

# Risk factors

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

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

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

The risks enumerated below are not all-inclusive. Other risks exist that could affect our operations and/or financial results. This following discussion of risk factors should be read together with "FORWARD-LOOKING STATEMENTS" on P.149.

Risk factors	Risk description	Potential impact(s)	Main measures to address risk
<b>1 Large or repeated tax increases</b>	Tobacco products are subject to tobacco taxes or other similar taxes in addition to sales tax or VAT. Some countries have been raising tobacco taxes or discussing tax increases from a fiscal and/or public health standpoint. Additionally, VAT rates generally tend to increase over time. Our policy with respect to tax increases is to raise prices to pass on the tax increase to consumers*, taking into account not only the tax increase's magnitude but also the price elasticity of demand for tobacco products. We also endeavor to minimize tax increases' impact on our operations through measures to drive top-line growth and improve cost efficiency. Most governments have adopted a reasonable approach to taxation, recognizing that large or repeated tax increases may end up reducing tax revenues. In some instances, however, past tax increases have materially affected our business in certain markets.	Large or repeated increases in taxes on tobacco products tend to lead to reduced consumption of, and/or increased illicit trade in, tobacco products. They may also induce consumers* to switch to lower-priced products. Consequently, they may result in reductions in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> <li>Promote understanding among relevant authorities that large or repeated tax increases may have counterproductive consequences, such as growth in illicit trade and decreased tax revenue due to reduced demand</li> <li>Optimize product portfolio for adaptability to changes in consumers* preferences and behavior</li> <li>Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets</li> <li>Further improve cost efficiency to ensure adequate profitability</li> <li>Set prices appropriately to minimize tax increase impact in affected markets</li> </ul>
<b>2 Growth in illicit trade</b>	Illicit trade is a problem for not only the tobacco industry but also society as a whole. It harms the tobacco industry by diverting demand from law-abiding businesses. Its potential societal harms include reduction in government tax revenues, increased organized crime, and adverse health consequences due to poor production quality or inadequate post-production quality controls. Together with the rest of the tobacco industry, we continue to endeavor to eradicate illicit trade, particularly cigarette smuggling and counterfeiting. Illicit trade tends to grow following large or repeated tax increases. Additionally, regulations on cigarette ingredients and packaging may facilitate illicit trade by making cigarettes easier to counterfeit and illegitimate products harder to detect.	Growth in illicit trade results in decreased demand for legitimate products and may lead to reductions in our unit sales, revenue and/or profits. Costs incurred to combat illicit trade may also weigh on profits. Additionally, circulation of counterfeit products may undermine trust in legitimate products and, in turn, impair the value of both the brand and brand owner for a number of reasons, including the low quality of counterfeit products.	<ul style="list-style-type: none"> <li>Take action to eradicate illicit trade in cooperation with governments, regulatory authorities and law enforcement agencies</li> <li>Operate a track-and-trace system for tobacco products and analyze the movement of products through the supply chain</li> <li>Do business only with reputable parties in accord with stringent compliance policies</li> <li>Educate consumers* on negative consequences of purchasing illegitimate products</li> </ul> <p>▶ For more details on activities to eradicate illicit trade, please see <a href="#">Tackling illegal trade</a> for more details.</p>
<b>3 Tightening of tobacco regulations</b>	The tobacco industry is subject to many regulations, most notably on sales promotion activities (including advertising). Regulatory developments may affect our operations and/or financial results. Such regulations can also lead to growth in illicit trade to the potential detriment of our law-abiding, above-board businesses. Additionally, if stricter regulations are imposed on communications with consumers*, they may preclude effective sales promotion activities and, in turn, adversely affect top-line growth. As a responsible company, we comply with the laws and regulations of every market in which we operate. We believe laws and regulations should rightfully differ from one country to another as a reflection of countries' respective legal systems, cultures and social conditions.	Imposition of stricter regulations on sales promotion activities may undermine top-line growth strategies' effectiveness by depriving us of opportunities to grow brand equity. It can also cause us to incur additional regulatory compliance costs under certain circumstances. Our unit sales, revenue and/or profits may decrease as a result of such impacts.	<ul style="list-style-type: none"> <li>Expediently collect accurate information to learn of regulatory developments</li> <li>Pursue constructive dialogue with governments and regulatory authorities to encourage reasonable, unbiased regulation that fulfills its intended objective</li> </ul> <p>▶ Please see Regulation and key laws (P. 132) for more details.</p>
<b>4 Competition</b>	Our tobacco business is engaged in fierce competition with competitors. In the tobacco business, we have been expanding our operations through not only organic growth but also M&A, including acquisitions of RJR Nabisco Inc.'s non-U.S. tobacco business and Gallaher Group Plc. As a result of such acquisitions, we compete with both global tobacco companies and local players with strong footholds in their respective markets. Market shares fluctuate in response to various factors, including regulatory changes, shifts in consumer* preferences/behavior, and local economic conditions. Market shares are also prone to short-term fluctuations in response to one-off events such as competitors' new product launches and accompanying sales promotion campaigns.	Market share fluctuations may affect our financial results. Additionally, markets in which we operate sometimes become embroiled in price competition due to events such as a brand repositioning or a price cut in pursuit of market share gains. Such price competition may negatively impact our profit margins in individual markets.	<ul style="list-style-type: none"> <li>Optimize product portfolio by offering products that meet consumer* needs and changing preferences/behavior, and by achieving strong brand positioning in every price segment</li> <li>Strengthen sales capabilities and conduct effective sales promotions</li> <li>Further improve cost efficiency to ensure profitability</li> <li>Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets</li> </ul>
<b>5 Country risk</b>	To realize long-term growth, we have continued to expand our earnings foundation through M&A, entry into new markets and organic growth in existing markets, mainly in our tobacco business. Such geographic expansion has been accompanied by increased exposure to country risk. If political, economic or social turmoil were to occur in a market in which we operate, our operations and/or financial results may be affected. With the extension and increasingly complex effects of the Russia-Ukraine war, the Company has been operating in the Russian market in strict compliance with all sanctions and regulations imposed nationally and internationally. Since the challenges of operating in Russia at this time are unprecedented, the Company is unable to reasonably estimate the outlook and the impact on financial results as of the issued date of Integrated Report 2023.	Political instability, economic recession, social unrest or other such events could disrupt our operations in the market in question. The disruption includes interruption in supply chains or distribution, damage to assets or facilities, or difficulties in staffing and sales management. This may lead to a decrease in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> <li>Collect and monitor information related to country risk in markets in which we operate to maintain stable operations</li> <li>Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets</li> </ul>

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

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<b>6 Currency risk</b>	<p>Our operations' global scope exposes us to currency risk.</p> <p>While we prepare our consolidated financial statements in Japanese yen, our overseas subsidiaries prepare their financial statements in various other currencies, including the Russian ruble, Euro, British pound, Taiwanese dollar, US dollar and Swiss franc. Changes in such foreign currencies' exchange values against the yen affect our reported earnings. Additionally, in our international tobacco business, JT International Holding B.V. consolidates its foreign subsidiaries' financial statements into financial statements presented in US dollars. Its financial statement data are affected by changes in exchange rates between the US dollar and other local currencies used by those foreign subsidiaries. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We hedge this risk with foreign currency debt, a portion of which is designated as net-investment hedges. Additionally, gains or losses on the sale or liquidation of subsidiaries that were acquired in a transaction denominated in a non-yen currency and impairment losses recognized against such subsidiaries are affected by changes in the acquisition currency's exchange value against the yen between the acquisition date and the date of the sale, liquidation or impairment.</p>	<p>Our consolidated financial results are affected by changes in other currencies' exchange value against the yen. The international tobacco business's financial results, the reporting currency for which is the US dollar, are affected by changes in other currencies' exchange rate against the US dollar. Subsidiaries' transactions in currencies other than their respective reporting currencies are also subject to currency risk.</p>	<ul style="list-style-type: none"> <li>Formulate foreign exchange hedging policies that comprehensively take into account prevailing foreign exchange market conditions, among other factors, and mitigate currency risk by hedging with foreign currency debt or other suitable instruments in accordance with said policies</li> </ul>
<b>7 Unfavorable litigation developments</b>	<p>Some of JT's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or E-Vapor products or exposure to tobacco smoke. There are lawsuits involving smoking/vaping and health-related cases pending in which some of JT's subsidiaries are named as defendants or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s non-U.S. tobacco business.</p> <p>In addition, JT and/or some of its subsidiaries are also defendants in lawsuits other than the smoking/vaping and health-related cases and may face further lawsuits in the future.</p>	<p>To date, the JT Group has never lost a case or paid any settlement award in connection with smoking/vaping and health-related litigation. However, the Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the JT Group and payment of a substantial amount of monetary compensation could materially affect its financial performance.</p> <p>Moreover, critical media coverage of these lawsuits may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance.</p> <p>Apart from smoking/vaping and health-related ones, the JT Group also may become a defendant in further litigation. Should any problems arise on the Group's product quality, this may lead to claims seeking product liability. Such litigation cases may negatively affect the Group's business performance or the manufacture, sale and import and export of its products, should the outcome of any such claims prove unfavorable.</p>	<ul style="list-style-type: none"> <li>Apply a system in order to deeply cooperate internally and externally, quickly understand the information regarding the case and share information with management and relevant departments</li> <li>Coordinate with experienced external counsel if necessary and respond to litigation cases pertaining to the JT Group in a timely and appropriate manner</li> </ul> <p>▶ Please see Litigation (P. 135) for more details.</p>
<b>8 Natural disasters and other contingency situations</b>	<p>Our financial results could be adversely affected by earthquakes, tsunamis, typhoons, floods, other natural disasters and pandemic consequences, potentially including employee casualties, supply shortages due to damage to suppliers' facilities, disruptions in transportation, distribution services and/or sales channels, power outages, water service interruptions, and reduced demand for our products.</p> <p>To minimize natural disasters' impact on our operations, we have adopted a Business Continuity Plan, the scope of which includes global supply chain optimization.</p>	<p>Natural disasters could disrupt not only our own operations but also any of our value chain partners' operations. Such disruptions could adversely affect our financial results.</p>	<ul style="list-style-type: none"> <li>Routinely gather and relay information related to crisis management on ongoing basis</li> <li>Insure key assets with casualty insurance as appropriate</li> <li>Periodically review business continuity plans and revise them as warranted</li> <li>Conduct initiatives such as disaster preparedness drills and foster disaster preparedness mindset among employees</li> </ul>
<b>9 Climate change</b>	<p>Climate change associated with global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change and biodiversity loss. Such impacts' potential consequences include supply chain disruptions and changes in the environments in which tobacco leaf and/or other agricultural commodities we use in our products are grown or raised. Such consequences may adversely affect our products and/or financial results through deterioration in these inputs' quality and/or increases in their prices/sourcing costs.</p> <p>Additionally, if a carbon tax is imposed on energy derived from fossil fuels in conjunction with the transition to a decarbonized society to mitigate climate change's impacts, our profits may be reduced by increased operating expenses.</p>	<p>Climate change could adversely affect our operations and/or value chains and, in turn, our financial results. Additionally, our financial results could be adversely affected by increases in operating expenses stemming from the transition to a decarbonized society.</p>	<ul style="list-style-type: none"> <li>Conduct climate scenario analysis in accord with TCFD recommendations and develop the capability to more accurately ascertain climate change's potential impacts on our operations and take appropriate action to mitigate them</li> <li>Strive to reduce Greenhouse Gas (GHG) emissions to Net-Zero across our value chain to mitigate climate change's impacts</li> <li>Implement the measures in Section 8 above to address risks posed by natural disasters and other contingencies, which may be exacerbated by climate change</li> </ul> <p>▶ Please see Improving our environmental impact (P. 44) for more details.</p>