivables" as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Notes and accounts receivable	525,809	545,898
Financial assets measured at amortized cost	520,502	523,014
Financial assets measured at fair value through profit or loss	5,307	22,884
Other	13,398	30,893
Allowance for doubtful accounts	(3,905)	(7,810)
Total	535,302	568,982

Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Although trade and other receivables are classified as financial assets measured at amortized cost in principle, some trade receivables that achieved the Group's business model through the sale are classified as financial assets measured at fair value through profit or loss.

9. Inventories

The breakdown of “Inventories” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Merchandise and finished goods	189,681	211,762
Leaf tobacco (Note)	519,932	599,921
Other	122,998	145,598
Total	832,611	957,281

(Note) Leaf tobacco includes those products that will be used after 12 months from the end of each year, but they are included in inventories since they are held within the normal operating cycle.

10. Other Financial Assets

(1) The breakdown of “Other financial assets” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Derivative assets	19,187	18,900
Equity securities	34,281	42,492
Debt securities	70,087	76,551
Time deposits	—	46,568
Other	96,775	94,420
Allowance for doubtful accounts	(6,430)	(6,780)
Total	213,900	272,151
Current assets	58,633	120,211
Non-current assets	155,267	151,940
Total	213,900	272,151

Other financial assets are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, amounting to ¥34,281 million as of December 31, 2023 and ¥36,630 million as of December 31, 2024, and as financial assets measured at fair value through profit or loss, amounting to ¥5,862 million as of December 31, 2024, and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of December 31 are as follows:

(Millions of yen)

Company name	2023	**2024**
Seven & i Holdings Co., Ltd.	4,785	6,381
DOUTOR･NICHIRES Holdings Co., Ltd.	2,909	3,087
Mitsubishi Shokuhin Co., Ltd.	2,891	3,018
KATO SANGYO CO., LTD.	2,587	2,542
Japan Airport Terminal Co., Ltd.	2,484	2,000
NIPPON EXPRESS HOLDINGS, INC.	1,387	1,242
Daicel Corporation	1,161	1,195
Kanemi Co., Ltd.	647	690
AEON CO., LTD.	457	547
MEDIPAL HOLDINGS CORPORATION	507	528

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held and to use them effectively, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition).

The fair value at the time of sale and cumulative gain or loss that is recognized in equity through other comprehensive income for each year are as follows:

(Millions of yen)

	2023	**2024**
Fair value	2,911	2,824
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(1,111)	1

(Note) The figure represents the amount transferred to retained earnings.

The cumulative gain or loss recognized in equity as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value compared to its acquisition cost is significant.

11. Other Assets

The breakdown of “Other current assets” and “Other non-current assets” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Prepaid tobacco excise taxes	571,162	597,589
Prepaid expenses	20,852	22,564
Consumption tax receivables	21,802	20,017
Other	183,285	192,096
Total	797,100	832,266
Current assets	789,888	826,766
Non-current assets	7,212	5,500
Total	797,100	832,266

12. Assets Held for Sale

The breakdown of “Assets held for sale” as of December 31 is as follows:

Breakdown of Major Assets

(Millions of yen)

	2023	**2024**
Assets held for sale		
Property, plant and equipment	2,597	5,037
Investment property	324	3,520
Other	—	11,208
Total	2,921	19,765

“Assets held for sale” are mainly idle properties which are currently actively marketed for sale.

"Other" in the table above, which mainly consists of investments accounted for using the equity method, is assets decided to be sold in non-core business operated by a subsidiary.

With regard to such assets and assets sold, impairment losses of ¥15 million were recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended December 31, 2023.

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of "Property, plant and equipment" are as follows:

(Millions of yen)

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2023	390,428	296,342	37,960	51,226	775,957
Individual acquisition	24,228	36,825	12,499	46,361	119,913
Transfer to investment property	(1,365)	—	—	—	(1,365)
Transfer to assets held for sale	(4,220)	—	—	—	(4,220)
Depreciation	(40,959)	(51,527)	(13,818)	—	(106,304)
Impairment losses	(224)	(6,962)	(637)	(441)	(8,264)
Reversal of impairment losses	19	467	—	—	486
Sale or disposal	(1,445)	(2,520)	(508)	(43)	(4,515)
Exchange differences on translation of foreign operations	16,242	23,153	1,605	4,370	45,370
Other	15,774	27,983	4,108	(43,424)	4,441
As of December 31, 2023	398,479	323,761	41,209	58,050	821,499
Individual acquisition	32,802	55,446	16,668	53,845	158,762
Acquisition through business combination	4,170	11,040	656	665	16,531
Transfer to investment property	(210)	—	—	—	(210)
Transfer to assets held for sale	—	(2,315)	—	—	(2,315)
Depreciation	(38,545)	(56,942)	(14,086)	—	(109,573)
Impairment losses	(1,319)	(5,182)	(419)	(223)	(7,143)
Reversal of impairment losses	—	750	—	75	825
Sale or disposal	(2,319)	(2,082)	(610)	(6)	(5,017)
Exchange differences on translation of foreign operations	12,980	17,017	1,530	4,052	35,579
Other	4,542	35,730	2,368	(43,878)	(1,238)
As of December 31, 2024	410,581	377,224	47,316	72,579	907,700

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2023	733,029	961,601	162,161	51,226	1,908,018
As of December 31, 2023	776,746	1,040,905	173,636	58,050	2,049,337
As of December 31, 2024	823,087	1,137,391	184,385	72,579	2,217,443

(Millions of yen)

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2023	342,600	665,259	124,202	—	1,132,061
As of December 31, 2023	378,266	717,144	132,427	—	1,227,838
As of December 31, 2024	412,507	760,167	137,070	—	1,309,743

(2) Impairment Losses

The grouping of property, plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflows.

The Group recognized impairment losses of ¥8,264 million in the year ended December 31, 2023, and ¥7,143 million in the year ended December 31, 2024 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2023 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items, etc.

The recoverable amounts of these assets are calculated mainly by the value in use.

Impairment losses recognized in the year ended December 31, 2024 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items and the decrease in profitability, etc.

The recoverable amounts of these assets are calculated mainly by the value in use.

14. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

The schedules of carrying amount, acquisition cost, and accumulated amortization and accumulated impairment losses of "Goodwill" and "Intangible assets" are as follows:

(Millions of yen)

Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2023	2,446,063	179,145	24,906	38,052	2,688,166
Individual acquisition	－	－	5,989	15,646	21,635
Amortization (Note)	－	(53,969)	(11,570)	(5,483)	(71,023)
Transfer to assets held for sale	－	－	－	(1)	(1)
Impairment losses	－	(5,182)	(194)	－	(5,377)
Sale or disposal	－	(12)	(153)	(122)	(287)
Exchange differences on translation of foreign operations	170,377	11,777	1,009	725	183,887
Other	－	(4)	3,029	(2,766)	259
As of December 31, 2023	2,616,440	131,754	23,015	46,049	2,817,258
Individual acquisition	－	－	6,375	16,547	22,922
Acquisition through business combination	248,076	51,210	－	266,089	565,375
Amortization (Note)	－	(50,095)	(11,703)	(8,377)	(70,175)
Impairment losses	－	(2,940)	(5,812)	(63)	(8,814)
Sale or disposal	－	－	(270)	(184)	(454)
Exchange differences on translation of foreign operations	50,223	7,682	882	16,290	75,077
Other	(485)	－	14,845	(14,832)	(472)
As of December 31, 2024	2,914,254	137,611	27,333	321,519	3,400,717

(Note) The amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

(Millions of yen)

Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2023	2,446,063	1,141,901	164,192	109,317	3,861,473
As of December 31, 2023	2,616,440	1,192,456	175,811	114,342	4,099,049
As of December 31, 2024	2,914,254	1,278,413	172,332	398,094	4,763,093

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2023	－	962,756	139,286	71,266	1,173,308
As of December 31, 2023	－	1,060,703	152,796	68,292	1,281,790
As of December 31, 2024	－	1,140,802	145,000	76,575	1,362,377

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill, trademarks and other intangible assets in the “Tobacco Business.” The carrying amounts of goodwill from the business as of December 31, 2023 and 2024 were ¥2,591,071 million and ¥2,888,885 million, respectively. The carrying amounts of trademarks from the business as of December 31, 2023 and 2024 were ¥131,753 million and ¥137,610 million, respectively. The carrying amounts of other intangible assets from the business as of December 31, 2023 and 2024 were ¥14,608 million and ¥297,352 million, respectively.

The majority of goodwill in the business was recognized as a result of the acquisitions of RJR Nabisco’s non-U.S. tobacco operations in 1999, Gallaher in 2007, Natural American Spirit’s in 2016 and Vector Group Ltd. in 2024.

The majority of other intangible assets is those related to contracts and licenses to operate tobacco businesses, which were recognized as a result of the business combination. The content is described in “38. Business combinations.”

The other intangible assets are amortized using the straight-line method and the remaining amortization period is mainly 20 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2024, the carrying amount of the majority of goodwill is allocated to the tobacco cash-generating unit of ¥2,888,885 million (¥2,591,071 million for the year ended December 31, 2023) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2023). Details of the result of impairment tests are as follows:

A. Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 5.5% in the fourth year (2023: 4.9%) to 3.7% in the ninth year (2023: 3.7%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 10.6% (2023: 10.3%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 2.1% in the fourth year (2023: 1.9%) to 1.9% in the ninth year (2023: 1.1%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 5.0% (2023: 5.1%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

(4) Impairment Losses

Goodwill is allocated to cash-generating units that are identified according to types of businesses. The grouping of intangible assets for impairment test is the smallest cash-generating unit that independently generates cash inflow. The Group recognized impairment losses of ¥5,377 million for the year ended December 31, 2023, and ¥8,814 million for the year ended December 31, 2024 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2023 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks and software since the recoverable amounts were lower than the carrying amounts.
The recoverable amounts of these assets are calculated mainly by the value in use.

Impairment losses recognized in the year ended December 31, 2024 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.
The recoverable amounts of these assets are calculated mainly by the value in use.

15. Lease Transactions

The Group leases buildings, factory sites, vehicles and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

(1) Addition, Depreciation and Carrying Amount of Right-of-use Assets

The breakdown of addition, depreciation and carrying amount of right-of-use assets is as follows:

Year ended December 31, 2023

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	13,526	7,243	65	20,833
Depreciation	17,286	6,723	59	24,068

As of December 31, 2023

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	50,463	12,083	172	62,718

Year ended December 31, 2024

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	21,110	9,827	56	30,993
Depreciation	19,690	7,287	42	27,018

As of December 31, 2024

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	51,224	15,338	126	66,687

(2) Expense Items Related to Lease

The breakdown of expense items related to lease is as follows:

(Millions of yen)

	2023	2024
Financial cost on lease liabilities	1,697	2,442
Expense relating to short-term lease or leases of low-value assets	8,615	7,400
Expense relating to variable lease payments	1,502	1,321
Total cash outflow for leases	25,504	28,680

16. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of "Investment property" for each year is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	9,495	9,338
Transfer from property, plant and equipment	1,365	210
Transfer to assets held for sale	(1,074)	(4,974)
Transfer to property, plant and equipment	(105)	(3)
Depreciation	(82)	(89)
Impairment losses	(55)	(750)
Sale or disposal	(5)	(25)
Exchange differences on translation of foreign operations	(200)	9
Other	0	—
As of December 31	9,338	3,716
Acquisition cost as of January 1	30,811	27,031
Accumulated depreciation and accumulated impairment losses as of January 1	21,316	17,693
Acquisition cost as of December 31	27,031	8,880
Accumulated depreciation and accumulated impairment losses as of December 31	17,693	5,164

(2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal standards of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market
Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly
Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

The fair value of investment property based on the fair value hierarchy as of December 31 is as follows:

As of December 31, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	20,887	687	21,574

As of December 31, 2024

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	11,078	1,206	12,284

(3) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflows. Impairment tests for idle properties are carried out individually.

The Group recognized impairment losses of ¥55 million for the year ended December 31, 2023, and ¥750 million for the year ended December 31, 2024 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized for the year ended December 31, 2023 represent losses incurred to reduce the carrying amounts to the recoverable amounts for idle properties such as buildings, due to the decision to demolish individual items, etc. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at "zero."

Impairment losses recognized for the year ended December 31, 2024 represent losses incurred to reduce the carrying amounts to the recoverable amounts for idle properties such as land and buildings, due to the decision to demolish individual items, etc. The recoverable amounts are calculated based on value in use, which are "zero" for buildings that were reduced due to the decision of demolition, and the recoverable amounts of other properties are calculated by the fair value less costs of disposal.

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of "Deferred tax assets" and "Deferred tax liabilities" by major causes of their occurrence for each year are as follows:

Year ended December 31, 2023

(Millions of yen)

Deferred Tax Assets	As of January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2023
Fixed assets (Note 2)	77,115	(4,911)	―	5,691	77,894
Retirement benefits	61,098	(5,062)	3,734	1,721	61,491
Carryforward of unused tax losses	83,371	30,397	―	1,511	115,279
Other	119,656	3,125	5,175	667	128,624
Subtotal	341,239	23,550	8,910	9,590	383,288
Valuation allowance	(111,167)	(30,511)	(3,256)	(1,021)	(145,955)
Total	230,071	(6,961)	5,654	8,568	237,333

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2023
Fixed assets (Note 2)	(74,360)	15,915	―	(13,335)	(71,780)
Retirement benefits	(19,458)	(693)	34	(2,184)	(22,301)
Other	(84,884)	(11,986)	1,468	944	(94,459)
Total	(178,702)	3,235	1,502	(14,575)	(188,540)

Year ended December 31, 2024

(Millions of yen)

Deferred Tax Assets	As of January 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2024
Fixed assets (Note 2)	77,894	(18,238)	—	1,006	60,662
Retirement benefits	61,491	676	(4,243)	1,515	59,439
Carryforward of unused tax losses	115,279	23,950	—	3,689	142,917
Other (Note 3)	128,624	118,862	9,560	14,012	271,057
Subtotal	383,288	125,249	5,317	20,221	534,076
Valuation allowance	(145,955)	(24,330)	3,034	(5,575)	(172,826)
Total	237,333	100,919	8,351	14,646	361,250

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2024	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2024
Fixed assets (Note 2)	(71,780)	12,795	—	(97,820)	(156,804)
Retirement benefits	(22,301)	5,255	(1,000)	(3,600)	(21,646)
Other	(94,459)	(22,656)	424	(6,971)	(123,662)
Total	(188,540)	(4,606)	(576)	(108,390)	(302,113)

(Note 1) “Other” includes exchange differences on translation of foreign operations and acquisition through business combinations.
(Note 2) “Fixed assets” include property, plant and equipment, goodwill, intangible assets and investment property.
(Note 3) “Other” includes Provision for loss on litigation in Canada.

The deferred tax assets are recognized for the amount considered to be recoverable on deductible temporary differences, carryforward of unused tax losses and tax credits by taking taxable temporary differences and future taxable profits plan into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥103,755 million (including ¥53,625 million, for which the carryforward expires after five years) as of December 31, 2023, and ¥118,040 million (including ¥50,463 million, for which the carryforward expires after five years) as of December 31, 2024. Tax credits, for which the deferred tax assets are not recognized, were ¥9,949 million (including ¥7,537 million, for which the carryforward expires after five years) as of December 31, 2023, and ¥11,236 million (including ¥7,081 million, for which the carryforward expires after five years) as of December 31, 2024.

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax liabilities were not recognized, was ¥506,712 million as of December 31,2023 and 2024.

(2) Income Taxes

The breakdown of "Income taxes" for each year is as follows:

(Millions of yen)

	2023	**2024**
Current income taxes	132,566	147,483
Deferred income taxes	3,725	(96,313)
Total income taxes	136,292	51,171

Deferred income taxes increased by ¥3,659 million and decreased by ¥6,004 million for the years ended December 31, 2023 and 2024, respectively, due to the effect of changes in tax rates in other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate for each year calculated based on these taxes was 30.43%. Foreign subsidiaries are subject to income taxes at their locations.

(%)

	2023	**2024**
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(12.16)	(13.81)
Non-deductible expenses	1.53	1.83
Non-taxable incomes	(2.99)	(1.55)
Changes in tax rates	0.59	(0.99)
Valuation allowance	2.49	3.60
Tax credits	(1.55)	(1.25)
Retained earnings	0.93	1.50
Withholding tax in foreign countries	1.45	3.40
Tax contingencies	1.41	0.45
Other	(0.19)	(1.71)
Average actual tax rate	21.93	21.89

(4) Impact of Application of Pillar Two Model Rules

The Group applies temporary exception regarding the requirements of IAS 12 on deferred tax related to the Pillar Two Model Rules. The Group does not recognize and disclose any deferred tax assets and liabilities related to the Pillar Two Model Rules.

Under the Pillar Two Model Rules, JT International Holding B.V., the Group's subsidiary in the Netherlands, which is where the application of the Income Inclusion Rule (IIR) will begin, will file returns and pay taxes under IIR and file a Global Anti-Base Erosion (GloBE) information return as an intermediate parent company for its subsidiaries for the fiscal year 2024. From the fiscal year 2025 onward, the Company, as the ultimate parent company under Japanese regulations, will file returns and pay taxes under IIR and file a GloBE information return in Japan for all subsidiaries.

Regarding the Undertaxed Payment Rule (UTPR), there is no application in the countries where the Group's companies are located in the fiscal year 2024. From fiscal year 2025 onward, since the Company can file returns and pay taxes under IIR for all subsidiaries, it does not expect to file returns and pay taxes under UTPR.

Although additional taxation under the Pillar Two Model Rules has not yet been applied in the current consolidated fiscal year, even if it were to be applied in the current consolidated fiscal year, it would not have a material impact on the Group's average effective tax rate.

Current income taxes related to the Pillar Two Model Rules are 894 million yen.
For the areas where such rules have not been enacted in the current fiscal year, there will be no material impacts on the Group’s consolidated financial statements even if they were to be applied.

18. Trade and Other Payables

The breakdown of “Trade and other payables” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Accounts payable and other payables	387,461	259,974
Other	205,341	399,537
Total	592,802	659,510

Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Bonds and Borrowings (Including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of “Bonds and borrowings” and “Other financial liabilities” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**	Due
Derivative liabilities	25,076	45,103	―
Short-term borrowings	208,968	60,317	―
Current portion of long-term borrowings	24,365	2,935	―
Current portion of bonds (Note 2)	―	115,416	―
Long-term borrowings (Note 1)	123,025	735,400	2026 - 2080
Bonds (Note 2)	785,901	812,721	―
Lease liabilities	59,591	63,595	―
Other	481	477	―
Total	1,227,407	1,835,964	
Current liabilities	277,803	238,633	
Non-current liabilities	949,604	1,597,331	
Total	1,227,407	1,835,964	

(Note 1) ¥99,751 million and ¥99,980 million of the long-term borrowings are subordinated loans due in 2080 as of December 31, 2023 and 2024, respectively. The Company may, at its option, repay early all or a portion of the principal on any interest payment date on or after January 31, 2025.

(Note 2) The summary of the issuing conditions of the bonds is as follows:

Company	Name of bond	Date of issuance	As of December 31, 2023 (Millions of yen)	As of December 31, 2024 (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	25,000	25,000 (25,000)	0.599	Yes	July 15, 2025
Japan Tobacco Inc.	13th domestic straight bond	September 10, 2018	30,000	30,000	0.355	Yes	September 8, 2028
Japan Tobacco Inc.	14th domestic straight bond	September 10, 2018	10,000	10,000	0.758	Yes	September 10, 2038
Japan Tobacco Inc.	15th domestic straight bond	April 20, 2023	10,000	10,000	0.713	Yes	April 19, 2030
Japan Tobacco Inc.	16th domestic straight bond	April 20, 2023	30,000	30,000	0.920	Yes	April 20, 2033
Japan Tobacco Inc.	17th domestic straight bond	April 20 2023	20,000	20,000	1.630	Yes	April 20, 2043
JT International Financial Services B.V.	Straight bond in USD (Note 5)	September 28, 2018	69,498 [USD 493 mil.]	75,680 [USD 484 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	85,862 [EUR 550 mil.]	90,416 (90,416) [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR (Note 5)	November 26, 2019	73,528 [EUR 472 mil.]	73,748 [EUR 450 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	71,144 [GBP 400 mil.]	78,345 [GBP 400 mil.]	2.750	No	September 28, 2033
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	78,011 [EUR 500 mil.]	82,138 [EUR 500 mil.]	2.375	No	April 7, 2081 (Note 3)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	77,862 [EUR 500 mil.]	81,948 [EUR 500 mil.]	2.875	No	October 7, 2083 (Note 4)
JT International Financial Services B.V.	Straight bond in USD (Note 5)	September 14, 2021	79,211 [USD 593 mil.]	84,295 [USD 562 mil.]	2.250	No	September 14, 2031
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	56,272 [USD 400 mil.]	62,634 [USD 400 mil.]	3.300	No	September 14, 2051
JT International Financial Services B.V.	Straight bond in USD	October 24, 2022	69,513 [USD 500 mil.]	77,487 [USD 500 mil.]	6.875	No	October 24, 2032
JT International Financial Services B.V.	Straight bond in EUR	April 11, 2024	— [−]	96,446 [EUR 600 mil.]	3.625	No	April 11, 2034
		Total	785,901 (−)	928,136 (115,416)			

(Note 1) The figure in parentheses ( ) represents the amount of the current portion of the bond.

(Note 2) The figure in parentheses [ ] represents the amount of foreign currency-denominated bond.

(Note 3) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on April 7, 2026 and on each interest payment date thereafter.

(Note 4) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on January 7, 2029 and on each interest payment date thereafter.

(Note 5) The Issuer purchased a portion of the bonds during the previous and current fiscal years.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those to which hedge accounting is applied, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

There are no financial covenants that have a significant impact on the bonds and borrowings of the Group.

(2) Assets Pledged as Collateral for Liabilities

Pursuant to the provisions of Article 6 of the Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

20. Provisions

The breakdown and schedule of “Provisions” for each year are as follows:

Year ended December 31, 2023

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Provision for loss on litigation in Canada	Other provisions	Total
As of January 1, 2023	5,527	6,038	3,946	—	37,590	53,100
Provisions	5,881	3,935	4,427	—	18,066	32,309
Provisions for business combinations	—	—	—	—	—	—
Interest cost associated with passage of time	31	—	—	—	—	31
Provisions used	(314)	(3,824)	(4,105)	—	(2,313)	(10,555)
Provisions reversed	(49)	(633)	—	—	(10,783)	(11,466)
Exchange differences on translation of foreign operations	61	481	—	—	200	741
As of December 31, 2023	11,136	5,996	4,268	—	42,760	64,161
Current liabilities	154	5,621	4,268	—	8,591	18,634
Non-current liabilities	10,983	375	—	—	34,169	45,527
Total	11,136	5,996	4,268	—	42,760	64,161

Year ended December 31, 2024

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Provision for loss on litigation in Canada	Other provisions	Total
As of January 1, 2024	11,136	5,996	4,268	—	42,760	64,161
Provisions	339	5,963	3,915	375,636	31,369	417,222
Provisions for business combinations	—	—	—	—	4,838	4,838
Interest cost associated with passage of time	39	—	—	—	—	39
Provisions used	(55)	(10,721)	(4,448)	—	(3,462)	(18,685)
Provisions reversed	(11)	(398)	—	—	(17,770)	(18,179)
Exchange differences on translation of foreign operations	54	55	—	—	362	471
As of December 31, 2024	11,502	895	3,736	375,636	58,097	449,867
Current liabilities	230	533	3,736	170,214	21,205	195,918
Non-current liabilities	11,272	362	—	205,422	36,892	253,949
Total	11,502	895	3,736	375,636	58,097	449,867

A. Asset Retirement Provisions

In order to settle the obligation of restoring and of removing hazardous substances from plant facilities and premises that the Group uses, the probable amount to be paid in the future is recognized based on past performances. These expenses are expected to be paid after one year or more; however, they may be affected by future business plans.

B. Restructuring Provisions

These provisions are mainly related to business integration and measures for the rationalization of the "Tobacco Business." The timing of the payment may be affected by future business plans.

C. Provisions for Sales Rebates

These provisions are for contracts which reward the customers with discounts when the sales volume or sales amount in a given period exceeds a specified volume or amount and correspond to "Refund liabilities" in IFRS 15 "Revenue from Contracts with Customers." They are expected to be paid within one year.

D. Provision for Loss on Litigation in Canada

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

On March 8, 2019, JTI-Mac applied to the Ontario Superior Court for protection under the Companies' Creditors Arrangement Act (hereinafter referred to as the "CCAA"), which was approved. RBH and ITC also sought and received protection under the CCAA in March 2019. As a result, all legal proceedings and enforcement of judgments in Canada to which the Tobacco Companies were the parties were stayed, and the Tobacco Companies were able to preserve their assets and continue their businesses under the CCAA.

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

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

Following a Court hearing in January 2025 to consider approving the Plans, JTI-Mac reached an agreement with the other two Tobacco Companies on the terms of allocation of payments between them, which had been an important outstanding issue. The resulting proposed amendments were filed with the Ontario Superior Court on February 27, 2025.

As a result, we have retroactively recorded a provision for loss on litigation of ¥375,636 million in operating expenses in fiscal year 2024 as an adjusting subsequent event in accordance with IAS 37.
On March 6, 2025, the Ontario Superior Court released its decision to approve the Plans.

The details of the settlement payments are as follows:
- JTI-Mac will pay the cash and cash equivalents it holds as at the month end prior to the month in which the settlement is implemented as an Upfront Payment
- For Annual Payments, a certain percentage of JTI-Mac's annual net income after tax (85% for years 1-5, 80% for years 6-10, 75% for years 11-15, and 70% from year 16 onwards) will be paid. These Annual Payments will continue until the total settlement amount (CAD 32.5 billion) is paid in aggregate between the Tobacco Companies, which the Company expects will take 20-30 years.

In calculating the Provision for Loss on Litigation in Canada, the Upfront Payment is estimated based on JTI-Mac's cash and cash equivalents at the time defined in the Plan. For Annual Payments, the calculation is based on the annual net income after tax for each year incorporating future trends in the market size of the tobacco business in Canada and JTI-Mac's expected market share in the Canadian tobacco market.
Additionally, the discount rate used in calculating the provision is a pre-tax discount rate of 6.09%, which reflects current market assessments of the time value of money and the risks specific to the liability.

21. Other Liabilities

The breakdown of “Other current liabilities” and “Other non-current liabilities” as of December 31 is as follows:

(Millions of yen)

	2023	**2024**
Tobacco excise tax payables	454,727	466,836
Tobacco special excise tax payables	8,484	7,982
Tobacco local excise tax payables	178,585	178,253
Consumption tax payables	168,081	172,211
Bonus to employees	83,323	97,109
Employees’ unused paid vacations liabilities	21,025	22,475
Other	221,333	205,488
Total	1,135,560	1,150,352
Current liabilities	1,008,390	1,029,925
Non-current liabilities	127,170	120,427
Total	1,135,560	1,150,352

22. Employee Benefits

(1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions, such as points employees have gained in compensation for each year of service, the payment rate, years of service, and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities. Special termination benefits may be provided to employees on their early retirements under certain circumstances.

Certain subsidiary transferred a portion of their pension plans from a defined benefit plan to a defined contribution plan as of January 1, 2024.

The funded defined benefit plans are administrated by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group, or the board of the pension fund and the trustee of the plan, are required by law to act in the best interests of the plan participants, and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group's main defined benefit plans expose the Group to actuarial risks, such as investment risk, interest rate risk, inflation risk, and longevity risk.

(i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bonds or government bonds. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

(ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

(iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

(iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity, and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

(Millions of yen)

	Japan (Note 3)	Overseas	Total
As of January 1, 2023 (Notes 1, 2)	142,743	475,661	618,405
Current service cost	7,776	9,115	16,891
Past service cost and settlement	533	2,061	2,594
Interest expense	2,501	19,434	21,935
Contributions by plan participants	—	3,125	3,125
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	8	(5,519)	(5,511)
Actuarial gains and losses arising from changes in financial assumptions	82	23,727	23,809
Actuarial gains and losses arising from experience adjustments	(2,343)	11,399	9,056
Benefits paid	(11,700)	(30,738)	(42,438)
Exchange differences on translation of foreign operations	—	61,125	61,125
Other	(3)	(15)	(18)
As of December 31, 2023 (Notes 1, 2)	139,597	569,376	708,974
Current service cost	7,759	11,515	19,274
Past service cost and settlement	—	384	384
Interest expense	2,429	19,402	21,831
Contributions by plan participants	—	3,626	3,626
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(1,609)	(516)	(2,125)
Actuarial gains and losses arising from changes in financial assumptions	(1,649)	(11,664)	(13,313)
Actuarial gains and losses arising from experience adjustments	(7,457)	3,591	(3,866)
Benefits paid	(14,010)	(40,490)	(54,500)
Effect of business combination	—	10,877	10,877
Exchange differences on translation of foreign operations	—	35,606	35,606
Other	(309)	(0)	(309)
As of December 31, 2024 (Notes 1, 2)	124,752	601,708	726,460

(Note 1) The Group’s weighted-average duration of the defined benefit obligations is 6.9 years for Japan and 11.7 years for overseas (2023 : 7.0 years for Japan and 11.8 years for overseas).

(Note 2) The Group's breakdown of the defined benefit obligation by plan participant is as follows:

(Millions of yen)

	As of December 31, 2023			**As of December 31, 2024**		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	108,150	229,184	337,335	98,999	255,731	354,730
Deferred members	2,917	54,171	57,088	2,070	43,498	45,568
Pensioners	28,530	286,021	314,551	23,683	302,479	326,162
Total	139,597	569,376	708,974	124,752	601,708	726,460

(Note 3) The schedule of mutual pension benefits obligations included in the category of Japan is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	17,346	14,390
Interest expense	243	187
Remeasurement gains and losses	(855)	(700)
Benefits paid	(2,344)	(2,075)
As of December 31	14,390	11,802

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2023	46,588	385,493	432,081
Interest income	800	15,934	16,734
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(55)	9,942	9,887
Contributions by the employer (Notes 1, 2)	751	7,319	8,070
Contributions by plan participants	—	3,125	3,125
Benefits paid	(4,116)	(23,917)	(28,033)
Exchange differences on translation of foreign operations	—	53,524	53,524
Other	(0)	—	(0)
As of December 31, 2023	43,968	451,419	495,387
Interest income	736	15,680	16,416
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(495)	974	479
Contributions by the employer (Notes 1, 2)	743	7,943	8,686
Contributions by plan participants	—	3,626	3,626
Benefits paid	(3,515)	(27,787)	(31,302)
Effect of business combination	—	13,631	13,631
Exchange differences on translation of foreign operations	—	31,873	31,873
As of December 31, 2024	41,436	497,360	538,796

(Note 1) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.

(Note 2) The Group plans to pay contributions of ¥8,558 million in the year ending December 31, 2025.

C. Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the consolidated statement of financial position as of December 31 is as follows:

As of December 31, 2023

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	39,125	405,680	444,805
Fair value of the plan assets	(43,968)	(451,419)	(495,387)
Subtotal	(4,843)	(45,739)	(50,582)
Present value of the unfunded defined benefit obligations	100,473	163,696	264,169
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	95,630	117,957	213,587
Retirement benefit liabilities	101,671	177,772	279,443
Retirement benefit assets	(6,041)	(59,814)	(65,856)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	95,630	117,957	213,587

As of December 31, 2024

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	28,442	433,246	461,689
Fair value of the plan assets	(41,436)	(497,360)	(538,796)
Subtotal	(12,994)	(64,113)	(77,107)
Present value of the unfunded defined benefit obligations	96,310	168,461	264,771
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	83,316	104,348	187,663
Retirement benefit liabilities	97,510	179,726	277,236
Retirement benefit assets	(14,194)	(75,378)	(89,573)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	83,316	104,348	187,663

D. Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of December 31 is as follows:

(Millions of yen)

Japan

	As of December 31, 2023			As of December 31, 2024		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	8,736	—	8,736	8,642	—	8,642
Equity instruments	2,945	—	2,945	3,311	—	3,311
Japan	1,487	—	1,487	1,730	—	1,730
Overseas	1,458	—	1,458	1,580	—	1,580
Debt instruments	5,575	—	5,575	5,829	—	5,829
Japan	4,435	—	4,435	4,565	—	4,565
Overseas	1,140	—	1,140	1,264	—	1,264
General account of life insurance companies (Note 1)	—	23,853	23,853	—	21,492	21,492
Other	827	2,032	2,860	1,009	1,154	2,163
Total	18,082	25,885	43,968	18,791	22,645	41,436

(Millions of yen)

Overseas

	As of December 31, 2023			As of December 31, 2024		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	64,428	—	64,428	75,865	—	75,865
Equity instruments	60,417	—	60,417	74,636	—	74,636
United Kingdom	3,167	—	3,167	2,689	—	2,689
North America	16,790	—	16,790	27,484	—	27,484
Other	40,460	—	40,460	44,463	—	44,463
Debt instruments	89,432	7,159	96,592	100,107	7,653	107,760
United Kingdom	817	—	817	902	—	902
North America	29,256	—	29,256	39,158	—	39,158
Other	59,360	7,159	66,519	60,046	7,653	67,699
Real estate	31,585	32	31,617	39,138	32	39,170
Other (Note 2)	14,196	184,170	198,366	16,241	183,688	199,929
Total	260,058	191,361	451,419	305,987	191,373	497,360

(Millions of yen)

	Total					
	As of December 31, 2023			As of December 31, 2024		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	73,164	―	73,164	84,508	―	84,508
Equity instruments	63,362	―	63,362	77,947	―	77,947
Debt instruments	95,007	7,159	102,167	105,936	7,653	113,589
Real estate	31,585	32	31,617	39,138	32	39,170
General account of life insurance companies (Note 1)	―	23,853	23,853	―	21,492	21,492
Other (Note 2)	15,023	186,202	201,225	17,250	184,842	202,092
Total	278,140	217,247	495,387	324,777	214,019	538,796

(Note 1) A certain interest rate and principal for the general account of life insurance are guaranteed by life insurance companies.

(Note 2) Insurance agreement concluded in the U.K. pension buy in transactions included in "Other" amounted to ¥175,160 million and ¥174,212 million for the years ended December 31, 2023 and 2024, respectively.

The investment strategy for the Group's major plans is as follows:

(Japan)

The Company's pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, the Company invests plan assets consistently with the composition ratio by setting a target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed. When reviewing the composition ratio, the Company considers introducing an asset investment which has a high correlation with the liability.

When an unexpected situation occurs in the market environment, it is temporarily allowed to make a weighted adjustment to the risk assets, complying with the Company's policy.

(Overseas)

The investment strategy for the foreign subsidiaries' funded pension plans is decided properly by the trustee of the plan and the management of overseas subsidiaries according to local legislation. The Company's objective for the foreign subsidiaries' funded pension plans is to manage risks arising from its defined benefit obligation, and meanwhile to achieve a return on assets in excess of the movement in the value of the defined benefit obligation.

E. Matters Related to Actuarial Assumptions

The major items of actuarial assumptions as of December 31 are as follows:

As of December 31, 2023

(%)

	Japan	Overseas
Discount rate	1.7	3.3
Inflation rate	–	2.4

(years)

	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			22.9 (Note 4)	25.2 (Note 4)

As of December 31, 2024

(%)

	Japan	Overseas
Discount rate	2.0	3.4
Inflation rate	–	2.3

(years)

	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			22.9 (Note 4)	25.2 (Note 4)

(Note 1) The average life expectancies underlie the values of the defined benefit obligations on major plans. Assumptions regarding future mortality rate are based on published statistics and mortality tables.

(Note 2) Life expectancy for a pensioner currently aged 60. Regardless of the plan participant's current age, the Group performs actuarial calculations based on the assumption that life expectancy remains the same.

(Note 3) Life expectancy for a pensioner currently aged 65.

(Note 4) Life expectancy at the age of 65 for an active member currently aged 50.

(Note 5) The valuation of defined benefit obligations includes judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of December 31 are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures represent a decrease in pension plan obligations, while positive figures represent an increase.

As of December 31, 2023

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(4,262)	(32,564)
	Decrease by 0.5%	4,553	34,892
Inflation rate	Increase by 0.5%	－	20,822
	Decrease by 0.5%	－	(19,074)
Mortality rate	Extended 1 year	1,989	17,780
	Shortened 1 year	(1,901)	(17,701)

As of December 31, 2024

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(3,951)	(33,149)
	Decrease by 0.5%	4,226	36,310
Inflation rate	Increase by 0.5%	－	20,508
	Decrease by 0.5%	－	(19,816)
Mortality rate	Extended 1 year	1,660	17,627
	Shortened 1 year	(1,585)	(17,513)

F. Breakdown of Defined Benefit Cost

The breakdown of defined benefit cost for each year is as follows:

Year ended December 31, 2023

(Millions of yen)

	Japan	Overseas	Total
Current service cost	7,776	9,115	16,891
Past service cost and gains and losses on settlement	533	2,061	2,594
Interest expense (income)	1,702	3,500	5,201
Defined benefit cost through profit or loss	10,011	14,676	24,687
Actuarial gains and losses arising from changes in demographic assumptions	8	(5,519)	(5,511)
Actuarial gains and losses arising from changes in financial assumptions	82	23,727	23,809
Actuarial gains and losses arising from experience adjustments	(2,343)	11,399	9,056
Return on plan assets (excluding amounts included in interest income)	55	(9,942)	(9,887)
Defined benefit cost through other comprehensive income	(2,199)	19,665	17,466
Total of defined benefit cost	7,812	34,341	42,153

Year ended December 31, 2024

(Millions of yen)

	Japan	Overseas	Total
Current service cost	7,759	11,515	19,274
Past service cost and gains and losses on settlement	—	384	384
Interest expense (income)	1,693	3,722	5,416
Defined benefit cost through profit or loss	9,452	15,621	25,074
Actuarial gains and losses arising from changes in demographic assumptions	(1,609)	(516)	(2,125)
Actuarial gains and losses arising from changes in financial assumptions	(1,649)	(11,664)	(13,313)
Actuarial gains and losses arising from experience adjustments	(7,457)	3,591	(3,866)
Return on plan assets (excluding amounts included in interest income)	495	(974)	(479)
Defined benefit cost through other comprehensive income	(10,220)	(9,563)	(19,783)
Total of defined benefit cost	(768)	6,058	5,290

(Note 1) The net amount of interest expense and interest income is included in “Financial costs.” Other expenses are included in “Cost of sales” and “Selling, general and administrative expenses.”

(Note 2) Contributions to the defined contribution plans were ¥12,486 million for the year ended December 31, 2023 and ¥14,635 million for the year ended December 31, 2024 and were not included in the table above.

(2) Other Employee Benefit Expenses

The employee benefit expenses other than post-employment benefits that are included in the consolidated statement of income for each year are as follows:

(Millions of yen)

	2023	**2024**
Remuneration and salary	294,712	340,972
Bonus to employees	114,114	133,619
Legal welfare expenses	54,579	61,249
Welfare expenses	51,066	56,211
Termination benefits	837	5,525

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2023 and 2024 is 8,000,000 thousand ordinary shares.

B. Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows:

	(Thousands of shares) Number of ordinary issued shares	(Millions of yen) Share capital	Capital surplus
As of January 1, 2023	2,000,000	100,000	736,400
Increase (decrease)	—	—	78
As of December 31, 2023	2,000,000	100,000	736,478
Increase (decrease)	—	—	220
As of December 31, 2024	2,000,000	100,000	736,697

(Note) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each year end is as follows:

	(Thousands of shares) Number of shares	(Millions of yen) Amount
As of January 1, 2023	225,146	490,183
Increase (decrease) (Note 2)	(454)	(989)
As of December 31, 2023	224,692	489,194
Increase (decrease) (Note 2)	(283)	(615)
As of December 31, 2024	224,409	488,579

(Note 1) The Company adopts share option plans, restricted stock remuneration plans and performance share unit plans and utilizes treasury shares for delivery of shares due to their exercises. Contract conditions and amounts are described in "32. Share-based Payments."

(Note 2) Purchases of shares less than one unit are 0 thousand shares for the year ended December 31, 2023 and 0 thousand shares for the year ended December 31, 2024. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2024. The number of shares delivered upon exercise of share options are 260 thousand shares for the year ended December 31, 2023 and 121 thousand shares for the year ended December 31, 2024. The number of shares disposed for restricted stock remuneration are 158 thousand shares for the year ended December 31, 2023 and 125 thousand shares for the year ended December 31, 2024. The number of shares disposed for performance share unit remuneration are 37 thousand shares for the year ended December 31, 2023 and 38 thousand shares for the year ended December 31, 2024.

(3) Other Components of Equity

A. Subscription Rights to Shares

The Company adopts share option plans and issues subscription rights to shares based on the Companies Act of Japan. Contract conditions and amount are described in “32. Share-based Payments.”

B. Exchange Differences on Translation of Foreign Operations

Exchange differences on translation of foreign operations are composed of foreign currency translation difference that occurs when consolidating financial statements of foreign subsidiaries prepared in foreign currencies, and the effective portion of net gain (loss) on the hedging instruments designated as hedge of net investment.

C. Net Gain (Loss) on Derivatives Designated as Cash Flow Hedges

The Group uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in the fair value of hedging instruments designated as cash flow hedges.

D. Hedge Costs

Hedge costs are changes in fair value arising from the time value of foreign currency options separated from hedging instruments.

E. Net Gain (Loss) on Revaluation of Financial Assets Measured at Fair Value through Other Comprehensive Income

This is the valuation difference in the fair value of financial assets measured at fair value through other comprehensive income.

F. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit plans comprise actuarial gains and losses, the return on plan assets excluding amounts included in interest income, and any change in the effect of the asset ceiling excluding amounts included in interest income. In addition, actuarial gains and losses are the effects of differences between the actuarial assumptions at the beginning of the year and what has actually occurred, and the effects of changes in actuarial assumptions. Remeasurements are recognized as other comprehensive income when they occur and are transferred immediately from other components of equity to retained earnings.

24. Dividends

Dividends paid for each year are as follows:

Year ended December 31, 2023

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 24, 2023)	Ordinary shares	200,558	113	December 31, 2022	March 27, 2023
Board of Directors (July 31, 2023)	Ordinary shares	166,856	94	June 30, 2023	September 1, 2023

Year ended December 31, 2024

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 22, 2024)	Ordinary shares	177,531	100	December 31, 2023	March 25, 2024
Board of Directors (August 2, 2024)	Ordinary shares	172,229	97	June 30, 2024	September 4, 2024

Dividends for which the effective date falls in the following year are as follows:

Year ended December 31, 2023

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 22, 2024)	Ordinary shares	177,531	100	December 31, 2023	March 25, 2024

Year ended December 31, 2024

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 26, 2025)	Ordinary shares	172,232	97	December 31, 2024	March 27, 2025

25. Revenue

(1) Disaggregation of Revenue

The disaggregation of "Revenue" for each year is as follows. The amounts are presented after the elimination of intercompany transactions.

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business	2,478,625	—	—	—	2,478,625
Other	112,285	94,875	153,854	1,439	362,452
Total	2,590,910	94,875	153,854	1,439	2,841,077

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business	2,778,610	—	—	—	2,778,610
Other	117,945	94,464	157,183	1,556	371,149
Total	2,896,555	94,464	157,183	1,556	3,149,759

(Note) Revenues from RRP in core revenue from the "Tobacco Business" were ¥81,641 million and ¥98,873 million for the years ended December 31, 2023 and 2024, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

A. Tobacco Business

Tobacco business engages in the sale of tobacco products.

The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in the contract with customers, less discounts, rebates and taxes, including consumption tax. In addition, where the Group makes payments to the customer, except in the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount which is consideration promised with the customer, less consideration payable to the customer.

Considerations for transactions are received mainly within one year from the satisfaction of the performance obligations and include no significant financing components.

The tobacco excise taxes and other transactions in which the Group is involved as an agent are excluded from revenue. The inflow of economic benefits after deducting the tobacco excise taxes and other transactions is presented as “Revenue” in the consolidated statement of income.

B. Pharmaceutical Business

Pharmaceutical business mainly engages in the sale of prescription drugs and licensing.

The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in the contract with customers, less discounts, rebates and taxes, including consumption tax. In addition, where the Group makes payments to the customer, except in the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount of consideration promised with the customer, less consideration payable to the customer.

Revenue from licensing is generated by licensing out the rights to develop and market each compound to licensees in the development stage, and the Group receives upfront income, milestone revenue and sales-based royalties. Upfront income is recognized at the time the customer obtains control of the license. Milestone revenue is recognized at the time the milestone agreed between the parties such as the progress of development is achieved. Sales-based royalties are measured based on the Group’s licensees’ sales, and recognized by taking into consideration the timing of occurrence.

Considerations for transactions are received mainly within one year from satisfying their performance obligations and include no significant financial component.

C. Processed Food Business

Processed Food business engages in the sale of frozen and ambient processed foods and seasonings.

The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax. In addition, where the Group makes payments to the customer, except in the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount of consideration promised with the customer, less consideration payable to the customer.

Considerations for transactions are received mainly within one year from satisfying their performance obligations and include no significant financial component.

Transactions in which the Group is involved as an agent are excluded from revenue. The inflow of economic benefits after deducting these transactions is presented as “Revenue” in the consolidated statement of income.

(2) Transaction Price Allocated to the Remaining Performance Obligations

The Group uses the practical expedient and does not disclose information on the remaining performance obligations because it has no significant transactions with initial expected contractual terms exceeding one year. There are no significant amounts of considerations from contracts with customers that are not included in transaction prices.

26. Other Operating Income

The breakdown of “Other operating income” for each year is as follows:

(Millions of yen)

	2023	**2024**
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	18,952	8,852
Other (Note)	11,076	22,350
Total	30,027	31,202

(Note) The amount of restructuring incomes included in each account is as follows:

(Millions of yen)

	2023	**2024**
Gain on sale of property, plant and equipment, intangible assets and investment property	17,808	7,865
Other	398	20
Total	18,207	7,885

27. Selling, General and Administrative Expenses

The breakdown of “Selling, general and administrative expenses” for each year is as follows:

(Millions of yen)

	2023	**2024**
Advertising expenses	39,291	52,758
Promotion expenses	140,863	167,491
Commission (Note 2)	79,315	81,949
Employee benefit expenses (Note 2)	365,408	408,286
Research and development expenses (Note 1)	75,098	78,614
Depreciation and amortization	103,000	104,613
Impairment losses on other than financial assets (Note 2)	13,710	17,370
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	4,344	2,515
Loss on litigation in Canada	-	375,636
Other (Note 2)	160,022	173,690
Total	981,052	1,462,924

(Note 1) All research and development expenses are included in “Selling, general and administrative expenses.”

(Note 2) The amount of restructuring costs included in each account is as follows:

(Millions of yen)

	2023	**2024**
Employee benefit expenses	640	5,529
Impairment losses on other than financial assets	137	768
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	1,017	218
Other	2,984	(437)
Total	4,777	6,077

28. Financial Income and Financial Costs

The breakdown of “Financial income” and “Financial costs” for each year is as follows:

(Millions of yen)

Financial Income	2023	**2024**
Dividend income		
Financial assets measured at fair value through other comprehensive income	833	2,526
Financial assets measured at fair value through profit or loss	—	96
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	41,983	64,940
Other	1,597	1,941
Total	44,414	69,503

(Millions of yen)

Financial Costs	2023	**2024**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	26,762	39,888
Other	1,731	2,596
Foreign exchange losses (Note 1)	51,885	81,806
Employee benefit expenses (Note 2)	5,201	5,416
Loss on net monetary position	6,485	18,435
Other	3,158	11,056
Total	95,222	159,198

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.

(Note 2) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

29. Other Comprehensive Income

Amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" for each year are as follows:

Year ended December 31, 2023

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	3,598	—	3,598	(1,184)	2,414
Remeasurements of defined benefit plans	(17,466)	—	(17,466)	3,929	(13,538)
Total of items that will not be reclassified to profit or loss	(13,868)	—	(13,868)	2,745	(11,123)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	183,272	456	183,728	5,571	189,299
Net gain (loss) on derivatives designated as cash flow hedges	4,419	1,219	5,638	(888)	4,749
Hedge costs	(20)	—	(20)	3	(17)
Total of items that may be reclassified subsequently to profit or loss	187,671	1,674	189,345	4,685	194,031
Total	173,803	1,674	175,477	7,430	182,908

Year ended December 31, 2024

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	2,774	―	2,774	(435)	2,339
Remeasurements of defined benefit plans	19,783	―	19,783	(5,785)	13,998
Total of items that will not be reclassified to profit or loss	22,557	―	22,557	(6,220)	16,337
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	82,898	(2,687)	80,211	13,641	93,852
Net gain (loss) on derivatives designated as cash flow hedges	(3,558)	(1,226)	(4,785)	584	(4,201)
Hedge costs	34	―	34	(5)	29
Total of items that may be reclassified subsequently to profit or loss	79,374	(3,914)	75,460	14,220	89,680
Total	101,931	(3,914)	98,017	8,000	106,017

30. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

(Millions of yen)

	2023	**2024**
Profit for the period attributable to owners of the parent company	482,288	179,240
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	482,288	179,240

B. Weighted-average Number of Ordinary Shares Outstanding During the Period

(Thousands of shares)

	2023	**2024**
Weighted-average number of shares during the period	1,775,142	1,775,509

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2023	**2024**
Profit for the period used for calculation of basic earnings per share	482,288	179,240
Adjustment	—	—
Profit for the period used for calculation of diluted earnings per share	482,288	179,240

B. Weighted-average Number of Diluted Ordinary Shares Outstanding During the Period

(Thousands of shares)

	2023	**2024**
Weighted-average number of ordinary shares during the period	1,775,142	1,775,509
Increased number of ordinary shares under subscription rights to shares	415	264
Weighted-average number of diluted ordinary shares during the period	1,775,557	1,775,773

31. Reconciliation of Liabilities Arising from Financing Activities

Reconciliation of liabilities arising from financing activities for each year is as follows:

Year ended December 31, 2023

(Millions of yen)

	As of January 1, 2023	Cash flows	Non-cash changes			As of December 31, 2023
			Acquisition through business combinations	Foreign exchange movement	Other	
Short-term borrowings and commercial paper	63,733	143,042	―	2,193	―	208,968
Long-term borrowings (Note)	157,249	(12,019)	―	1,909	250	147,390
Bonds (Note)	737,329	(8,399)	―	56,911	60	785,901
Lease liabilities	60,328	(23,613)	―	3,897	18,980	59,591
Total	1,018,639	99,011	―	64,911	19,290	1,201,850

Year ended December 31, 2024

(Millions of yen)

	As of January 1, 2024	Cash flows	Non-cash changes			As of December 31, 2024
			Acquisition through business combinations	Foreign exchange movement	Other	
Short-term borrowings and commercial paper	208,968	(150,105)	―	1,454	―	60,317
Long-term borrowings (Note)	147,390	344,842	211,229	33,458	1,417	738,335
Bonds (Note)	785,901	88,894	―	52,773	568	928,136
Lease liabilities	59,591	(26,218)	1,641	1,555	27,027	63,595
Total	1,201,850	257,413	212,870	89,240	29,012	1,790,384

(Note) Current portion is included.

32. Share-based Payments

(1) Share Option

The Company adopts share option plans. Share options are granted by the resolutions of the Board of Directors based on the approvals at the Annual Shareholders' Meeting.

The outline of the share option plan of the Company is as follows. Due to the introduction of the restricted stock remuneration plan and the performance share unit plan, share option plans are abolished except for share options already allotted and new share options will not be issued after 2020.

A. Share Option Contract Conditions of the Company

Positions of persons granted	:	Directors and Executive Officers
Settlement	:	Issuance of shares
Effective period of granted share option	:	30 years after the date of grant
Vesting conditions	:	None

Conditions related to the exercise of share options are as follows:

(i) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for the rights that become exercisable from the date following the date on which they no longer hold their positions.

(ii) In the case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

B. Changes in the Number of Share Options of the Company

(Shares)

	2023			**2024**		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	361,000	250,400	611,400	211,800	139,600	351,400
Exercised	—	(260,000)	(260,000)	—	(120,800)	(120,800)
Transferred	(149,200)	149,200	—	(47,600)	47,600	—
Balance as of December 31	211,800	139,600	351,400	164,200	66,400	230,600
Exercisable balance as of December 31	—	21,200	21,200	—	13,200	13,200

(Note 1) The number of share options is presented as the number of underlying shares.

(Note 2) All share options are granted with an exercise price of ¥1 per share.

(Note 3) "Transferred" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the period.

(Note 4) The weighted-average share prices of share options at the time of exercise during the period were ¥2,815 and ¥4,097 for the years ended December 31, 2023 and 2024, respectively.

(Note 5) The weighted-average remaining contract years of unexercised share options at the end of each period were 23.2 years and 22.0 years for the years ended December 31, 2023 and 2024, respectively.

(2) Restricted Stock Remuneration

The Company has the restricted stock remuneration plan, which delivers the Company's ordinary shares which are subject to a certain transfer restriction period, to Directors also serving as Executive Officers and Executive Officers of the Company (hereinafter referred to as “Eligible Directors and Executive Officers”). The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders.

The Company enters into the restricted stocks allotment agreement with the Eligible Directors and Executive Officers and the Company’s ordinary shares shall be delivered if the Eligible Directors and Executive Officers, who continue to serve for a stipulated period, pay all of the monetary compensation claims provided by the Company by the method of contribution in kind. The transfer restriction period is 30 years from the grant date. With regard to the allotted restricted stocks (hereinafter referred to as “Allotted Shares”) the restricted stock allotment agreement states that each Eligible Directors and Executive Officers is prohibited to transfer Allotted Shares to a third party, pledge them, mortgage them, or use any arrangement to dispose them, and that the Company can acquire Allotted Shares without any compensation on certain conditions and so on. In case any Eligible Directors and Executive Officers who receive allotment retire due to expiration of the term or resign due to reasons deemed reasonable by the Company’s Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company’s Board of Directors even during the transfer restriction period, the transfer restrictions shall be removed on all Allotted Shares held by him/her.

Details of Restricted Stock Remuneration

	2023	**2024**
Grant date	July 12, 2023	April 19, 2024
Number of allotted shares	Directors: 85,200 Executive Officers: 72,500	Directors: 70,200 Executive Officers: 54,300
Fair value at the grant date	¥3,201	¥3,958
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(3) Restricted Stock Unit

The Company has the restricted stock unit plan, which delivers the Company's ordinary shares which are obtained by the board benefit trust to Executive Officers of certain subsidiary. The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders as with the restricted stock remuneration.

In this plan, the board benefit trust which are funded and created by certain subsidiary acquires the Company's ordinary shares from the market. The share units determined in accordance with duties of Eligible Executive Officers are granted every year. The Company's ordinary shares equivalent to the amount of granted share units and the dividends during the vesting period shall be delivered after three years have passed since grant dates.

The fair value in the plan is estimated based on the market price of the Company's share, which is not revised in consideration of the estimated dividend.

Details of Restricted Stock Unit Plan

	2023	**2024**
Grant date	−	March 1, 2024
Number of allotted share units	−	159,259
Fair value at the grant date	−	¥3,879
Calculation methodology of fair value	−	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange on the grant date

(4) Performance Share Unit Remuneration

The Company has the performance share unit remuneration plan, which varies the number of allotted shares depending on the degree of the achievement of predetermined performance target, for Directors also serving as Executive Officers and Executive Officers of the Company (hereinafter referred to as “Eligible Directors and Executive Officers”). The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders as with the restricted stock remuneration and the restricted stock unit.

The Eligible Directors and Executive Officers shall be paid monetary compensation claims and monies for the delivery of the Company’s ordinary shares in accordance with the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period as determined through deliberations by the Advisory Panel on Nomination and Compensation of the Company after the performance evaluation period of 3 consecutive fiscal years on the condition that they continue to serve as Directors, etc. of the Company for a stipulated period. They shall receive the delivery of the Company’s ordinary shares by paying all of such monetary compensation claims by the method of contribution in kind. The number of allotted shares and the amount of cash to be paid are calculated by multiplying basic number of share units determined in accordance with duties of each Eligible Directors and Executive Officers by the payment ratio calculated based on the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period in the range of 0% - 200%.

The fair value in the plan is estimated based on the market price of the Company’s share, which is not revised in consideration of the estimated dividend. The weighted average fair value at the reporting date for the year ended December 31, 2023 is ¥3,645 and for the year ended December 31, 2024 is ¥4,080.

Details of Performance Share Unit Remuneration

	2023	**2024**
Grant date	July 12, 2023	April 19, 2024
Number of allotted shares	Directors: 19,208 Executive Officers: 17,811	Directors: 20,237 Executive Officers: 17,777
Fair value at the grant date	¥3,201	¥3,958
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(5) Share-based Payment Expenses

The costs included in “Selling, general and administrative expenses” in the consolidated statement of income are as follows.

(Millions of yen)

	2023	**2024**
Restricted stock remuneration (equity-settled)	505	493
Restricted stock unit (equity-settled)	—	172
Performance share unit remuneration (cash-settled)	355	180

(6) Liabilities Arising from Share-based Payment

The liabilities arising from Share-based Payment in the consolidated statement of financial position as of December 31 are as follows.

(Millions of yen)

	2023	**2024**
Carrying amounts of liability	802	846

33. Financial Instruments

(1) Capital Management

Based on the “4S model” and JT Group Purpose, our resource allocation policy is prioritizing business investments for sustainable profit growth in the mid to long term as well as striking a balance between profit growth through business investments and shareholder returns. On the other hand, the Group maintains a solid financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

The Group manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (the part attributable to the owners of the parent company). The amounts as of December 31 are as follows:

(Millions of yen)

	2023	**2024**
Interest-bearing debt (Note)	1,142,259	1,726,789
Cash and cash equivalents	(1,040,206)	(1,084,567)
Net interest-bearing debt	102,053	642,222
Capital (equity attributable to owners of the parent company)	3,830,156	3,766,623

(Note) Lease liabilities are excluded.

The specific rules for shares of the Company under the Japan Tobacco Inc. Act are as follows:

The Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by the Annual Shareholders’ Meeting) (Article 2 (1)).

In cases where the Company intends to solicit persons to subscribe for shares to be issued or subscription rights to shares or where the Company intends to deliver shares (excluding treasury shares), subscription rights to shares (excluding its own subscription rights to shares) or bonds with subscription rights to shares (excluding its own bonds with subscription rights to shares) when exchanging with shares, the Company shall obtain the approval of the Minister of Finance (Article 2 (2)).

Disposal of shares owned by the Japanese government shall be within the limits on the number of shares decided by the Diet in the relevant annual budget (Article 3).

The Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a stable and flexible financial condition for future investment. We monitor credit ratings for financial stability and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environments.

(2) Financial Risk Management

The Group is exposed to financial risks (credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price fluctuation risk) in the process of its management activities and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are regularly reported by the Department having jurisdiction over financial operations to the president and the Board of Directors of the Company.

The Group policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, the Group does not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as notes and accounts receivable, acquired from the operating activities of the Group are exposed to customer credit risk.

The Group holds mainly debt securities for surplus investment and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuer's credit risk.

In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, the Group is exposed to the credit risk of the financial institutions which are counterparties to these transactions.

In principle, the Group sets credit lines or transaction conditions with respect to trade receivables for counterparties based on the Credit Management Guidelines in order to control the credit risk relating to counterparties. In addition, the receivable balances of counterparties with high credit risk are monitored. The Department having jurisdiction over financial operations of the Company regularly monitors the status of the occurrence and collection of bad debts and reports them to the president and the Board of Directors of the Company.

With regard to the investment of cash surpluses and derivatives, the Group invests in debt securities and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks from occurring and based on the Group Financial Operation Basic Policy. In addition, the Department having jurisdiction over financial operations of the Company regularly monitors the performance of these transactions and reports the results to the president and the Board of Directors of the Company.

The maximum exposure pertaining to credit risks for financial assets is the carrying amount after considering impairment in the consolidated financial statements.

There is no excessive concentration of the credit risks to certain counterparties.

The Group reviews collectability of trade receivables depending on the credit conditions of counterparties and recognizes allowance for doubtful accounts. The schedule of the allowance for doubtful accounts is as follows.

(Millions of yen)

	Trade receivables	Other financial assets			Total
		Measured at an amount equal to the 12-month expected credit losses	Measured at an amount equal to the full lifetime expected credit losses		
			Non-credit-impaired financial assets	Credit-impaired financial assets	
As of January 1, 2023	2,533	—	90	6,153	8,776
Addition	2,471	—	1	28	2,500
Decrease (intended use)	(246)	—	—	(20)	(266)
Decrease (reversal)	(1,009)	—	(1)	(36)	(1,046)
Other	156	—	—	215	371
As of December 31, 2023	3,905	—	91	6,339	10,335
Addition	6,111	—	43	28	6,182
Decrease (intended use)	(324)	—	—	—	(324)
Decrease (reversal)	(2,335)	—	(36)	(81)	(2,452)
Other	453	—	—	396	849
As of December 31, 2024	7,810	—	98	6,682	14,590

(Note) There is no significant change in the carrying amounts of financial assets which affects the change in the allowance for doubtful accounts.

(4) Liquidity Risk

The Group raises funds by borrowings, commercial paper and bonds; however, these liabilities are exposed to the liquidity risk that we would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual business plan and the Department having jurisdiction over financial operations of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the president and the Board of Directors of the Company. In order to manage liquidity risk, the Group keeps necessary credit facilities by having commitment lines with several financial institutions, and conducts securitization of receivables.

The financial liability balance (including derivative financial instruments) by maturity as of December 31 is as follows:

As of December 31, 2023

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	592,802	592,802	592,802	–	–	–	–	–
Short-term borrowings	208,968	208,968	208,968	–	–	–	–	–
Current portion of long-term borrowings	24,365	24,365	24,365	–	–	–	–	–
Long-term borrowings	123,025	123,274	–	2,817	158	20,160	140	100,000
Current portion of bonds	–	–	–	–	–	–	–	–
Bonds	785,901	795,539	–	111,096	–	–	99,958	584,485
Lease liabilities	59,591	71,705	21,802	13,356	7,869	5,193	4,115	19,369
Subtotal	1,794,652	1,816,653	847,937	127,269	8,027	25,353	104,212	703,855
Derivative financial liabilities								
Foreign exchange forward contract	25,076	25,076	23,031	2,044	–	–	–	–
Subtotal	25,076	25,076	23,031	2,044	–	–	–	–
Total	1,819,728	1,841,729	870,968	129,313	8,027	25,353	104,212	703,855

As of December 31, 2024

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	659,510	659,510	659,510	–	–	–	–	–
Short-term borrowings	60,317	60,317	60,317	–	–	–	–	–
Current portion of long-term borrowings	2,935	2,935	2,935	–	–	–	–	–
Long-term borrowings	735,400	736,561	–	615,188	20,265	243	124	100,741
Current portion of bonds	115,416	115,524	115,524	–	–	–	–	–
Bonds	812,721	823,796	–	–	–	106,084	74,109	643,603
Lease liabilities	63,595	78,684	23,178	14,997	9,626	6,360	3,513	21,011
Subtotal	2,449,894	2,477,328	861,465	630,185	29,891	112,687	77,745	765,356
Derivative financial liabilities								
Foreign exchange forward contract	44,887	44,887	39,093	5,794	–	–	–	–
Interest rate swap	216	216	216	–	–	–	–	–
Subtotal	45,103	45,103	39,309	5,794	–	–	–	–
Total	2,494,997	2,522,431	900,774	635,979	29,891	112,687	77,745	765,356

The total of commitment lines and withdrawal as of December 31 are as follows:

(Millions of yen)

	2023	**2024**
Total committed line of credit	567,655	601,301
Withdrawing	135,000	912
Unused balance	432,655	600,389

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.

(ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts for example, when future cash flow is projected or when receivables and payables are fixed, and some of them are designated as cash flow hedges. The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts for example, and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy and under the supervision of the Treasury Committee of the Company, the Group establishes and implements a foreign currency hedge policy taking into consideration the impact on the Group's performance and the current conditions of the foreign exchange market in a comprehensive manner. The Department having jurisdiction over financial operations of the Company regularly reports the performances to the president and the Board of Directors of the Company.

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

(Millions of yen)

	2023	**2024**
Profit before income taxes	(4,836)	(6,899)

(6) Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debts after deducting cash equivalents. Borrowings and bonds with floating rates are exposed to interest rate fluctuation risk.

In order to reduce the interest rate fluctuation risk related to borrowings and bonds, in accordance with the Group Financial Operation Basic Policy and under the supervision of the Treasury Committee of the Company, the Group establishes and implements an interest rate hedging policy taking into consideration the impact on the Group's performance and the current condition of the interest rates in a comprehensive manner. The Department having jurisdiction over financial operations of the Company reports the performances to the president and the Board of Directors of the Company.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by the Group as of each year end increases by 100bp, the impact on profit before income taxes in the consolidated statement of income is as follows:

The analysis is subject to financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

(Millions of yen)

	2023	**2024**
Profit before income taxes	3,092	(2,170)

(7) Hedging Transactions

The Group’s policy for hedging transactions is stated in “3. Material Accounting Policy Information.”

A. Cash Flow Hedges

The details of hedging instruments designated as cash flow hedges are as follows:

As of December 31, 2023

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.
			Assets	Liabilities	
Foreign exchange risk					
Foreign exchange forward contract					
JPY / USD	USD 113 mil.	—	175	518	¥ 134.55
EUR / USD	USD 929 mil.	—	1,070	1,508	€ 0.91
GBP / USD	USD 354 mil.	—	100	1,008	£ 0.80
USD / CHF	CHF 337 mil.	CHF 28 mil.	3,756	—	$ 1.13
USD / PLN	PLN 1,593 mil.	—	3,330	76	$ 0.24
EUR / PLN	PLN 597 mil.	—	15	1,132	€ 0.22

As of December 31, 2024

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.
			Assets	Liabilities	
Foreign exchange risk					
Foreign exchange forward contract					
JPY / USD	USD 103 mil.	—	—	1,122	¥ 143.58
EUR / USD	USD 792 mil.	—	5,665	713	€ 0.91
GBP / USD	USD 250 mil.	—	773	55	£ 0.78
USD / CHF	CHF 386 mil.	—	125	2,990	$ 1.17
USD / PLN	PLN 1,078 mil.	—	106	1,333	$ 0.25
EUR / PLN	PLN 612 mil.	—	1	341	€ 0.23
Interest rate risk					
Interest rate swap					
Variable rate receipt and fixed rate payment	JPY 50,000 mil.	50,000 mil.	77	216	1.04%
US Treasury lock	USD 225 mil.	—	91	—	4.37%

(Note) Carrying amounts of derivatives are presented as “Other financial assets” or “Other financial liabilities” in the consolidated statement of financial position, and the portion with over one year maturity is classified as “Non-current assets” or “Non-current liabilities.”

The schedule of net gains (losses) on hedging instruments designated as cash flow hedges is as follows:

(Millions of yen)

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign exchange risk (Note)	Interest rate risk (Note)	Total
As of January 1, 2023	3,231	5,316	8,546
Other comprehensive income			
Amount arising (Note)	4,058	361	4,419
Reclassification adjustments (Note)	1,987	(769)	1,219
Tax effects	(1,087)	198	(888)
Basis adjustments	(4,150)	－	(4,150)
As of December 31, 2023	4,039	5,106	9,145
Other comprehensive income			
Amount arising (Note)	(3,558)	－	(3,558)
Reclassification adjustments (Note)	(398)	(828)	(1,226)
Tax effects	577	7	584
Basis adjustments	(918)	－	(918)
As of December 31, 2024	(259)	4,285	4,026

(Note) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument, and the amount, which is reclassified when the hedged item affects profit or loss, is recognized in “Revenue,” “Selling, general and administrative expenses,” “Financial income” or “Financial costs” in the consolidated statement of income. The amount of hedge ineffectiveness is immaterial.

B. Hedge of Net Investment in Foreign Operations

The details of hedging instruments designated as hedge of net investment are mainly as follows:

As of December 31, 2023

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	1,331 mil.	EUR	1,331 mil.	—	206,711	$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	—	70,686	$	1.32
Foreign exchange forward contract								
JPY / USD	USD	2,220 mil.	USD	570 mil.	4,554	12,521	¥	132.78
USD / RON	RON	675 mil.		—	110	—	$	0.22

As of December 31, 2024

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	1,414 mil.	EUR	1,238 mil.	—	329,031	$	1.14
Bonds in GBP	GBP	391 mil.	GBP	391 mil.	—	77,733	$	1.32
Foreign exchange forward contract								
JPY / USD	USD	2,380 mil.	USD	600 mil.	—	31,107	¥	140.51

(Note) Carrying amounts of bonds are presented as “Bonds and borrowings” in the consolidated statement of financial position, and the portion with over one year maturity is classified as “Non-current liabilities.” Carrying amounts of derivatives are presented as “Other financial assets” or “Other financial liabilities” in the consolidated statement of financial position, and the portion with over one year maturity is classified as “Non-current assets” or “Non-current liabilities.”

The schedule of net gains (losses) on hedging instrument designated as hedge of net investment in foreign operations is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	6,809	(16,442)
Other comprehensive income		
Amount arising (Note 1)	(28,822)	(29,491)
Tax effects	5,571	13,641
As of December 31 (Note 2)	(16,442)	(32,293)

(Note 1) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument.

(Note 2) Net loss arising from the hedging instruments for which hedge accounting is discontinued were ¥18,498 million and ¥32,241 million as of December 31, 2023 and 2024, respectively, which are included in the exchange differences on translation of foreign operations.

(8) Market Price Fluctuation Risk

With respect to securities, the Group regularly assesses the fair value and financial conditions of the issuers, and each relevant department reviews the portfolio held by taking into account the relationship with counterparty entities as necessary.

(9) Fair Value of Financial Instruments

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market
Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly
Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

A. Financial Instruments Measured at Amortized Cost

The carrying amount and fair value hierarchy of financial instruments measured at amortized cost as of December 31 are as follows:

As of December 31, 2023

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	147,390	—	147,627	—	147,627
Bonds	785,901	732,331	—	—	732,331

As of December 31, 2024

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	738,335	—	738,281	—	738,281
Bonds (Note)	928,136	876,125	—	—	876,125

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.
The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

B. Financial Instruments Measured at Fair Value

The fair value hierarchy of financial instruments measured at fair value as of December 31 is as follows:

As of December 31, 2023

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	19,187	—	19,187
Equity securities	22,696	—	11,585	34,281
Notes and accounts receivable	—	5,307	—	5,307
Other	686	4,799	14,976	20,461
Total	23,382	29,293	26,560	79,236
Derivative liabilities	—	25,076	—	25,076
Total	—	25,076	—	25,076

As of December 31, 2024

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	18,900	—	18,900
Equity securities	24,709	—	17,783	42,492
Notes and accounts receivable	—	22,884	—	22,884
Other	852	2,814	28,136	31,802
Total	25,561	44,598	45,920	116,078
Derivative liabilities	—	45,103	—	45,103
Total	—	45,103	—	45,103

(Note) The schedule of financial instruments that are classified in Level 3 is as follows:

(Millions of yen)

	2023	**2024**
As of January 1	22,308	26,560
Total gain (loss)		
Profit or loss (Note 1)	(405)	(1,259)
Other comprehensive income (Note 2)	(575)	504
Purchases	4,807	6,977
Increase due to business combination	—	5,750
Sales	(320)	(2,902)
Other	745	10,289
As of December 31	26,560	45,920

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2023 and 2024 are related to financial assets measured at fair value through profit or loss as of the year end. These gains and losses are included in “Financial income” and “Financial costs.”

(Note 2) Gains and losses included in other comprehensive income for the years ended December 31, 2023 and 2024 are related to financial assets measured at fair value through other comprehensive income as of the year end. These gains and losses are included in “Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income.”

34. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders' Meeting). As of December 31, 2024, the Japanese government held 33.34% of all outstanding shares of the Company.

(1) Related-party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.
The Group's revenue from CJSC TK Megapolis, the local Russian distribution affiliate, was ¥321,006 million and ¥369,568 million for the years ended December 31, 2023 and 2024, respectively. The Group held trade receivables of ¥65,002 million and ¥74,959 million from CJSC TK Megapolis as of December 31, 2023 and 2024, respectively.

(2) Remuneration for Directors and Audit and Supervisory Board Members

Remuneration for directors and audit and supervisory board members for each year is as follows:

(Millions of yen)

	2023	**2024**
Remuneration and bonuses	1,132	1,145
Share-based payments	475	385
Total	1,607	1,530

35. Subsidiaries, Associates and Others

(The composition of the Group)

The composition of the Group by reportable segment as of December 31 is as follows:

	2023		**2024**	
Reportable Segments	Number of subsidiaries	Number of entities accounted for using the equity method (Note)	Number of subsidiaries	Number of entities accounted for using the equity method (Note)
Tobacco	174	14	222	50
Pharmaceuticals	2	—	2	—
Processed Food	22	2	21	2
Other	23	2	23	1
Total	221	18	268	53

(Note) No associates or joint ventures are considered to be material to the Group.

There is no significant change in the composition of the Group for the year ended December 31, 2024.
Regarding the restrictions on the ability to use the assets of the Group, please refer to "7. Cash and Cash Equivalents."

36. Commitments

(1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets as of December 31 are as follows:

(Millions of yen)

	2023	**2024**
Acquisition of property, plant and equipment	61,017	61,747
Acquisition of intangible assets	5,214	6,136
Total	66,230	67,883

(2) Procurement of Domestic Leaf Tobacco

With regard to the procurement of domestic leaf tobacco by the Company, based on the Tobacco Business Act, the Company enters into purchase contracts with domestic leaf tobacco growers every year, and the contracts determine the area under cultivation by type of tobacco and the prices by type and quality of tobacco leaf. Under the contracts, the Company is obligated to purchase all domestic leaf tobacco produced pursuant to such contracts, except for any domestic leaf tobacco not suited for the manufacture of tobacco products.

37. Hyperinflationary Accounting Adjustments

As required by IAS 29, the Group's consolidated financial statements include the financial statements of the subsidiaries in the hyperinflationary economy, restated in terms of the measuring unit current at the end of the reporting period.
For the restatement of the financial statements of the subsidiaries in Sudan, Iran, Turkey and Ethiopia, the Group applies the conversion coefficients derived from the Consumer Price Index of Sudan published by the Central Bank of Sudan, from the Consumer Price Index of Iran published by the Statistical Center of Iran, from the Consumer Price Index of Turkey published by the Turkish Statistical Institute and from the Consumer Price Index of Ethiopia published by the Central Statistical Agency of Ethiopia. Major Consumer Price Indexes are described.

Consumer Price Index and corresponding conversion coefficients of Sudan are presented below.
As the Consumer Price Index has not been announced since March 2023, the Group applies the Consumer Price Index and conversion coefficients as of December 31, 2023 and 2024 reasonably calculated based on the Consumer Price Index for February 2023 as the most recent data available, along with the consideration of the economic situation of Sudan.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2011	182	175,175
(omission)		
31 December 2020	8,639	3,689
31 December 2021	36,131	882
31 December 2022	67,674	471
31 December 2023	110,511	288
31 December 2024	318,714	100

Consumer Price Index and corresponding conversion coefficients of Iran are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2015	93	1,110
(omission)		
31 December 2020	281	370
31 December 2021	379	274
31 December 2022	563	184
31 December 2023	789	131
31 December 2024	1,037	100

Consumer Price Index and corresponding conversion coefficients of Turkey are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2010	182	1,476
(omission)		
31 December 2020	505	532
31 December 2021	687	391
31 December 2022	1,128	238
31 December 2023	1,859	144
31 December 2024	2,685	100

Consumer Price Index and corresponding conversion coefficients of Ethiopia are presented below.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2017	117	425
(omission)		
31 December 2020	182	272
31 December 2021	246	202
31 December 2022	329	151
31 December 2023	422	117
31 December 2024	495	100

The Company's subsidiaries in the hyperinflationary economy have restated their non-monetary items held at historical cost, such as property, plant and equipment, by applying the conversion coefficients at the acquisition date. Monetary items and non-monetary items held at current cost are not restated as they are considered to be expressed in terms of the measuring unit current at the end of the reporting period.

For the purpose of consolidation, the financial statements of the Company's subsidiaries in the hyperinflationary economy are translated using the spot exchange rates at the end of the reporting period.

38. Business Combinations

Acquisition of the Tobacco Company in the United States

(1) Summary of the Business Combination

On October 7, 2024, Eastern Daylight Time, the Group acquired all outstanding fully diluted shares of Vector Group Ltd. (VGR), a company operating tobacco business in the United States.

VGR has well-established brands such as “Montego” and “Eagle” in the value segment, growing in the United States.

The purpose of this acquisition is to expand the Group presence in the Unites States, the second largest tobacco market in net sales and one of the most profitable globally.

(2) Financial Impact on the Group

Since the acquisition date, the acquired business has contributed to consolidated revenue of ¥32,828 million and consolidated operating profit of ¥9,025 million. It is assumed that had the business been acquired on January 1, 2024, total consolidated revenue would have increased by ¥110,413 million to ¥3,260,172 million, and total consolidated operating profit would have increased by ¥24,488 million to ¥347,949 million (Unaudited). The above operating profit includes the amortization of trademarks and other intangible assets acquired from the business combination, etc.

(3) Consideration and Details (Total of the Acquisition)

The consideration was ¥344,643 million and paid fully in cash.

(4) Net Cash Outflow for the Business Combination (Total of the Acquisition)

(Millions of yen)

	Net cash outflow for the business combination
Cash consideration	344,643
Cash and cash equivalents in subsidiaries acquired	(78,976)
Net cash outflow for the business combination	265,667

(5) Fair Values of the Assets Acquired and Liabilities Assumed

	(Millions of yen)
	Fair value
Current assets	121,853
Trademarks	51,210
Non-current assets except the above	308,127
Total assets	481,189
Current liabilities	80,969
Non-current liabilities	303,652
Total liabilities	384,622
Goodwill	248,076

Goodwill represents excess earning power resulting from the effects of business integration synergies including enhanced business scale.

Non-current assets except trademarks include intangible assets related to contracts and licenses to operate tobacco businesses in the United States.

Fair value of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and may change during the measurement period (one year from the acquisition date).

Acquisition-related costs related to this business combination are expensed as "Selling, general and administrative expense" of ¥3,575 million and "Financial costs" of ¥1,187 millions.

Also, unamortized costs of ¥(1,142) million, which are not recorded as "Financial costs" at the end of the current fiscal year in origination costs related to debt financing for the acquisition deducted from the fair value of the borrowings at the initial recognition, are recorded as "Bonds and borrowings".

39. Contingencies

Contingent Liabilities

The Company and some of its subsidiaries are defendants in legal proceedings. Provisions are not accounted for in matters where it is not practicable to reasonably estimate the final outcomes.

The Company and some of its subsidiaries, who are defendants in such legal proceedings, believe that our defenses asserted in these proceedings are based on substantial evidence and implement the system for the response to action with the assistance of external lawyers.

(1) Smoking and Health Related Litigation

Some of the Company's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco or E-Vapor products, or exposure to tobacco smoke. As of December 31, 2024, there were a total of 51 smoking and health related cases pending for which no provisions have been recorded, including some in which the Company's subsidiaries were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement such as for an Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. Of these, a total of 18 class action and healthcare cost recovery litigations related to Canada have been provisioned as a result of a settlement reached after as of December 31, 2024. In addition, there were 84 lawsuits for which a provision has been made for contingent liabilities assumed in business combinations as a result of acquisitions.

The major ongoing smoking and health related cases are as follows:

A. Individual Claim

There is one individual case brought against the Company's indemnitee in South Africa.

<u>South Africa Individual Claim (Joselowitz):</u>

The individual claim was brought against the Company's indemnitee in South Africa in October 2000. Plaintiff seeks compensatory and punitive damages, alleging that the Company's indemnitee marketed products which it knew to be dangerous to health, manipulated nicotine content to foster addiction, failed to comply with South African labeling requirements and participated in a clandestine worldwide operation to encourage children to smoke. This case has been dormant since February 2001.

In addition, there was one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland and there were 114 individual cases brought against the Company's subsidiaries in the United States of America.

B. Class Actions

There is one ongoing class action in the United States of America against the Company's subsidiary.

<u>The United States of America Louisiana Class Action (Young):</u>

This class action was brought against tobacco industry members, including Liggett Group LLC, in November 1997. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allegedly suffered health injuries from exposure to tobacco smoke. This case has been stayed since October 2004.

(2) Other Legal Proceedings

The Company and some of its subsidiaries are also engaged in other legal proceedings such as commercial and tax disputes.

40. Subsequent Events

The Company entered into loan agreements with banks as follows:

(1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited
(2) Aggregate amount of borrowings : ￥100 billion
(3) Interest rates : Floating rates（TIBOR plus spread）
(4) Drawdown date : January 31, 2025
(5) Repayment date : January 31, 2055
The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2030.
(6) Collateral/Guarantee : None
(7) Use of proceeds : Repayment of the Existing Subordinated Loan
(8) Other borrowing terms :
a. Interest deferral clause
The Company may, at its option, defer the payment of interest.
b. Subordination clause
The lenders shall have subordinated claim rights subordinated to senior debts in liquidation proceedings, bankruptcy proceedings, reorganization proceedings, civil rehabilitation proceedings or any other equivalent proceedings other than those under the laws of Japan.
No terms and conditions of the Subordinated Loan Agreement may be amended in a manner detrimental in any way to any creditors of the Company other than the creditors of the subordinated receivables.
c. Replacement restrictions
There is no contractual provision on replacement restrictions.
Provided, when making a prepayment of the Subordinated Loan, the Company intends to replace it with the funds raised by common stock or financial instruments that have equity credit attributes approved by rating agencies to be equal to or higher than the Subordinated Loan within twelve months prior to the prepayment date. However, the Company may decide not to replace the Subordinated Loan with the approved funds that have equal or higher equity credit attributes, if predefined financial requirements are met.

(2) Others

A. Semi-annual Information for the Year ended December 31, 2024

(Millions of yen)

	January 1, 2024 to June 30, 2024	January 1, 2024 to December 31, 2024
Revenue	1,569,892	3,149,759
Profit before income taxes for the period (year)	399,073	233,766
Profit attributable to owners of the parent company for the period (year)	305,172	179,240
Basic earnings per share for the period (year) (yen)	171.89	100.95

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in “39. Contingencies” in the notes to consolidated financial statements.

2. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2023 and 2024

(Millions of yen)

		2023		**2024**
Assets				
Current assets				
Cash and deposits		177,685		205,764
Accounts receivable-trade	*2	33,949	*2	35,420
Merchandise and finished goods		38,008		38,813
Semi-finished goods		80,783		76,050
Work in process		988		1,726
Raw materials and supplies		38,491		42,204
Advance payments-trade		400		1,641
Prepaid expenses		6,165		5,364
Short-term loans receivable from subsidiaries and affiliates		33,831		39,264
Other	*2	15,967	*2	33,922
Allowance for doubtful accounts		(31)		(31)
Total current assets		426,237		480,137
Noncurrent assets				
Property, plant and equipment				
Buildings		67,108		65,106
Structures		1,891		1,849
Machinery and equipment		27,462		28,822
Vehicles		305		961
Tools, furniture and fixtures		9,652		12,401
Land		46,171		43,669
Construction in progress		5,994		6,605
Total property, plant and equipment		158,583		159,412
Intangible assets				
Right of trademark		32,783		16,422
Software		8,331		16,481
Goodwill		71,542		35,771
Other		13,830		6,831
Total intangible assets		126,487		75,505
Investments and other assets				
Investment securities		21,753		21,707
Shares of subsidiaries and affiliates		1,502,043		1,508,834
Long-term loans receivable from subsidiaries and affiliates		5,558		5,488
Long-term prepaid expenses		10,593		9,714
Deferred tax assets		24,694		25,981
Other		18,110		17,102
Allowance for doubtful accounts		(108)		(90)
Total investments and other assets		1,582,644		1,588,735
Total noncurrent assets		1,867,714		1,823,652
Total assets		2,293,951		2,303,789

(Millions of yen)

		2023		**2024**
Liabilities				
Current liabilities				
Accounts payable-trade	*2	7,279	*2	15,261
Short-term borrowings		158,000	*2	100,000
Current portion of bonds		―	*1	25,000
Current portion of long-term borrowings		20,000		―
Lease obligations		138		182
Accounts payable-other	*2	42,765	*2	71,164
National tobacco excise taxes payable		70,378		66,209
National tobacco special excise taxes payable		8,484		7,982
Local tobacco excise taxes payable		79,077		76,693
Income taxes payable		5,624		1,330
Accrued consumption taxes		27,323		26,994
Cash management system deposits received	*3	300,833	*3	292,571
Provision for bonuses		5,498		13,396
Other provisions		1,331		3,471
Other		28,933		53,561
Total current liabilities		755,663		753,816
Noncurrent liabilities				
Bonds payable	*1	125,000	*1	100,000
Long-term borrowings		120,000		120,000
Lease obligations		45		616
Provision for retirement benefits		101,387		98,521
Other	*2	12,278	*2	15,943
Total noncurrent liabilities		358,711		335,079
Total liabilities		1,114,374		1,088,895

(Millions of yen)

	2023	**2024**
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	636,400
Other capital surplus	78	100,297
Total capital surplus	736,478	736,697
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	326	243
Reserve for reduction entry	32,922	31,382
Special account for reduction entry	914	877
Retained earnings brought forward	775,229	831,979
Total retained earnings	828,167	883,256
Treasury shares	(489,194)	(488,579)
Total shareholders' equity	1,175,451	1,231,375
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6,545	7,052
Deferred gains or losses on hedges	(2,975)	(23,896)
Total valuation and translation adjustments	3,569	(16,844)
Subscription rights to shares	557	364
Total net assets	1,179,577	1,214,895
Total liabilities and net assets	2,293,951	2,303,789

B. Nonconsolidated Statement of Income
Years Ended December 31, 2023 and 2024

(Millions of yen)

		2023		**2024**
Net sales	*5	537,261	*5	530,247
Cost of sales	*5	191,861	*5	195,050
Gross profit		345,399		335,197
Selling, general and administrative expenses	*1,*5	325,269	*1,*5	341,273
Operating income (loss)		20,131		(6,076)
Non-operating income				
Interest income	*5	135	*5	141
Dividends income	*5	162,991	*5	423,513
Other	*5	11,937	*5	10,280
Total non-operating income		175,064		433,934
Non-operating expenses				
Interest expenses	*5	1,633	*5	2,341
Interest on bonds		846		1,013
Foreign exchange losses		5,960		18,370
Other	*5	1,090	*5	1,758
Total non-operating expenses		9,529		23,482
Ordinary income		185,665		404,377
Extraordinary income				
Gain on sales of noncurrent assets	*2	17,001	*2,*5	7,898
Other		1,698		1,324
Total extraordinary income		18,699		9,223
Extraordinary losses				
Loss on sales of noncurrent assets	*3	214	*3,*5	196
Loss on retirement of noncurrent assets	*4,*5	2,715	*4,*5	1,455
Impairment loss		4,506		4,504
Other		1,854		1,894
Total extraordinary losses		9,289		8,048
Income before income taxes		195,075		405,552
Income taxes-current		14,905		2,309
Income taxes-deferred		(4,618)		(1,606)
Total income taxes		10,287		703
Net income		184,788		404,849

C. Nonconsolidated Statement of Changes in Net Assets
Years Ended December 31, 2023 and 2024

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Capital stock	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	Total retained earnings
As of January 1, 2023	100,000	736,400	–	736,400	18,776	331	34,780	574	956,333	1,010,794
Changes of items during the period										
Reversal of legal capital surplus				–						
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				
	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, 2023	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
Changes of items during the period							
Reversal of legal capital surplus		–					–
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

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
						Other retained earnings				
	Capital stock	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	Total retained earnings
As of January 1, 2024	100,000	736,400	78	736,478	18,776	326	32,922	914	775,229	828,167
Changes of items during the period										
Reversal of legal capital surplus		(100,000)	100,000	－						
Provision of reserve for investment loss on developing new business						243			(243)	－
Reversal of reserve for investment loss on developing new business						(326)			326	－
Provision of reserve for reduction entry							918		(918)	－
Reversal of reserve for reduction entry							(2,458)		2,458	－
Provision of special account for reduction entry								877	(877)	－
Reversal of special account for reduction entry								(914)	914	－
Dividends from surplus									(349,759)	(349,759)
Net income									404,849	404,849
Purchase of treasury shares										
Disposal of treasury shares			220	220						
Net changes of items other than shareholders' equity										
Total changes of items during the period	－	(100,000)	100,220	220	－	(83)	(1,540)	(38)	56,750	55,089
As of December 31, 2024	100,000	636,400	100,297	736,697	18,776	243	31,382	877	831,979	883,256

(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, 2024	(489,194)	1,175,451	6,545	(2,975)	3,569	557	1,179,577
Changes of items during the period							
Reversal of legal capital surplus		－					－
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		(349,759)					(349,759)
Net income		404,849					404,849
Purchase of treasury shares	(2)	(2)					(2)
Disposal of treasury shares	617	836					836
Net changes of items other than shareholders' equity			507	(20,921)	(20,414)	(193)	(20,607)
Total changes of items during the period	615	55,924	507	(20,921)	(20,414)	(193)	35,317
As of December 31, 2024	(488,579)	1,231,375	7,052	(23,896)	(16,844)	364	1,214,895

D. Notes to Nonconsolidated Financial Statements
Years Ended December 31, 2023 and 2024

(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:

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 Presentation Method)

In nonconsolidated balance sheet, "Patent right", which was presented separately under intangible assets in the previous fiscal year, is immaterial and therefore is included in "Other" under intangible assets from the current fiscal year. To reflect this change in presentation method, the financial statements for the previous fiscal year has been reclassified. As a result, "Patent right" of ¥ 163 million is included in "Other" under intangible assets in nonconsolidated balance sheet for the previous fiscal year.

(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　¥1,508,834 million (Previous fiscal year: ¥1,502,043 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 (Previous fiscal year: ¥1,356,191 million).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 Accounting Standards. (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 revision is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(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.

・“Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules"(ASBJ The Practical Solution No.46 March 22,2024)

(1) Overview

In October 2021, OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreed on global minimum tax rules for each member country of the framework. In response, in Japan, among the internationally agreed global minimum tax rules, the Income Inclusion Rule (IIR) is stipulated in the Act for Partial Revision of the Income Tax Act (Act No.3 of 2023) enacted on March 28, 2023, and is to be applied from the fiscal year beginning on or after April 1, 2024. Global minimum taxation aims to impose a minimum corporate tax of 15% on the country-specific profits of multinational enterprise groups, etc. that meet certain requirements. It is a new taxation system under which the entities generating net income (profits) that is the source of tax may be different from the entities generating tax liabilities.

The “Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules” refers to the treatment of accounting for and disclosure of corporate and local corporate taxes under the global minimum tax rules.

(2) Scheduled Date of Adoption

This practical solution 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.

・“Accounting Standards for Lease” (ASBJ Statement No.34 September 13, 2024)
・“Implementation Guidance on Accounting Standards for Lease” (ASBJ Guidance No.33 September 13, 2024), etc.

(1) Overview

As part of its efforts to make Japanese accounting standards more internationally consistent, the Accounting Standards Board of Japan (ASBJ) has been studying the development of an accounting standard for leases that would require lessees to recognize assets and liabilities for all leases, based on international accounting standards and issued the accounting standards for lease, etc. that are based on the single accounting model of IFRS 16 as a basic policy, but are simple and convenient by adopting only the main provisions rather than all of the provisions of IFRS 16, and do not require any fundamental modifications even when the provisions of IFRS 16 are used for nonconsolidated financial statements. As for the accounting treatment for lessees, similar to IFRS 16, a single accounting model will be applied to the lessee’s method of allocating expenses for all leases, regardless of whether they are finance leases or operating leases, in which depreciation expenses related to the right-of-use assets and interest expenses related to the lease liabilities are recorded.

(2) Scheduled Date of Adoption

This accounting standard and its implementation guidance will be applied from the beginning of the fiscal year ending December 31, 2028.

(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)

	2023	**2024**
Short-term receivables	14,723	26,977
Short-term payables	10,944	160,736
Long-term payables	27	27

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

4. Contingent obligations

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

Bank loans and others

2023					**2024**				
	(Millions of yen)					(Millions of yen)			
JT International Company Netherlands B.V.	69,726	(EUR	445	million)	JT International Holding B.V.	353,210	(USD	2,236	million) others
JT International Hellas A.E.B.E.	30,682	(EUR	196	million)	JT International S.A.	281,963	(USD	1,718	million) others
Gallaher Ltd.	28,518	(USD	201	million) others	JT International Company Netherlands B.V.	81,544	(EUR	495	million)
JT International spol. s r.o.	19,699	(CZK	3,105	million) others	Gallaher Ltd.	41,690	(USD	264	million) others
JT International Germany GmbH	16,100	(EUR	103	million)	JT International Hellas A.E.B.E.	33,933	(EUR	206	million)
JT International S.A.	14,359	(CHF (USD (EUR	44 26 20	million) million) million) others	JT International spol. s r.o.	22,193	(CZK	3,405	million) others
PT. Karyadibya Mahardhika	11,247	(IDR	1,220,960	million)	JT International Germany GmbH	18,346	(EUR	108	million) others
JT Canada LLC Inc.	10,535	(CAD	98	million)	JT Canada LLC Inc.	15,248	(CAD	139	million)
JT International Zagreb d.o.o.	10,200	(EUR	65	million)	Tobaccoland Handels GmbH & Co KG	14,814	(EUR	90	million)
					JT International Luxembourg S.A.	12,345	(EUR	75	million)
Other (42 companies)	91,566				Other (52 companies)	112,293			
Total	302,631				Total	987,578			

Bonds

2023					**2024**				
	(Millions of yen)					(Millions of yen)			
JT International Financial Services B.V.	670,539	(EUR (USD (GBP	2,022 1,986 400	million) million) million)	JT International Financial Services B.V.	814,346	(EUR (USD (GBP	2,600 1,945 400	million) million) million)
Total	670,539				Total	814,346			

(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)

	2023	**2024**
Promotion expenses	26,194	23,386
Compensations, salaries and allowances	25,688	33,235
Bonuses	12,229	20,533
Employee benefit expenses	6,206	6,233
Commission	64,595	64,090
Depreciation and amortization	60,574	61,429
Research and development expenses	60,963	64,712
Selling expenses ratio	36%	36%
General and administrative expenses ratio	64%	64%

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

(Millions of yen)

	2023	**2024**
Land	16,932	7,865

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

(Millions of yen)

	2023	**2024**
Tools, furniture and fixtures	64	188

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

(Millions of yen)

	2023	**2024**
Buildings	1,054	669
Machinery and equipment	596	321

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

(Millions of yen)

	2023	**2024**
Net sales	51,022	59,357
Purchase of goods	67,184	78,917
Selling, general and administrative expenses	82,632	84,596
Dividends income	162,733	423,188
Amount of non-operating transactions	15,521	22,658

(Securities)

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

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

2024

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	72,605	31,025
Total	41,580	72,605	31,025

(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	**2023**	**2024**
Investments in subsidiaries	1,460,350	1,467,140
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, 2023 and 2024

(Millions of yen)

	2023	**2024**
Deferred tax assets		
Provision for retirement benefits	24,502	24,545
Obligations pertaining to mutual assistance pension benefits	5,376	4,284
Investments in subsidiaries	6,755	6,202
Other	47,798	57,552
Subtotal	84,432	92,584
Less valuation allowance	(18,534)	(25,535)
Total	65,898	67,049
Deferred tax liabilities		
Reserve for reduction entry	(14,400)	(13,726)
Deferred gains or losses on hedges	(11,157)	(11,398)
Valuation difference on available-for-sale securities	(2,863)	(3,085)
Other	(12,785)	(12,858)
Total	(41,204)	(41,068)
Net deferred tax assets/liabilities	24,694	25,981

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, 2023 and 2024

(%)

	2023	**2024**
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.60	0.19
Permanent difference arising from non-taxable items including dividends income	(24.16)	(30.21)
Tax credit of items including research and development expenses	(2.33)	(0.69)
Changes in valuation allowance	(0.03)	0.14
Other	0.77	0.32
Actual effective tax rate after applying tax effect accounting	5.27	0.17

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)

1. Borrowing of significant amount of funds

The Company entered into loan agreements with banks as follows:

(1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited

(2) Aggregate amount of borrowings : ￥100 billion

(3) Interest rates : Floating rates（TIBOR plus spread）

(4) Drawdown date : January 31, 2025

(5) Repayment date : January 31, 2055

The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2030.

(6) Collateral/Guarantee : None

(7) Use of proceeds : Repayment of the Existing Subordinated Loan

(8) Other borrowing terms :

a. Interest deferral clause

The Company may, at its option, defer the payment of interest.

b. Subordination clause

The lenders shall have subordinated claim rights subordinated to senior debts in liquidation proceedings, bankruptcy proceedings, reorganization proceedings, civil rehabilitation proceedings or any other equivalent proceedings other than those under the laws of Japan.

No terms and conditions of the Subordinated Loan Agreement may be amended in a manner detrimental in any way to any creditors of the Company other than the creditors of the subordinated receivables.

c. Replacement restrictions

There is no contractual provision on replacement restrictions.

Provided, when making a prepayment of the Subordinated Loan, the Company intends to replace it with the funds raised by common stock or financial instruments that have equity credit attributes approved by rating agencies to be equal to or higher than the Subordinated Loan within twelve months prior to the prepayment date. However, the Company may decide not to replace the Subordinated Loan with the approved funds that have equal or higher equity credit attributes, if predefined financial requirements are met.

2. Receipt of dividend from a subsidiary

JT International Holding B.V., a subsidiary of the Company, resolved at its board of directors' meeting held on March 24, 2025, to distribute dividends from surplus, and the Company received a dividend from JT International Holding B.V on March 26, 2025. The amount of dividend income, $1.1 billion (approximately ￥167.2 billion), will be recorded as non-operating income in the non-consolidated financial statements for the fiscal year ending December 31, 2025.

As this dividend is received from a subsidiary, it will not have any financial impact on the consolidated financial results for the fiscal year ending December 31, 2025.

E. Supplementary Statements

Detailed Schedule of Property, Plant and Equipment and Others

(Millions of yen)

	Type of assets	As of January 1, 2024	Increase in the year ended December 31, 2024	Decrease in the year ended December 31, 2024	Depreciation during the year ended December 31, 2024	As of December 31, 2024	Accumulated depreciation or accumulated amortization as of December 31, 2024
Property, plant and equipment	Buildings	67,108	3,707	455 (396)	5,254	65,106	178,017
	Structures	1,891	195	14 (0)	223	1,849	9,778
	Machinery and equipment	27,462	9,174	2,911 (2,609)	4,903	28,822	165,797
	Vehicles	305	900	3	242	961	1,207
	Tools, furniture and fixtures	9,652	9,519	810 (248)	5,960	12,401	57,965
	Land	46,171	—	2,502 (736)	—	43,669	—
	Construction in progress	5,994	5,311	4,700 (270)	—	6,605	—
	Total property, plant and equipment	158,583	28,806	11,394 (4,260)	16,582	159,412	412,765
Intangible assets	Right of trademark	32,783	—	0	16,361	16,422	—
	Software	8,331	14,653	427 (185)	6,076	16,481	—
	Goodwill	71,542	—	—	35,771	35,771	—
	Other	13,830	5,038	11,832 (59)	206	6,831	—
	Total intangible assets	126,487	19,691	12,259 (244)	58,414	75,505	—

(Note 1) The figures in parentheses in the “Decrease in the year ended December 31, 2024” 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, 2024	Increase in the year ended December 31, 2024	Decrease in the year ended December 31, 2024	As of December 31, 2024
Allowance for doubtful accounts	139	8	26	121
Provision for bonuses	5,498	13,396	5,498	13,396
Other provisions	1,331	3,471	1,331	3,471

(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.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

<Audit of Consolidated Financial Statements>

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2024, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of Provision for Loss on Litigation in Canada
Key Audit Matter Description
As described in Note 20 "Provisions" to the consolidated financial statements, on March 1, 2019, the Quebec Court of Appeal dismissed an appeal of two class action lawsuits related to smoking and health against JTI Macdonald Corp., a Canadian subsidiary of Japan Tobacco Inc. (the "Company") (hereinafter referred to as "JTI-Mac"), and its co-defendants (hereinafter referred to as "Tobacco Companies"). The Tobacco Companies applied to the Ontario Superior Court for protection under the Companies' Creditors Arrangement Act (hereinafter referred to as the "CCAA"), which was approved by the Ontario Superior Court and the Tobacco Companies have been participating in a court-ordered mediation process with representatives of multiple claimants, including the Quebec class action plaintiffs and all provincial and territorial governments in an attempt to reach a final resolution of all pending litigation.

On October 17, 2024, the court-appointed mediator and the CCAA monitor for JTI-Mac publicly proposed CCAA Plan of Compromise and Arrangement (hereinafter referred to as the "Plan"), under which the Tobacco Companies would pay a total of CAD 32.5 billion (approximately ¥3.56 trillion) in aggregate to settle the litigation (including 18 pending litigation against JTI-Mac). The Plan was approved at a creditors' meeting held on December 12, 2024. Following a court hearing in January 2025, on February 27, 2025, JTI-Mac reached an agreement with the other two co-defendants on the terms of allocation of payments among the Tobacco Companies, which had been an important outstanding issue.

As a result, the Company has retroactively recorded a provision for loss on litigation of ¥375,636 million in operating expenses in fiscal year 2024 as an adjusting subsequent event.

On March 6, 2025, the Ontario Superior Court released its decision to approve the Plan.

The Company's management is required to determine the timing of the recognition of provisions in accordance with the following recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets" (hereinafter referred to as the "IAS 37") considering the status of the mediation process:

- The company has a present obligation (legal or constructive) as a result of a past event;

- The outflow of resources embodying economic benefits is probable (i.e., more likely than not) to settle the obligation; and

- A reliable estimate can be made of the amount of the obligation.

The determination of whether the recognition of provisions is necessary involves subjective judgments made by management.

The provision for loss on litigation in Canada is calculated as a present value of future payment required by the Plan.

The amount that JTI-Mac is expected to pay in future is a total of Upfront Payment and Annual Payments.

—Upfront Payment: The cash and cash equivalents it holds as at the month-end prior to the month in which the Plan is implemented.

—Annual Payments: A certain percentage of JTI-Mac's annual net after-tax income (85% for years 1–5, 80% for years 6–10, 75% for years 11–15, and 70% from year 16 onwards) which will continue until the total settlement amount (CAD 32.5 billion) is paid in aggregate by the Tobacco Companies, which the Company expects will take 20–30 years.

The Company calculates the provision as a total of present values of the Upfront Payment based on the cash and cash equivalents held at the month-end prior to the month in which the Plan is implemented and the Annual Payments estimated using JTI-Mac's annual net after-tax income for each year based on its business plan. The discount rate used in calculating the provision is a pre-tax discount rate of 6.09%, which reflects current market assessments of the time value of money and the risks specific to the provision.

JTI-Mac's business plan used in the estimation of the Annual Payments includes the following significant assumptions:

(1) Expected market volume of the tobacco business in Canada (Sales volume of tobacco products)

(2) Expected JTI-Mac's market share in the Canadian tobacco market

Of the above significant assumptions, (1) is affected by the external factors such as future trends of population and regulation on tobacco products, hence it includes the unexpectable uncertainty. In addition, (2) requires subjective judgments made by management and uncertainty that is difficult to prove, for the effect of the sales strategies including the pricing per the product category and the sales strategies of competitors.

Considering the above, a recognition and measurement of a provision for loss on litigation in Canada includes the matters requiring subjective judgments made by management, uncertainty that is difficult to prove and expertise knowledge, respectively.

<Matter for recognizing the provision as an adjusting subsequent event>

- A high-level accounting judgment to determine whether to recognize the provision as a result of the agreement with the other two co-defendants and record it as an adjusting subsequent event to the consolidated financial statements for the year ended December 31, 2024.

<Matter for calculating the provision>

- Subjective judgments made by management and uncertainty that is difficult to prove, on the timing and the amount of Annual Payments; and

- Reflecting the risks specific to the provision in the determination of the pre-tax discount rate.

All of the matters require complex and high-level audit judgment and considering the financial impact of the provision for loss on litigation in Canada to the consolidated financial position and financial performance, we have determined these matters regarding the provision for loss on litigation in Canada to be key audit matters.

How the Key Audit Matter Was Addressed in the Audit

We performed the following audit procedures to address the key audit matter on a reasonableness of recognizing the provision as an adjusting subsequent event for the year ended December 31, 2024:

- Evaluating internal controls to ensure that the judgments on recognizing the provision are appropriately made considering the status of the mediation process; and

- Assessing whether the Company appropriately considered the status of the mediation process and made judgments on the recognition of the provision as an adjusting subsequent event to the consolidated financial statements for the year ended December 31, 2024, in accordance with International Accounting Standard 10 "Subsequent Events" and IAS 37, with the following audit procedures:

  ✓ Inspecting materials issued by the court and the CCAA monitor for JTI-Mac and publicly available information released by JTI-Mac and the other two co-defendants;

  ✓ Inquiring of the Company's management and the Legal and Compliance Division of the Company to understand the Company's plan to respond to the mediation process; and

  ✓ Reading the minutes of the Company's Board of Directors' meetings to understand the Company's plan to respond to the Plan, the decisions made and the process to reach the decisions.

In addition, we involved the component auditor to assist us to perform the following audit procedures to address the key audit matter on calculating the provision in accordance with IAS 37 and assessed compliance with the requirements of IAS 37 regarding the calculation of the provision. We also compared the Plan approved by the Ontario Superior Court with the Company's understanding to test the consistency:

- Evaluating the internal controls related to calculating the provision, including understanding of the Plan and developing JTI-Mac's business plan;

- Evaluating the reasonableness of the expected market size of the tobacco business in Canada, which is one of the significant assumptions in the calculation of Annual Payments, with testing the consistency with the market forecasts published by analysts and analyzing the historical sales results of JTI-Mac;

- Evaluating the reasonableness of the expected JTI-Mac's market share in the Canadian tobacco market, which is one of the significant assumptions in the calculation of Annual Payments, with assessing the level of uncertainty and existence of management bias and comparing actual results of JTI-Mac's market share to management's historical forecasts as well as expected market share;

- Evaluating the realizability of the sales strategies including the pricing per the product category, with testing the consistency with business plan approved by JTI-Mac's Board of Directors and evaluating the feasibility of the pricing effect by comparing it with the historical result of the pricing;

- Analyzing historical market share data, reading market forecasts published by analysts and testing the consistency with JTI-Mac's sales strategy to assess the reasonableness of the assumption on the other two co-defendants' payments that are the basis to determine the period of future payments; and

- Evaluating whether the risks specific to the liability were appropriately reflected to the calculation of the discount rate with the assistance of the valuation specialists in our network firm.

Evaluation of Goodwill Allocated to Tobacco Cash-Generating Unit
Key Audit Matter Description
As described in Note 14 to the consolidated financial statements "Goodwill and Intangible Assets," the Group allocates goodwill generated by business combinations to the tobacco cash-generating unit and the processed food cash-generating unit. The Group has a goodwill balance of ¥2,888,885 million allocated to the tobacco cash-generating unit at the end of this fiscal year, which is mainly as results of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999, Gallaher Group Plc in 2007, Natural American Spirit's non-U.S. tobacco operations in 2016 and Vector Group Ltd. in 2024. In accordance with International Accounting Standard 36 "Impairment of Assets," goodwill is required to be tested for impairment annually or whenever there is an indication that the asset may be impaired. The recoverable amount of the tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Group sets a growth rate from 5.5% in the fourth year to 3.7% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the impairment test, the value in use sufficiently exceeds the carrying amount of the tobacco cash-generating unit, and management believes that the value in use will not fall below the carrying amount even if the growth rate used in calculating the value in use fluctuates within a reasonable range. The balance of goodwill allocated to the tobacco cash-generating unit is material to the consolidated financial statements, and the three-year business plan used in the impairment test, and the underlying assumptions for the growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards. Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of the goodwill allocated to the tobacco cash-generating unit to be a key audit matter.
How the Key Audit Matter Was Addressed in the Audit
In response to this key audit matter, we performed the following procedures for the impairment test of goodwill allocated to the tobacco cash-generating unit: • In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we performed the following audit procedures:

- ✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared;
- ✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and
- ✓ Inquiring of management on the background and rationality of data used by management to determine the growth rates after the current three-year business plan, as well as testing the growth rates based on available external information, with the assistance of the valuation specialists in our network firm.

- We discussed with management regarding the results of the impairment test of goodwill allocated to the tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

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 IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS Accounting Standards as issued by the IASB and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRS Accounting Standards as issued by the IASB, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2024, which were charged by us and our network firms to Japan Tobacco Inc. and its subsidiaries were ¥1,894 million and ¥1,808 million, respectively.

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

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

Deloitte Touche Tohmatsu LLC

March 26, 2025

Deloitte.

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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, 2024, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 40th fiscal year from January 1, 2024 to December 31, 2024, 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, 2024, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matter

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

Evaluation of Shares of Subsidiaries
Key Audit Matter Description
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 ¥1,508,834 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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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 5.5% in the fourth year to 3.7% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the consideration, the Company concluded that it was not necessary to recognize an impairment on JT International Holding B.V. shares. 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.
How the Key Audit Matter Was Addressed in the Audit
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. • 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, 2024.

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 26, 2025