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Company name (Japanese):	日本たばこ産業株式会社 (Nihon Tabako Sangyo Kabushiki-Kaisha)
Company name (English):	JAPAN TOBACCO INC.
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A. Company Information

I. Overview of the Group

1. Trends in Principal Management Benchmarks

(1) Management Benchmarks (Consolidated)

Term	International Financial Reporting Standards				
	33rd term	34th term	35th term	36th term	37th term
Accounting period	From January 1, 2017 to December 31, 2017	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019	From January 1, 2020 to December 31, 2020	From January 1, 2021 to December 31, 2021
Revenue (Millions of yen)	2,139,653	2,215,962	2,175,626	2,092,561	2,324,838
Profit before income taxes (Millions of yen)	538,532	531,486	465,232	420,063	472,390
Profit for the year (Millions of yen)	396,749	387,431	361,622	312,029	340,181
Profit attributable to owners of the parent company (Millions of yen)	392,409	385,677	348,190	310,253	338,490
Comprehensive income (loss) for the year (Millions of yen)	554,198	129,302	365,816	132,883	540,258
Total equity (Millions of yen)	2,842,027	2,700,445	2,743,611	2,599,495	2,886,081
Total assets (Millions of yen)	5,221,484	5,461,400	5,553,071	5,381,382	5,774,209
Equity attributable to owners of the parent company per share (Yen)	1,541.94	1,468.44	1,501.12	1,421.92	1,583.10
Basic earnings per share (Yen)	219.10	215.31	195.97	174.88	190.76
Diluted earnings per share (Yen)	218.97	215.20	195.87	174.80	190.68
Ratio of equity attributable to owners of the parent company to total assets (%)	52.89	48.17	47.95	46.88	48.65
Ratio of profit to equity attributable to owners of the parent company (%)	15.04	14.30	13.16	11.97	12.70
Price earnings ratio (PER) (Times)	16.57	12.15	12.41	12.02	12.17
Net cash flows from operating activities (Millions of yen)	419,212	461,389	540,410	519,833	598,909
Net cash flows from investing activities (Millions of yen)	(352,632)	(383,307)	(123,571)	5,354	(97,499)
Net cash flows from financing activities (Millions of yen)	(77,032)	(62,360)	(333,832)	(297,404)	(353,138)
Cash and cash equivalents at the end of the year (Millions of yen)	285,486	282,063	357,158	538,844	721,731
Number of employees [Separately, average number of temporary employees] (Person)	57,963 [6,744]	63,968 [6,618]	61,975 [7,116]	58,300 [6,681]	55,381 [6,942]

Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter, “IFRS”).
2. The yen amounts are rounded to the nearest million.
3. Revenue does not include consumption taxes.

(2) Filing Company's Management Benchmarks (Non-consolidated)

Term	33rd term	34th term	35th term	36th term	37th term
Accounting period	From January 1, 2017 to December 31, 2017	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019	From January 1, 2020 to December 31, 2020	From January 1, 2021 to December 31, 2021
Net sales (Millions of yen)	681,840	696,250	660,805	596,887	592,220
Ordinary income (Millions of yen)	199,336	190,343	278,968	240,491	278,809
Net income (Millions of yen)	160,120	164,595	262,469	241,752	216,896
Share capital (Millions of yen)	100,000	100,000	100,000	100,000	100,000
Total number of shares issued (Thousands of shares)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Net assets (Millions of yen)	1,592,966	1,493,562	1,417,365	1,390,011	1,344,696
Total assets (Millions of yen)	2,885,760	2,670,883	2,614,357	2,597,930	2,487,979
Net assets per share (Yen)	888.31	832.87	798.18	782.73	757.10
Cash dividends per share (Yen) [Interim dividends per share] (Yen)	140 [70]	150 [75]	154 [77]	154 [77]	140 [65]
Net income per share (Yen)	89.40	91.89	147.72	136.27	122.23
Diluted net income per share (Yen)	89.35	91.84	147.65	136.21	122.18
Equity ratio (%)	55.1	55.9	54.2	53.5	54.0
Return on equity (ROE) (%)	9.84	10.68	18.05	17.24	15.88
Price earnings ratio (PER) (Times)	43.00	28.48	16.47	15.43	19.00
Dividend payout ratio (%)	156.6	163.2	104.3	113.0	114.5
Number of employees [Separately, average number of temporary employees] (Person)	7,336 [1,222]	7,457 [1,225]	7,464 [1,221]	7,366 [1,183]	7,154 [1,174]
Total shareholder return (%) [Comparative indicator: Dividend-included TOPIX] (%)	98.1 [122.2]	75.6 [102.7]	74.8 [121.3]	70.2 [130.3]	79.6 [146.9]
Highest share price (Yen)	4,243.0	3,708.0	2,899.0	2,437.5	2,417.0
Lowest share price (Yen)	3,607.0	2,481.0	2,179.0	1,796.5	1,898.0

Notes: 1. The financial statements of the filing company are prepared in accordance with Japanese GAAP.
2. The yen amounts are rounded to the nearest million.
3. Net sales do not include consumption taxes.
4. The yearly highest and lowest share prices were those recorded on the First Section of the Tokyo Stock Exchange.
5. The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the 35th term, and the principal management benchmarks for the 34th term represent those after this accounting standard, etc. was applied retrospectively.

2. History

(1) Background of the Company's Transition to Stock Company

Before it became a stock company, Japan Tobacco Inc. (hereinafter, "the Company") was formerly Japan Tobacco and Salt Public Corporation, or JTS. JTS was established on June 1, 1949 with the "Aim to bring soundness and efficiency to the operation of the national government monopolies." JTS, serving as the main body for conducting operations of the tobacco monopoly system and other government monopolies, contributed to establishing stable supply of tobacco and securing tobacco-derived financial revenues.

However, the growth in demand for cigarettes in Japan began to slow in the mid-1970s as the result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the Japanese domestic tobacco market was virtually opened to foreign tobacco suppliers, triggering competition between domestic and foreign tobacco products in Japan, and foreign countries stepped up pressure on Japan to take further market-opening measures, which were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of government-run public corporations, Ad Hoc Commission on Administrative Reform was established in March 1981 to conduct research on the public corporation system. In its third report (July 30, 1982), the commission proposed drastic reform of the monopoly system and the public corporation system.

In response to this proposal, the government conducted a comprehensive review of these systems and drafted bills to:

- Abolish the tobacco monopoly law in order to liberalize tobacco imports and establish a tobacco business law in order to make necessary adjustments related to the tobacco business.
- Abolish the JTS law, reorganize JTS as stock company so as to enable it to pursue rational corporate management as much as possible and establish the Act on Japan Tobacco Inc., which provides for a necessary minimum level of regulation in light of the corporation's need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports.

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year.

(2) Status of the Company After Its Incorporation

The Company was incorporated on April 1, 1985, pursuant to the Act on Japan Tobacco Inc. (Act No. 69 of August 10, 1984; hereinafter, the "JT Act"), and all of the start-up capital was provided by the Japan Tobacco and Salt Public Corporation, or JTS. When incorporated, the Company succeeded all the rights and obligations of JTS.

The main changes since the incorporation of the Company are as follows:

Date	Details of change
April 1985	Japan Tobacco Inc. was incorporated.
April 1985	The Business Development Division was established to promote active development of new businesses. Subsequently until July 1990, in order to reinforce the promotion system for each business, this division was transformed into business departments such as pharmaceutical, food, etc.
March 1986	Fukuoka and Tosu Factories were closed and Kitakyushu Factory was built to modernize and streamline tobacco production. By June 1996, nine more tobacco factories were closed down to further streamline the tobacco production system.
October 1988	The communication name "JT" was introduced.
July 1991	The Head Office was relocated from 2-1, Toranomon 2-chome, Minato-ku, Tokyo, to 12-62, Higashi-Shinagawa 4-chome, Shinagawa-ku, Tokyo to make way for the construction of the new Head Office building (now the former JT head office building)
September 1993	The Central Pharmaceutical Research Institute was established to reinforce the internal pharmaceutical research and development capabilities.
October 1994	The initial public offering of the Company shares held by the Japanese government. (394,276 shares) The Company shares were listed on the First Section of the Tokyo, Osaka and Nagoya Stock Exchanges.
November 1994	The Company shares were listed on the Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo Stock Exchanges.
May 1995	The Head Office was relocated from 12-62, Higashi-Shinagawa 4-chome, Shinagawa-ku, Tokyo to 2-1, Toranomon 2-chome, Minato-ku, Tokyo
June 1996	The second public offering of the Company shares held by the Japanese government. (272,390 shares)
April 1997	In accordance with the abolition of the salt monopoly, the Company ended its salt monopoly business. The Tobacco Mutual Aid Pension scheme was united with the Employees' Pension scheme.
April 1998	The Company signed an agreement with Unimat Corporation to form a business alliance in the soft drinks business and acquired a majority stake in the company.
December 1998	The Company acquired a majority stake in Torii Pharmaceutical Co., Ltd. through a tender offer.
May 1999	The Company acquired the non-US tobacco operations of RJR Nabisco Inc.
July 1999	The Company acquired the food business of Asahi Kasei Corporation, including eight subsidiaries such as Asahi Foods Corporation.
October 1999	Through the business alliance with Torii Pharmaceutical Co., Ltd., research and development functions in the prescription drug business were concentrated in the Company while promotion functions were united within Torii Pharmaceutical.
March 2003	In order to establish a basis for future profit growth in the Domestic Tobacco Business, Sendai, Nagoya and Hashimoto Factories were closed down.
March 2004	In order to establish a basis for future profit growth in the Domestic Tobacco Business, Hiroshima, Fuchu, Matsuyama and Naha Factories were closed down.
June 2004	The third public offering of the Company shares held by the Japanese government. (289,334 shares)
March 2005	In order to establish a basis for future profit growth in the Domestic Tobacco Business, Ueda, Hakodate, Takasaki, Takamatsu, Tokushima, Usuki, Kagoshima and Miyakonojo Factories were closed down.
April 2005	The Company ceased to produce, sell and use Marlboro brand cigarette exclusively in Japan upon the expiration of the exclusive license agreement.
April 2007	The Company acquired shares issued of the Gallaher Group Plc of the United Kingdom through an acquisition method under English act known as a scheme of arrangement.
January 2008	The Company acquired the shares of Katokichi Co., Ltd. through a tender offer
March 2009	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Kanazawa Factory was closed down.
March 2010	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Morioka and Yonago Factories were closed down.
March 2011	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Odawara Factory was closed down.
March 2012	In order to restructure the Domestic Tobacco Business in ways to make it more competitive, Hofu Factory was closed down.
February 2013	The Mild Seven brand was renewed as "Mevius" in Japan.
March 2013	The fourth public offering of the Company shares held by the Japanese government. (253,261,800 shares)
March 2015	In order to further strengthen the competitiveness of Domestic Tobacco Business, Koriyama, Hamamatsu and Okayama Printing Factories were closed down.

Date		Details of change
July	2015	The Company transferred shares the Company held in Japan Beverage Holdings Inc., JT A-Star Co., Ltd. and others, and JT beverage brands "Roots" and "Momono Tennensui." Subsequently, the Company withdrew from manufacture and sale of JT beverage products in September 2015 and the Beverage Business Division was closed down in December 2015.
March	2016	In order to further strengthen the competitiveness of Domestic Tobacco Business, Hiratsuka factory was closed down.
June	2018	The Company began selling heated tobacco products nationwide.
October	2020	The Head Office was relocated from 2-1, Toranomon 2-chome, Minato-ku, Tokyo to 1-1, Toranomon 4-chome, Minato-ku, Tokyo

Note: The stock split at a ratio of five to one was conducted as of April 1, 2006 and the stock split at a ratio of 200 to one was conducted as of July 1, 2012.

3. Business Description

The Group's management principle is based on the pursuit of the 4S model. The model requires the Group to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

The Group created its vision and mission based on the 4S model. The vision is to continue to be a growing global company by providing diversified value that is uniquely available from the JT Group. The mission is to create, develop and nurture the Group's unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

The Group has also adopted The JT Group WAY as a code of conduct which all members of the Group should follow. The JT Group WAY requires that the Group fulfills the expectations of the Group's consumers and behaves responsibly, strives for quality in everything we do through continuous improvement, and leverages diversity across the Group.

The Group, consisting of the Company, its 235 consolidated subsidiaries and 13 companies accounted for by the equity method, is a global company operating the Domestic and International Tobacco Businesses, Pharmaceutical Business and Processed Food Business. The main business activities operated by the Group and the relationship of each affiliate to the Group's business activities are stated below.

The following four segments are the same as the segmentation of reportable segments in "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 6. Operating Segments, (1) Outline of Reportable Segments." As previously announced on February 9, 2021, in order to strengthen our responses to changes in the business environment and to aim for sustainable growth, next consolidated fiscal year the Group will unify the two reportable segments of "Domestic Tobacco Business" and "International Tobacco Business," and name the resulting reportable segment "Tobacco Business."

Domestic Tobacco Business

The Domestic Tobacco Business consists of the manufacture and sale of tobacco products. The Company manufactures and sells tobacco products, and TS Network Co., Ltd. conducts distribution-related operations such as distribution of the Company's tobacco products and wholesale of foreign tobacco products (imported tobacco products). Japan Filter Technology Co., Ltd. and other subsidiaries manufacture materials. Moreover, some of the operations related to Natural American Spirit products are carried out by TRUE SPIRIT TOBACCO COMPANY.

Major subsidiaries and affiliates

TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology Co., Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc., TRUE SPIRIT TOBACCO COMPANY

Besides the companies named above, there are 7 consolidated subsidiaries and 1 company accounted for by the equity method.

International Tobacco Business

The International Tobacco Business consists of the manufacture and sale of tobacco products with JT International S.A. as the core company.

Major subsidiaries and affiliates

JT International S.A., LLC JTI Russia, Gallaher Ltd., LLC Petro, JT International Germany GmbH, JTI Polska Sp. z o. o., JTI Tütün Ürünleri Sanayi A.Ş.

Besides the companies named above, there are 162 consolidated subsidiaries and 8 companies accounted for by the equity method.

Pharmaceutical Business

The Pharmaceutical Business consists of research and development, manufacture, sale and promotion of prescription drugs. The Company concentrates on research and development while Torii Pharmaceutical Co., Ltd. manufactures, sells and promotes drugs (including the Company's products).

Major subsidiaries and affiliates

Torii Pharmaceutical Co., Ltd., Akros Pharma Inc.

Processed Food Business

In the Processed Food Business, TableMark Co., Ltd. and certain other subsidiaries are engaged in manufacture and sale of frozen and ambient foods, seasonings and bakery products.

Major subsidiaries and affiliates

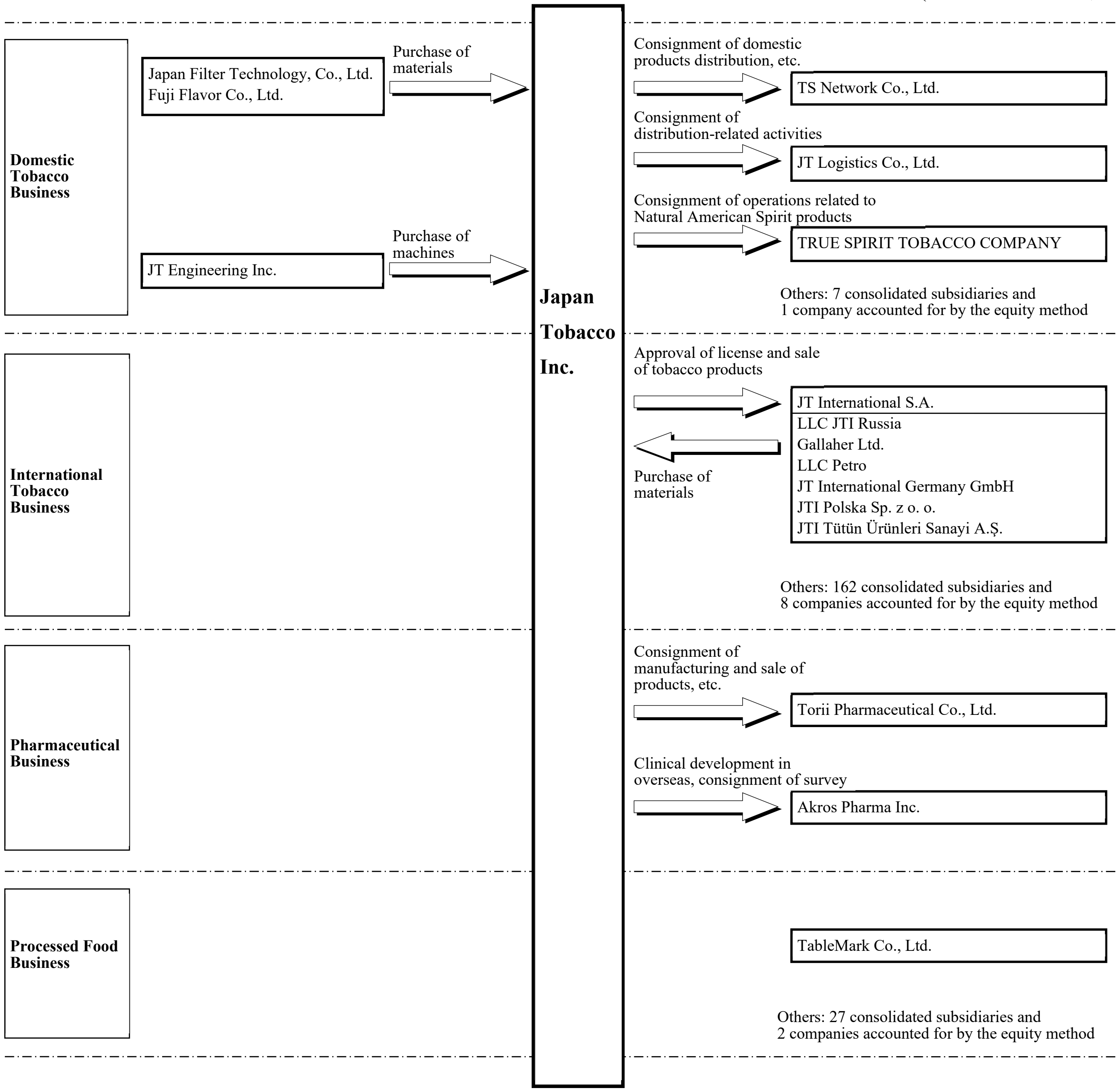
TableMark Co., Ltd.

Besides the companies named above, there are 27 consolidated subsidiaries and 2 companies accounted for by the equity method.

In addition to the reportable segments mentioned above, the Group runs businesses including business relating to the rent of real estate. There are 23 consolidated subsidiaries and 2 companies accounted for by equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

The following business activities diagram shows the matters described above.

(As of December 31, 2021)



* In addition to the reportable segments mentioned above, the Group runs businesses including business relating to the rent of real estate. There are 23 consolidated subsidiaries and 2 companies accounted for by equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

An overview of each of the fields of research and development, procurement, manufacturing and sales in each business is as follows.

Tobacco Business

The Group's tobacco business has the third largest sales volume in the world (excluding China National Tobacco Corporation), operates in at least 70 countries and territories, and sells products in at least 130 countries and territories. The Group's portfolio includes 3 of the top 10 selling global brands.

<Research and development>

The Group is committed to strengthening its R&D capabilities to ensure a long-term competitive advantage. The focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leafs and their processing, enhancement of aroma and taste, upgrading manufacturing technology, and continuous progress on RRP(Note)-related technologies. The Group has been striving to add value to the products in these focus areas in a cost efficient manner. It has established a global research platform in Japan, which focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, the market teams are continuously engaged in the product development.

Note: Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as heated tobacco products and E-Vapor products.

<Procurement of tobacco leaves>

The supply of tobacco leaves, raw materials used in manufacturing tobacco products is affected by a variety of factors, such as climate conditions, agricultural product prices, and energy costs. As a result of an increase in costs, the supply of tobacco leaves has been unstable, leading to the fluctuations in tobacco leaf prices. Given these circumstances, the Group has been striving to secure a stable supply and ensure competitive leaf purchase prices. This will be achieved through further vertical integration and strengthening of the relationships with the leaf suppliers.

<Manufacturing>

The Group has a global manufacturing footprint in order to manufacture quality tobacco products that secure consumers' reliability trust. The Group operates 6 factories in Japan (4 tobacco manufacturing and 2 tobacco-related factories), and 33 factories in 28 other countries (including tobacco-related factories). In a limited number of cases, the Group also partners with competing manufacturers under contracts and/or license agreements to manufacture the Group's products.

<Marketing>

To enhance brand loyalty, the Group is conducting extensive and effective marketing activities in accordance to the various regulations and standards.

Globally, the marketing activities are focused on Global Flagship Brands (hereinafter, "GFB")(Note), while complementing the brand portfolio by promoting local brands as well. In RRP, the Group is also developing the Ploom, Logic and other brands.

Note: GFB consists of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS and LD.

- Retail prices

In setting a retail price for a product, the Group considers various factors, including positioning of the brand, perceived value of the product, retail price of competing products, and the margin. In addition, there are regulations that influence the price-setting decisions. For example, some countries adopt a fixed retail price requirement, and forms of excise taxation on tobacco products (specific and/or ad valorem) differ among the countries. Retail price changes most often occur in case of tax increase. Globally, governments increase taxes to secure tax revenues and promote public health.

<Sales (distribution)>

To ensure that the products are delivered to consumers, the Group makes sure to use optimal distribution networks for each market complying with the restrictions and in accordance with established local business practices, and other factors. The distribution networks of the Group can be independent distribution networks or local agencies and distributors.

There are various sales channels for tobacco products; chain stores such as convenience stores, gas stations and supermarkets, small independent retailers and vending machines. The contribution of each channel to the total industry sales varies from market to market. Accordingly, the Group develops different trade marketing initiatives for each market, depending on the focus channels as well as consumer trend and competitors' strategies.

Pharmaceutical Business

The Group commenced the Pharmaceutical Business in 1987. The Group's mission is to build world-class, unique R&D capabilities and reinforce its market presence through innovative drugs. The Pharmaceutical Business is currently focusing on the development, manufacture, and sales and promotion of prescription drugs.

In December 1998, the Company acquired a majority of the outstanding shares in Torii Pharmaceutical Co., Ltd. (hereinafter, "Torii Pharmaceutical"). After the acquisition, all manufacture, sales and promotion functions were integrated under Torii Pharmaceutical, while all R&D functions were grouped under the Company.

In April 2000, the Company established an R&D base outside Japan by adding a clinical development function to Akros Pharma Inc., a Group company based in the state of New Jersey, United States.

In order to make stable profit contribution, the Group is maximizing the value of each product, enhancing the R&D pipeline, exploring opportunities for strategic in- or out-licensing and strengthening collaboration with license partners.

<Research and development>

R&D activities are the foundation of the Group's Pharmaceutical Business and are critical for its long-term growth and profitability. These R&D activities focus mainly on the fields of circulatory organs, kidneys, and metabolism, immune disorders and inflammation, and brain centers. In the fiscal year ended December 31, 2021, the Group invested ¥29.0 billion in these activities.

- R&D process

The Central Pharmaceutical Research Institute is responsible for discovery research, drug development, and pre-clinical trial research. The Company's pharmaceutical development division and the Group company Akros Pharma Inc. undertake clinical trials and handle the application process to receive certification for any new drugs. Concerning compounds out-licensed for development and commercialization outside Japan, the licensees implement the subsequent processes.

<Manufacturing>

Because the manufacture of the Group's pharmaceutical products at Group factories was discontinued in 2020, all pharmaceutical product manufacturing processes are now outsourced.

<Sales and promotion>

- Sales and promotion outside Japan

At present, the Group does not have its own sales organization for pharmaceutical products outside Japan. The Group out-licenses the right to develop and commercialize outside Japan for certain compounds in the development stage and receives royalties from the partners linked to their sales performance.

- Sales and promotion in Japan

Torii Pharmaceutical is mainly responsible for sales of the Group's pharmaceutical products to pharmaceutical wholesalers and promotion to medical facilities. Promotional activities are conducted by 306 medical representatives (MRs) stationed at Torii Pharmaceutical's 7 regional sales headquarters across Japan.

CORECTIM® Ointment for treatment of atopic dermatitis, Riona® Tablets, a hyperphosphatemia treatment, REMITCH®, a drug for treating pruritus in dialysis patients, CEDARCURE® Japanese Cedar Pollen Sublingual Tablets, and MITICURE® House Dust Mite Sublingual Tablets are the main products.

Processed Food Business

The Group started its Processed Food Business in 1998. Since then, the Group has been expanding the business through organic growth as well as business investments in the form of M&As and strategic partnerships.

In 2008, the Group acquired Katokichi Co., Ltd., a major frozen food manufacturing company in Japan, through a tender offer. The Group's processed food operations were transferred over to Katokichi Co., Ltd. as part of the integration. In 2010, Katokichi Co., Ltd. changed its corporate name to TableMark Co., Ltd. to pursue synergies and foster a sense of unity within the group.

At the end of the current fiscal year, this business is operated by TableMark Co., Ltd., Fuji Foods Corporation, Saint-Germain Co., Ltd., and other Group companies. TableMark Co., Ltd., which operates mainly in Japan, handles the frozen and ambient foods business, mainly frozen udon noodles, packaged cooked rice and frozen okonomiyaki (Japanese savory pancakes). Fuji Foods Corporation handles the seasonings business, which focuses on seasonings including yeast, kelp and bonito extracts, combination seasonings and processed seasonings for direct consumer consumption such as oyster sauce, and Saint-Germain Co., Ltd. operates the bakery business through bakery chain outlets in the Tokyo metropolitan area.

Major Group products include "Reito-Sanuki-Udon" (frozen noodles), "Takitate-Gohan" (packaged cooked rice), and the "Vertex" (yeast extract seasonings) in particular.

<Research and development>

The Group devotes its efforts to the development of innovative products that meet consumers' needs and preferences. In order to meet the diversifying needs of consumers, the Group works to develop value-added products using its original techniques.
Specifically, the Group has used its original techniques for fermentation, baking, and freezing to recreate and preserve the taste and texture of fresh bread, and developed frozen bread products which allow consumers to simply enjoy the taste of freshly baked bread at home. In addition, in the area of frozen noodles the Group developed a new production method, the "Tannen-jikomi" weaving and maturing process. This enabled the Group to realize udon noodle products with higher quality and higher added value.

<Procurement>

The first step to produce safe foods is to procure safe and high-quality raw materials. For the procurement, the Group reviews quality assurance certificates submitted by its suppliers. The Group also carries out monitoring inspections to check agrochemical residues as well as conducts regular inspections at processing factories to ensure compliance with the Group's internal standards, in addition to the Food Sanitation Act and other relevant laws.

Furthermore, the Group examines the safety of production sites for raw materials which are procured from overseas. Concerning agricultural farms, the Group checks not only soil and water, but also how products are cultivated and how agrochemicals are handled. Breeding farms and fish farms are also inspected.

<Manufacturing>

The Group operates 19 factories in Japan and 9 outside Japan. The Group outsources manufacturing of some processed foods to domestic and international contract manufacturers. Excluding one factory(Note) that began operations in fiscal 2020, all of the Group factories inside and outside Japan, as well as the factories of the Group's business partners, that produce frozen foods, have achieved ISO 22000 or FSSC 22000 certification. Under the ISO 22000 and FSSC 22000 standards, continuous improvements are made following effective rules to control sanitation and other key issues. These rules are set based on the HACCP concept and their effectiveness is tested using scientific evidence.

Note: This factory is currently progressing toward ISO 22000 and FSSC 22000 certification.

<Marketing>

The Group analyzes the market from consumers' point of view and, by its technology, it has been striving to provide products with new values to expand the market and increase its place there. The Group has been striving for effective marketing in order to improve consumer awareness of its products.

<Sales and distribution>

The Group has been striving to enhance profitability through sales division structure optimization and its initiatives to increase its presence in supermarkets and convenience stores, by offering a wider range of products while also seeking better shelf space.

<Food safety>

To ensure that consumers can continue to enjoy the products safely, the Group has established Quality Control Centers in Tokyo and Qingdao (China), and it not only inspects and monitors the raw materials it uses from the product planning and development stages, but also makes inspections at factories at the time of production and before shipment, and carries out safety management throughout the product manufacturing process. The Group seeks assessment and advice on its initiatives from external food safety experts. The Group reflects the experts' knowledge and viewpoints in its business by actively incorporating them into food safety controls. Details of the food safety activities, including the discussions described in the above "Procurement" and "Manufacturing" sections, are disclosed on the website.

4. Status of Subsidiaries and Affiliates

(As of December 31, 2021)

Name	Location	Capital (Millions of yen)	Principal business	Holding rate of voting rights (%)	Relationship				
					Interlocking of officers		Financial assistance	Business relationship	Facility leasing
					Officer of the Company	Employee of the Company			
(Consolidated subsidiaries) 235 companies TS Network Co., Ltd. *1	Taito-ku, Tokyo	460	Domestic tobacco	85.3	No	Yes	No	Consignment of tobacco products distribution	Yes
JT Logistics Co., Ltd.	Chuo-ku, Tokyo	207	Domestic tobacco	100.0	No	Yes	No	Consignment of tobacco products and raw materials distribution	Yes
Japan Filter Technology, Co., Ltd. *1	Sumida-ku, Tokyo	461	Domestic tobacco	100.0	No	Yes	No	Purchase of filter for tobacco products	Yes
Fuji Flavor Co., Ltd.	Hamura-shi, Tokyo	196	Domestic tobacco	100.0	No	Yes	No	Purchase of flavors for tobacco products	No
JT Engineering Inc.	Sumida-ku, Tokyo	200	Domestic tobacco	100.0	No	Yes	No	Purchase of machines	Yes
TRUE SPIRIT TOBACCO COMPANY	Minato-ku, Tokyo	45	Domestic tobacco	100.0	No	Yes	No	Consignment of operations related to Natural American Spirit products	No
JT International Group Holding B.V. *1	Netherlands	Thousands of USD 1,800,372	International tobacco	100.0	Yes	Yes	No	No	No
JT International Holding B.V. *1	Netherlands	Thousands of USD 1,800,372	International tobacco	100.0 (100.0)	Yes	No	No	No	No
JT International S.A. *1	Switzerland	Thousands of CHF 923,723	International tobacco	100.0 (100.0)	No	No	No	Approval of license and sale of tobacco products	No
LLC JTI Russia	Russia	Thousands of RUB 157,751	International tobacco	100.0 (100.0)	No	No	No	No	No
Gallaher Ltd. *1	U.K.	Thousands of GBP 172,495	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Polska Sp. z o. o.	Poland	Thousands of PLN 200,000	International tobacco	100.0 (100.0)	No	No	No	No	No
LLC Petro	Russia	Thousands of RUB 328,439	International tobacco	100.0 (100.0)	No	No	No	No	No
JT International Germany GmbH	Germany	Thousands of EUR 37,394	International tobacco	100.0 (100.0)	No	No	No	No	No
JTI Tütün Ürünleri Sanayi A.Ş.	Turkey	Thousands of TRY 148,825	International tobacco	100.0 (100.0)	No	No	No	No	No
Torii Pharmaceutical Co., Ltd. *2	Chuo-ku, Tokyo	5,190	Pharmaceutical	54.9	No	No	No	Consignment of manufacturing and sale of products	Yes
Akros Pharma Inc.	U.S.A.	Thousands of USD 1	Pharmaceutical	100.0 (100.0)	No	Yes	No	Clinical development in overseas, consignment of survey	No
TableMark Co., Ltd. *1	Chuo-ku, Tokyo	22,500	Processed Food	100.0	No	Yes	Yes	No	Yes
Other 217 companies *1									
(Companies accounted for by the equity method) 13 companies Megapolis Distribution B.V.	Netherlands	EUR 15	International tobacco	23.0 (23.0)	No	No	No	No	No
Other 12 companies									

Notes: 1. Descriptions in the "Principal business" column are names of segments.

2. The figures in parentheses in the "Holding rate of voting rights" column are indirect holding rates included in the figures outside the parentheses.

3. "Interlocking of officers" includes interlocking of officers of associated companies and secondment of officers of the Company.

4. *1: These companies are classified as specified subsidiaries. Companies that fall under the category of specified subsidiaries included in "Other 217 companies" are as follows.

JTI-Macdonald Corp., JTI Tütün Ürünleri Pazarlama A.Ş., JT Canada LLC Inc., JT International (Philippines) Inc., JTI Processadora de Tabaco do Brasil Ltda., Japan Tobacco International Manufacturing Co., Ltd., JT International Distribuidora de Cigarros Ltda., PT Karyadibya Mahardhika, JT International Asia Manufacturing Corp., JTI (UK) Management Ltd., Gallaher Group Ltd., Benson & Hedges Ltd., Gallaher Overseas (Holdings) Ltd., Al Nakhla Tobacco Company S.A.E., Logic Technology Development LLC.

5. *2: This company files Annual Securities Report.

6. Consolidated subsidiary Green Foods Co., Ltd. is insolvent, with liabilities exceeding assets by ¥10,784 million. Green Foods Co., Ltd. suspended business operations in December 2012.

5. Status of Employees

(1) Consolidated Companies

(As of December 31, 2021)

Segment	Number of employees (Person)
Domestic Tobacco Business	9,940 [2,956]
International Tobacco Business	38,236 [2,372]
Pharmaceutical Business	1,354 [34]
Processed Food Business	4,878 [1,453]
Common company-wide services within the filing company	973 [127]
Total	55,381 [6,942]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year ended December 31, 2021 is given in parentheses separately.
2. The number of employees in the "Common company-wide services within the filing company" row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.

(2) Filing Company (the Company)

(As of December 31, 2021)

Number of employees (Person)	Average age (Year old)	Average years of service (Year)	Average annual salary (Yen)
7,154 [1,174]	43.4	18.3	8,978,793

The numbers of employees by segment are as follows.

Segment	Number of employees (Person)
Domestic Tobacco Business	5,874 [1,161]
Pharmaceutical Business	759 [9]
Processed Food Business	18 [0]
Common company-wide services within the filing company	503 [4]
Total	7,154 [1,174]

Notes: 1. The number of employees indicates the number of working employees, and the average number of temporary employees during this fiscal year ended December 31, 2021 is given in parentheses separately.
2. The number of employees in the "Common company-wide services within the filing company" row is the number of those working for departments unclassifiable to specific segments, such as the administrative department.
3. The number of employees includes contract employees (103), employees on leave (188) and employees transferred to the Company (74), but excludes employees transferred from the Company (618).
4. Average years of service include years of service at Japan Tobacco and Salt Public Corporation.
5. Average annual salary (including taxes) includes bonuses and surplus wages.

(3) Status of Labor Union

In the Group, the labor-management relations are stable and there are no matters that should be reported.

II. Review of Operations

1. Management Policy, Business Environment, Issues to Be Addressed, Etc.

The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

(1) Management Principle

The Group's management principle is based on the pursuit of the 4S model. The model requires the Group to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

The Group created its vision and mission based on the 4S model. The vision is to continue to be a growing global company by providing diversified value that is uniquely available from the JT Group. The mission is to create, develop and nurture the Group's unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

The Group has also adopted The JT Group WAY as a code of conduct which all members of the Group should follow. The JT Group WAY requires that the Group fulfills the expectations of the Group's consumers and behaves responsibly, strives for quality in everything we do through continuous improvement, and leverages diversity across the Group.

The Group has attained sustainable profit growth and will continue to do so through the pursuit of the 4S model. Since attaining sustainable profit growth requires the Group to continue to provide new value and satisfaction to consumers, the Group believes it is essential to steadily make business investments for future mid- to long-term profit growth.

The Group believes that the pursuit of the 4S model will lead to a consistent increase in corporate value in the mid- to long-term and therefore that it is the best approach to serve the interests of all stakeholders.

(2) Allocation of Management Resource

Concerning the mid- to long-term resource allocation of the Group, it will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on our management principle.

Of the Group's core businesses, the Group regards the tobacco business as the core business and profit growth engine, so it places top priority on business investments that will lead to the sustainable profit growth of the tobacco business. On the other hand, with the aim of positioning the Pharmaceutical Business and the Processed Food Business as complementary drivers of profit growth for the Group as a whole, the focus will be on rebuilding their business foundations, and making the investments required to implement that.

Going forward there is no change in the resources allocation policy, under which we will continue to place the highest priority on executing business investments(Note) that contribute to sustainable mid- to long-term profit growth as well as on valuing the balance between profit growth through business investments and shareholder returns.

Note: Investment towards the growth of the tobacco business is our highest priority. Pursue growth of adjusted operating profit at constant FX through quality top-line growth

(3) Group-Wide Profit Targets and Policy on Shareholder Return

The Group has set group-wide profit targets and a mid- to long-term guidance on shareholder return in the Business Plan 2022 in accordance with our management principle and the resource allocation policy.

Due to strengthening investment in the RRP category in the Tobacco Business as set forth in the "Business Plan 2022," the Group expects a mid-single-digit(Note 1) annual average growth rate in adjusted operating profit at constant FX for the planned period. However, by leveraging the effect of said investment, the Group will continue to pursue a mid- to high-single-digit annual average growth rate in adjusted operating profit at constant FX over the mid to long term.

The Company approaches its shareholder return policy from the twin perspectives of prioritizing business investments for sustainable profit growth in the mid to long term, and strike a balance between profit growth through business investments and shareholder returns which are mentioned in the resource allocation policy and based on the 4S model, as follows.

- Aim to enhance shareholder returns by realizing the Company's mid- to long-term profit growth, while maintaining a solid financial base(Note 2)

- Target a dividend payout ratio of about 75%(Note 3), a competitive level(Note 4) in the capital markets
- Consider implementing a share buy-back program, mainly taking into account the Company's financial outlook of the respective year and mid-term capital needs.

Notes: 1. Actual results, performance or achievements, or those of the industries in which we operate, may differ from any future results, performance or achievements expressed or implied by the forward-looking statements. For details of risks related to the Group, please refer to "II. Review of Operations 2. Business and Other Risks."

2. The Company will maintain 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.

3. To be in the range of approximately ±5%

4. Monitor the shareholder return trends of global Fast-Moving Consumer Goods (FMCG) companies which have a stakeholder model similar to our 4S model and have realized strong business growth.

(4) Business Environment and Basic Strategies for Attaining Group-Wide Profit Targets

i. Business environment

The business environment in which the Group operates is characterized by an increasing degree of uncertainty, such as changes in the international political situation, and foreign exchange risks associated with declines in value for the currencies of emerging countries. Although the impacts of COVID-19 are gradually being brought under control and the global economy is on a gradual recovery trend, due to the risk of a downturn in global economic activity caused by changes in consumer and corporate activities and by emerging COVID-19 variants, etc., the outlook for our business remains uncertain. Enhancing adaptability to such a changing environment is critical to achieve sustainable profit growth by overcoming the uncertain business environment and adequately executing business on a global scale. "Adaptability" refers to the ability to assume a wider range of contingencies than in the past, during the planning phase, and to quickly and flexibly respond to changes and events that surpass the assumptions so that the Group can deal with uncertainty over the future. The Group believes that how well and how quickly companies can overcome uncertainties will continue as the key to determine their competitiveness.

Moreover, in view of the forward march of digital technology, changes in the consciousness and behavior of consumers, and the shift towards greater awareness of ESG and sustainability, the Group believes that, rather than merely responding passively while enhancing its adaptability to such a changing environment, the Group should initiate transformation itself and accelerate evolution to an organization that will lead this revolution through the unification of the organization structure of the tobacco business and the evolution of the corporate division.

The Group formulates its business plan, a three-year plan that is renewed each year on a rolling basis in order to speed up responsiveness and strengthen competitiveness while keenly identifying challenges in our operating environment, which presents increasing uncertainties.

ii. Basic strategies

As basic strategies for attaining the targets, the Group will strive for "achieving quality top-line growth," "strengthening cost competitiveness," and "strengthening business foundations," implementing the strategies based on the concept of selection and focus.

Mainly, the Group places emphasis on "achieving quality top-line growth," concentrating resources in key brands and product categories, in order to increase value added to products and services, as described in the following explanations of basic strategies for each business.

Concerning "strengthening cost competitiveness," the Group aims at improving profitability and enhancing cash generation capability by optimizing business and corporate costs and establishing quick and efficient business operation systems, while leveraging the efforts of maintaining and enhancing quality. Additionally, the Group will reinforce its business continuity capabilities, while seeking to improve cost competitiveness.

When "strengthening business foundations," it is critical to accurately identify changes in the business environment and to keep ourselves ready to readjust in order to meet challenges without being constrained by precedents. The Group will make continuous improvement efforts from that perspective. In addition, the Group will maximize synergies by leveraging the global footprint as represented by the Group's worldwide business operations, which are spread across at least 70 countries and territories, and the diversity of the Group's global workforce, which represents at least 100 nationalities, and by promoting collaboration on a global scale. As the Group strongly believes that the quality of human resources is the key to business activity and performance, it will strengthen human resource development.

iii. Sustainability strategy

The Group recognizes that in order for it to achieve sustainable growth, it is essential for the business to contribute to the sustainable development of our society, based on which perception the Group has put sustainability initiatives at the heart of managing the business. Having identified key challenges that must be addressed to allow the Group to grow sustainably along with society as part of its materiality initiative, the Group has formulated a sustainability strategy. We have set out three absolute requirements for sustainability (Respect for Human Rights, An Improved Social and Environmental Impact, and Good Governance and Business Standards) that apply across the Group and take into account the characteristics of each business, and have set areas of focus to be prioritized as well as associated targets. Please refer to the JT website for more details.

Sustainability: https://www.jt.com/sustainability/index.html

(5) Business Environment and Basic Strategies by Segment

Tobacco Business

The tobacco business is the Group's core business and profit growth engine and aims for mid to high single digit annual average growth rate over the mid- to long-term in adjusted operating profit growth rate at constant FX.

iv. Business environment

The tobacco industry is evolving and there are many types of tobacco products available in this marketplace today. Cigarettes remain the most popular choice for consumers, while fine cut tobacco, cigars, pipe tobacco, oral tobacco, waterpipe tobacco and kretek continue to draw consumers' interest. In addition, the RRP category including heated tobacco products and E-Vapor products has become increasingly popular. Heated tobacco products do use tobacco leaf, but instead of burning the leaf, they use methods such as heating the leaf to generate tobacco vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy, and have been growing steadily, particularly in countries around the world. The products are taxed and regulated as tobacco products in principle because they use tobacco leaves. Development of heated tobacco products (including heated tobacco sticks that use high-temperature heating) is an area of keen interest for all market players, and the Group expects innovation to drive further growth. In addition to these two types, the growth of oral tobacco has accelerated in markets with a long history of these products, particularly in Europe and the U.S. With smokeless tobacco, users can enjoy the characteristic tobacco taste and flavor directly through their nose or mouth. In the market for E-Vapor products, which instead of using tobacco leaf vaporize liquids containing nicotine so that the generated vapor can then be enjoyed by the user, the Group has achieved a certain presence, notably in the U.S. and across Europe. As E-Vapor products do not use tobacco leaf, they have not usually been regulated or taxed as tobacco containing products. However, regulation and taxation of the products have changed in some countries in accordance with the expansion of this category.

Approximately 5.4 trillion[(Note 1)] combustibles[(Note 2)] are consumed annually around the world, reaching global sales of approximately USD700 billion[(Note 1)]. China is by far the largest market, accounting for over 40% of global consumption, but is almost exclusively operated by a state monopoly, China National Tobacco Corporation. Indonesia, the U.S., Russia, Turkey, Germany and Japan are the following six largest markets[(Note 1)]. Excluding China National Tobacco Corporation, there are four major global tobacco players: Philip Morris International Inc., British American Tobacco Plc., the JT Group and Imperial Brands Plc. In terms of RRP, besides these four companies, JUUL Labs, Inc. (E-Vapor products) and Swedish Match AB (oral tobacco) also have a meaningful presence.

In general, the market dynamics of combustibles[(Note 3)] are distinctively different between mature and emerging markets. In mature markets, combustible industry volume tends to decline and these movements can reflect various factors, such as limited economic growth, tax increases, tightening regulations and demographic changes among others. In addition, down-trading is prevalent in these markets, as limited growth of income inclines consumers to seek more value in comparatively affordable tobacco products. In emerging markets, on the other hand, combustible industry volume tends to be more resilient, driven by population growth and economic development, particularly across the Middle East and Africa. As personal income generally increases year on year, consumers look for quality and trade up to products in a higher price range.

We have confirmed temporary increases in demand in some markets caused by the impacts of COVID-19, but global combustible industry volume[(Note 1)] has been decreasing in recent years, although at a sustainable pace. However, more importantly, the profit-generating structure of the tobacco industry remains solid, and despite environmental difficulties, the Group expects industry value to continue growing in the 2022-2024 period, with price increases more than compensating for the volume contraction, particularly in combustibles. These trends – decline in volume and increase in value – are expected to continue. In addition, due to consumer demand and other factors, the market mix for heated tobacco products, E-Vapor products and related products varies from country to country, but the main markets for RRP include the U.S., Japan, United Kingdom, Russia, Italy, China, and South Korea. Compared to that of combustibles(Note 3) the size of the market is still small, but it is growing year after year and the RRP market is forecast to expand going forward, driven by growth in heated tobacco products.

In addition, due the impacts of COVID-19 that appeared in 2020 the outlook for the tobacco industry as a whole going forward has become even more unclear. The Group recognizes that the effects on consumer purchasing power, consumption and purchasing behavior may persist to some extent in the future, but it is assumed that there will be no significant impact over the mid-term. On the other hand, given that the situation varies according to the country and region, and given the possibility of tax increases in various countries driven by the need for fiscal stimulus to offset the negative economic impact, the Group is on the alert for changes in the business environment going forward.

Notes: 1. According to fiscal 2020 data. Including fine cut tobacco
2. Combustibles include all tobacco products excluding contract manufactured products, waterpipe, heated tobacco products, oral tobacco and E-Vapor.
3. Including fine cut tobacco

v. Basic strategies

<Quality top-line growth>

- Concentration of management resources on heated tobacco sticks and combustibles

The Group believes that RRP are beneficial to the consumer, to society, and to the business of the Group. It has positioned heated tobacco sticks as a category of the highest importance, equal to that of combustibles, and will prioritize the allocation of resources to this area. In order to obtain the support of more consumers, we will also drive geographic expansion, implement continuous product improvements, and strengthen our capabilities.

On the other hand, because combustibles will remain the largest category in the tobacco industry as a whole for the foreseeable future their importance will be undiminished, and we aim to achieve sustainable growth by continuing to take market share and steadily implementing our pricing strategy.

- Maintaining and increasing shares in the key markets through brand equity enhancement

Over the past years, the JT Group's tobacco business has grown its share in most of the key markets through superior brand equity.

In order to further grow market share, the Group will continue strengthening its brands, especially through consistent investments in the GFB. At the same time, the Group will also strengthen its local brands. These diverse local brands allow the Group to meet the unique preferences of the consumers and complement the brand portfolios in the diverse markets and regions where the Group is active. The Group will continue to focus the investments in innovation, as it is one of the most effective methods to enhance brand equity.

The Group's innovation efforts target five key elements which add value to its tobacco products: 1) tobacco blends, 2) flavors, 3) filters and other non-tobacco materials—these three are important elements to determine quality of taste—4) capability to process these innovations into products and 5) package design, which is critical to visual quality.

The Group recognizes the growing importance of connection especially at point-of-sale for "brand communications" with consumers, which support share gains, since the use of mass media (TV, radio, newspapers and magazines) to promote tobacco products is severely restricted by regulations on advertisement and promotion. With this in mind, the Group believes that the enhancement of its trade marketing activities is critical to improve point-of-sale visibility. The Group's approach will be tailored to each market, where local regulations, the key sales channels, consumers' purchasing patterns and competitors' trade marketing tactics vary greatly among one another.

<Strengthening cost competitiveness>

The tobacco business will persistently pursue continuous cost efficiency improvement of the operations, in particular with respect to the global supply chain, with an emphasis on agility and efficiency without compromising quality. The Group will enhance its cost competitiveness by optimizing the global supply chain through various initiatives, including: further vertical integration in global leaf procurement; extended use of common non-tobacco materials; increased collaboration among suppliers; flexible procurement to benefit from attractive market prices; and improved inventory management for both tobacco and non-tobacco materials. Furthermore, enhanced productivity through realignment of manufacturing process and optimal level of capital expenditures will ensure conversion cost containment. The Group is also determined to improve its business continuity capability by securing options for sourcing and geographically spreading critical functions. Specifically, the Group has been striving to ensure a framework of multiple supply sources, optimal manufacturing capacity allocation on a global basis and diversification of production capability for priority SKUs (Stock Keeping Units).

The Group will improve the margin through increased cost efficiency while maintaining quality, and enhance cash flow generation by optimizing working capital and capital expenditures.

<Strengthening business foundations>

The Group believes that human resource development is the key driver of sustainable profit growth in the tobacco business.

The Group has business operations in at least 70 countries and territories, and the global workforce of employees representing at least 100 nationalities works regardless of nationality, gender, and age. The Group maximizes synergies by leveraging this diversity and promoting collaboration on a global scale. As the Group believes that the quality of human resources is the key to business activity and performance, it will strengthen human resource development and enhance its ability to recruit, develop, and retain employees on a global basis.

The tobacco business remains committed to increasing its presence as a leading global tobacco manufacturer and further strengthening its role as the core business and profit growth engine of the Group, by steadily implementing the above business strategies.

Pharmaceutical Business

The Group's Pharmaceutical Business will strive to make stable profit contribution to the Group through the promotion of R&D on next-generation strategic products and by maximizing the value of each product.

i. Business environment

The global pharmaceutical market continued to grow, with an average annual increase of about 3.7% over the past five years, to USD1,305.4 billion in 2020, up 2.6% year on year(Note). While increasing health awareness, population growth and development of public healthcare systems result in a higher demand for more advanced drugs, governments are strengthening their control on drug prices by holding back medical costs, due mainly to the rapidly aging society and fiscal deficits.

In order to control medical care expenses, the Japanese government has been promoting the use of generic drugs, leading the generic drugs market to expand in the Japanese pharmaceutical market. Additionally, a drastic reform of the drug pricing system has been leading to a gradual price reduction each year from 2021, creating challenges for the industry.

It is not easy to discover promising drug development targets and, amid stricter approval standards for new drugs, the global competitiveness in development is intensifying. The Company possesses R&D capabilities for creating world-class, original drugs, and competes with numerous companies, not only those in Japan, but also global companies, including large pharmaceutical companies and start-up companies.

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ii. Basic strategies

<Stable profit contribution>

To make stable profit contribution, the Group will step up efforts to promote R&D on next-generation strategic products and seek optimum timing for out-licensing, and maximize the value of each product, as key tasks to strengthen the earnings base further.

- Promoting R&D on next-generation strategic products and seeking optimum timing for out-licensing

Promoting R&D on next-generation strategic products is a key task from the perspective of the sustainable development of the Group's Pharmaceutical Business. Market launch of new drugs is becoming increasingly difficult every year. However, the Group will explore appropriate drug development opportunities by collecting information concerning unmet needs of medical facilities around the world. The Group will also conduct flexible research management, carefully tailored to each drug candidate.

With the intensification of worldwide R&D competition in recent years, it is essential to define a sophisticated development strategy that takes into account of the requirements of medical facilities and implementation of clinical tests quickly. In order to accelerate the speed of the R&D and swiftly provide the new drugs the Group has created to patients around the world, the Group not only promotes in-house development but also continues to out-license compounds to other companies, particularly global pharmaceutical companies, and aggressively explore alliance opportunities.

- Maximizing the value of each product

Since 2014 the Group has launched Riona® Tablets (hyperphosphatemia treatment), CEDARTOLEN® SUBLINGUAL DROP - Japanese Cedar Pollen, MITICURE® House Dust Mite Sublingual Tablets and CEDARCURE® Japanese Cedar Pollen Sublingual Tablets, CORECTIM® Ointment for treatment of atopic dermatitis, and ENAROY® Tablets for treatment of anemia associated with chronic kidney disease, all in Japan. Outside Japan, the licensing partners are currently selling Stribild® Combination Tablets (anti-HIV drug), Genvoya® (anti-HIV drug) and Mekinist® (melanoma and NSCLC treatment). In order to maximize the contribution to medical facilities through these products, the Company will work to steadily spread the products in the market in close partnership with the Group company Torii Pharmaceutical and the Company's licensing partners.

The Group recognizes, in order to conduct these various activities in an effective manner, the urgent requirement of training personnel who can collect accurate information regarding unmet needs at medical facilities and the latest pharmaceutical research, and use the information to formulate a sophisticated development strategy and a strategy to maximize product value, and global personnel capable of competing with academia and pharmaceutical companies around the world. The Group will concentrate efforts on its initiatives for these purposes.

Processed Food Business

The Group's Processed Food Business aims to contribute to the earnings of the Group through mid- to long-term profit growth driven by high-quality expansion in the top line.

i. Business environment

In 2020, annual consumption of frozen food in Japan(Note) decreased 3.6% to 2.84 million tons from the previous fiscal year. Domestic market size on a consumption basis including imports(Note) fell 1.6% from the previous fiscal year to ¥1,046.3 billion, but exceeded ¥1 trillion for the fourth consecutive year. Although commercial consumption, mainly of food-service products, declined sharply as a result of restrictions on non-essential outings and requests to shorten hours of operation due to the COVID-19 pandemic, the increase in people staying at home and working from home led to record consumption of household products.

We expect the Japanese processed food industry to continue to grow as lifestyles change including an increase of double-income households. This change leads to a growing consumer need for simpler and shorter cooking times. Frozen foods can help meet the diverse needs of consumers with its abundant variety and convenience in recreating freshly served taste.

The Company's subsidiary, TableMark Co., Ltd., is competing against major players like Maruha Nichiro, Nichirei Foods, Ajinomoto Frozen Foods and Nippon Suisan Kaisha as well as a multitude of mid- or small-scale producers, although the Group is starting to see segregation of competition within the industry according to the product categories these competitors respectively own. These competitors are not the only ones the Group needs to keep an eye out on. The Group believes it is necessary to monitor trends in sales channels amid the expansion of private brand products by various distribution companies; and the reorganization of wholesale entities. The Group also needs to be aware of the continuing risk of price fluctuations in raw materials due to global food shortages.

Note: Japan Frozen Food Association (2020 data)

ii. Basic strategies

<Quality top-line growth>

The Processed Food Business focuses primarily on frozen and ambient foods, including staple food products such as frozen udon noodles, packed cooked rice, and frozen okonomiyaki, as well as seasonings and bakery products. In the area of product line-up, the Group plans to create products that offer good value for the price from consumers' perspective while using its unique technology. This will be achieved by improving the ability to identify consumers' needs, generate ideas based on the identified needs, and transform the generated ideas into products. Concerning marketing, the Group will develop effective and efficient advertising and promotional activities in line with this product strategy and reinforce the trade marketing capabilities. By adopting these measures, the Group aims to further expand its market share.

<Strengthening cost competitiveness>

In the Processed Food Business, the Group has a variety of cost containment programs, including strengthening the raw materials procurement capabilities, efficiently managing the distribution network, and improving the productivity of the Group factories. In addition, consistent group-wide efforts will be made to lower fixed costs, including more efficient use of sales activity expenditures, through better selection and focus of promotional activities. By these means, the Group will work to improve cost competitiveness.

<Strengthening business foundations>

- Food safety control

Looking ahead, the Group will continue to manage the businesses while taking all possible measures to ensure food safety control from the four perspectives of food safety, food defense, food quality, and food communication in order to deliver safe and high-quality food products to consumers.

Regarding food safety, the Group will seek to minimize risks by utilizing food safety management systems already introduced.

Regarding food defense, the Group will further promote the already implemented Food Defense Program in order to prevent purposeful attacks.

Regarding food quality, the Group will pursue "deliciousness," which should be the fundamental quality of foods. The Group will also seek to enhance product added value and consumer satisfaction through continued improvement in accordance with inquiries and information from consumers.

Regarding food communication, the Group will conscientiously listen to the voices of consumers and actively provide information so as to make the Group's activities more visible to the outside.

- Human resource development

Development of human resources that support the business activities is critically important. Competence development programs as well as appropriate career paths of the employees will be created and implemented in order to develop personnel with various skills including marketing expertise and product development knowhow.

In summary, the Group will pursue the 4S model as the basis of the Group's management principle, enhance its ability to adapt to changes, implement bold and expeditious reforms of mindset and behavior, and consistently execute its growth strategy. Through these initiatives, the Group will achieve sustainable profit growth and continuously increase corporate value in the mid- to long-term.

2. Business and Other Risks

Listed below are major items that, among those relating to the review of operations and accounting revealed in the Annual Securities Report, are recognized by management as items that may significantly influence financial position, operating results and cash flows of consolidated companies. These items include items that may significantly affect the achievement of the Group's management targets and business strategy as well as items that may significantly influence investor decisions from the viewpoint of proactive information disclosure.

However, the risks described below do not constitute an exhaustive list of all the risks related to the Group, and risks not described below also exist. All of the risk factors may potentially have an effect on investment decisions.

The following includes forward-looking statements determined, unless otherwise indicated, as of the filing date.

<Risk Management System>

The Group defines risks that may affect the Group, and closely observing these trends, takes measures to prevent these risks from actualizing and to minimize the impact in the event that they are actualized. Furthermore, the Group has established a system that can comprehensively understand and manage all of these risks, and the risk management process consists of the following four steps.

(Risk identification)

The person in charge of risk management promotion (currently Member of the Board, Corporate Governance, Compliance), who is designated by the President, will understand all risks that may affect the Group.

(Risk evaluation)

Each Executive Officer will evaluate the risks for their own departments from the viewpoint of the possibility of actualization and the amount of impact in the event of actualization, select significant risks to observe closely, and report to the person in charge of risk management promotion.

Based on this, the person in charge of risk management promotion will determine significant risks to the Group that may cause significant loss regarding the achievement of the Group's management targets and business strategy, and report to the President.

(Formulation of plans to address risks)

Significant risks to the Group are reported to the person in charge of risk management promotion and the President after plans to address risks are designed by each Executive Officer.

(Monitoring of plans to address risks)

The progress of plans to address the Group's significant risks is regularly reported to the person in charge of risk management promotion and the President by each Executive Officer.

(1) Risks Relating to the Business, Profit Structure and Management Policy of the Group

a. Significance of tobacco revenue from the main market in consolidated revenue

The Group operates in at least 70 countries and regions around the world and sells products in at least 130 countries and regions, mainly in the tobacco business. Among these, tobacco revenue in the main markets, such as Japan, Russia, and the United Kingdom, makes a significant contribution to the Group's revenue. Accordingly, the manifestation of various risks that exist in the environment for the tobacco business, such as a decrease in tobacco demand, tax increases, regulations and other factors (for details of risks relating to the tobacco business, see "(2) Risks Relating to the Group Businesses, Risks Relating to the Tobacco Business" below), or negative impacts in main markets arising from a relative increase in country risk caused by factors such as a change in the political environment, a change in economic conditions, a change in the social environment, a change in the legal system, or the occurrence of riots, terrorism or war, could result in a worsening of Group performance, including revenue from the Tobacco Business deteriorating.

The Group is working to maintain and grow tobacco revenue from its main markets by optimizing its product portfolio, reinforcing trade marketing capabilities and implementing measures for effective promotions. In addition, by further strengthening the business base not only in main markets but also globally, the Group will strive to secure various markets in which it is possible to sustainably generate profits without depending only on specific main markets.

b. Business expansion

The Group worked proactively to obtain external resources for the business expansion, such as the acquisition of the RJR Nabisco Inc.'s non-U.S. tobacco business (acquired in 1999 for approximately USD7.8 billion, or ¥944.0 billion as calculated by the exchange rate at the time of the acquisition; the same applies hereinafter), as well as the acquisition of Gallaher Group Plc (acquired in 2007 for approximately GBP 7.5 billion, or ¥1,720.0 billion), the acquisition of Katokichi Co., Ltd. (now TableMark Co., Ltd.) (acquired in 2008 for approximately ¥109.0 billion), and the acquisition of the non-U.S. tobacco business of Natural American Spirit (acquired in 2016 for approximately USD5.0 billion, or ¥591.4 billion). In an effort to expand its business, the Group will consider acquisitions, capital movements, business tie-ups and cooperative arrangements with other companies and may execute when the Group judges such transactions would contribute to the future earnings of the Group. However, should such transactions not generate the expected outcome, or should a significant, unforeseen problem be discovered after the acquisition, same may negatively affect the Group's business performance. Examples that may have such an impact include a failure to carry out operational, personnel, technological or organizational integration due to geographical or cultural differences; a failure to maintain sustained demand for the products of a business subject to acquisition or tie-up, or manufacture and sell said products; a failure to continue the Group's present operations; a failure to retain personnel with superior capabilities at an acquired business or maintain the motivation of its employees; a failure to apply the Group's internal control system to an acquired business; a failure to build an effective brand and product portfolio; a failure to link sales and market strategies of different product lines; or a dispersal of management's attention from the Group's present operations.

Also, as a result of the acquisitions, the Group has recorded a substantial amount of goodwill and intangible assets in the consolidated statements of financial position, and the amounts of goodwill and intangible assets account for 35.7% (¥2,061.0 billion) and 5.3% (¥307.2 billion) of the consolidated total assets, respectively, as of the end of the fiscal year. The Group believes that the abovementioned goodwill and intangible assets appropriately reflect the future profitability that will result from the unleashing of synergy effects of each business value and integration; however, if it is determined that this expected outcome does not materialize as a result of factors such as changes in the business environment or competitive forces, or if the discount rate applied becomes higher, the Group may incur an impairment loss that negatively impacts the Group's performance.

When carrying out acquisitions, capital movements, business tie-ups and cooperative arrangements with other companies to expand its business, the Group utilizes timely and appropriate external knowledge and evaluations, and makes decisions using the Board of Directors, etc. upon deliberations with related top management regarding the appropriateness of acquisition costs, contract conditions, etc. In addition, after acquisition, the Group incorporates the status of the acquired company's business operations into each business's Business Plan and regularly monitors such status, and takes actions, such as following up and understanding signs of impairment, to maximally realize synergy.

The Group views the role of Pharmaceutical Business and the Processed Food Business in the Group as that of supplementing sustainable profit growth over the mid- to long-term, and believes that also in the future these businesses will make a stable and even larger profit contribution. However, although the Group plans to continue to invest in these businesses, this investment is not guaranteed to generate the returns that the Group anticipates.

c. Effects of foreign exchange and interest rate fluctuations

The Company reports its consolidated financial statements indicating all figures in yen; however, overseas Group companies report their financial statements in other currencies such as Russian ruble, euro, British pound, Taiwanese dollar, US dollar, and Swiss franc. Accordingly, the results, assets, and liabilities of overseas Group companies are converted into yen when the consolidated financial statements of the Company are prepared and indicated in yen therein. As a result, those figures are affected by fluctuations from the currency used by overseas Group companies in their accounts settlement against the yen. The proportion of revenue and adjusted operating profit accounted for by the Group's overseas businesses is increasing every year, and foreign exchange fluctuations may have a significant effect on the consolidated financial statements.

JT International Group Holding B.V. (hereinafter referred to as "JTIGH"), which is responsible for consolidating the financial results of the Group's tobacco business outside Japan, uses the US dollar for its financial reporting. However, JTIGH does business through consolidated subsidiaries and affiliates around the world, some of which use foreign currencies other than the US dollar. This means that the Group's consolidated results are affected not only by exchange rate fluctuations between the Japanese yen and the US dollar but also by those between the US dollar and other foreign currencies used by the consolidated subsidiaries and affiliates for their financial reporting.

In addition, any liquidation, sale or significant drop in the value of a foreign Group company whose foreign currency denominated stock was acquired by the Company will result in the recording of an investment loss with respect to said company in the consolidated financial statements of the Company and this loss will be affected by the exchange rate fluctuation between the yen and the foreign currency that was used to acquire said stock.

Furthermore, most of the Group's international transactions are subject to the effects of foreign currency exchange rates. As an example of this risk, in the tobacco business, the Group uses foreign-grown leaf tobacco. While this leaf tobacco is procured to some degree in US dollars, the tobacco products that contain it are sold in the local currencies of various countries. Therefore, should the US dollar appreciated against these various local currencies, this may have a negative effect on profitability at the Group.

Furthermore, the Group holds financial assets, such as bank deposits and government bonds, and financial liabilities, such as bank loans and bonds. The fluctuation of interest rates pertaining to these assets and liabilities may affect the performance and financial position of the Group as these fluctuations affect the variance of interest income and interest expenses and the price of financial assets and financial liabilities.

In addition, the Group's business performance and financial position may be affected in the event that the amount of plan assets, amount of retirement benefit obligations, etc. of the Group fluctuate due to the fluctuation of foreign exchange markets or interest rate levels.

The Group formulates and implements a foreign exchange hedge policy and an interest rate hedging policy, taking into consideration the current condition of the foreign exchange market and interest rates in a comprehensive manner, and the results are regularly reported by division with responsibility for financial matters to the President and the Board of Directors of the Company.

d. Natural disasters and other contingency situations

The Group has expanded its business in various countries and regions in the world, and is working to further strengthen and expand its global business base in the tobacco business in particular. Recently, natural disasters have occurred in Japan and overseas such as earthquakes, tsunamis, typhoons or floods. Future large-scale natural disasters or human-made disasters such as suspension of infrastructure, political instability or fires and bombings, or other such unforeseen emergencies, may negatively affect the Group's business performance. Such effects may be caused by supply shortages from damage to suppliers; disruptions to traffic, logistics services or sales channels; suspension of utilities such as electric or water; declines in demand; or employees suffering damage in a disaster.

The Group prepares against the occurrence of natural disasters and unforeseen circumstances, and carries out initiatives to increase employee's disaster prevention awareness, such as continuously gathering and sharing crisis management-related information during the quiet period in addition to the introduction of a safety confirmation system that confirms the safety of employees and their families, and disaster prevention training. Furthermore, in order to keep losses from damage to a minimum, the Group insures key assets, such as buildings, machinery, equipment and inventory, with casualty insurance as appropriate. In addition, in the event of natural disasters or other contingency situations occurring, the Group will review the Business Continuity Plan and revise it if necessary, and swiftly and flexibly respond so that it can carry out its Business Continuity Plan based on appropriate information gathering and the assessment of the situation.

e. Infectious disease

As the Group has expanded its business in various countries and regions in the world, the global spread of infectious diseases may significantly affect the Group's business operations.

Although the impacts of COVID-19 are gradually being brought under control and the global economy is on a gradual recovery trend, due to the risk of a downturn in global economic activity caused by changes in consumer and corporate activities and by emerging COVID-19 variants, etc., the outlook for our business remains uncertain.

Although sales volume in the duty-free market increased compared to the previous fiscal year in the tobacco business, it was unable to reach the level prior to the spread of COVID-19. In contrast, in the tobacco business outside Japan, industry volume remained strong in several markets due to travel restrictions. In addition, in the Processed Food Business, sales of food-service products within the frozen and ambient food business continued to decrease due to factors such as the impact of requests to restrict bar and restaurant operations.

At present, the impacts of COVID-19 are not obstructing business continuity, but as it is difficult at this time to predict when COVID-19 will be brought under control and its future impact, it is unclear what impact there will be on mid- to long-term consumer trends and demand trends in each business, and therefore, regarding the business and financial impacts, it is also necessary to carefully monitor and examine foreign exchange rate trends and the responses of the governments and relevant authorities of each country. In the event of the spread of an infectious disease, such as COVID-19, going forward, the Group's business performance may be negatively affected.

Concerning the impacts of COVID-19, the Group is conducting business operations of the tobacco business, the Pharmaceutical Business and the Processed Food Business fully in compliance with the policies and directives of the governments and relevant authorities of each country. In January 2020 the Group established a task force, which is led by senior management, has prepared measures in response to COVID-19, and continues to implement day-to-day management of the situation. Specifically, from the perspective of preventing the spread of COVID-19 inside and outside the Group and ensuring the safety of employees and their families, etc., the Group has actively used teleworking, enhanced workplace hygiene management, restricted business trips and implemented various other infection-prevention measures. Furthermore, the Group has developed a stable product distribution system by continuing the manufacturing system that ensures safety through thorough sanitation control of processes, etc., and having multiple suppliers.

f. Climate change

The Group recognizes that in order for it to achieve sustainable growth, it is essential for our business to contribute to the sustainable development of our society. The Group believes that working on sustainability is at the heart of managing our business. Our sustainability strategy is formulated based on the 4S model, our management principle, and encompasses our materiality analyses. In particular, social concern regarding environmental issues is increasing yearly, and "reducing the impact on the environment" has been established as the Group's shared base. We recognize that climate change remains a key environmental challenge for us, as it can have a direct impact on our value chain and the society at large. Based on this, the Group has expressed its approval of the recommendations of the "Task Force on Climate-related Financial Disclosures (TCFD)," and is analyzing climate change scenarios. According to this analysis, factors such as an increase of the carbon tax burden, etc. associated with the transition to a carbon-free society and changes to the habitat of tobacco leaves due to the intensification of climate change may negatively affect the Group's business performance.

The Group formulated the "JT Group Environment Plan 2030" in 2019 in order to reduce its environmental burden. The plan particularly identified "Energy and Emissions" as one of its focus areas. To fulfill its social responsibility towards constructing decarbonized society on a global scale, in February 2022, the Company announced its new group-wide target of realizing net-zero GHG emissions across its entire value chain by 2050. The targets for GHG emission reduction are in line with "Business Ambition for 1.5°C" of SBTi (Science Based Targets initiative), which is an international initiative. Furthermore, the Group is working to minimize the negative effects of climate change by promoting initiatives to diversify the procurement of tobacco leaves. The Group will put in place a system in order to enable it to more accurately grasp, and create appropriate responses to the way that climate change affects its business, reflect it in the business strategy and further promote appropriate information disclosure.

g. Country risk

The Group has expanded its business in various countries and regions in the world. Geographical expansion increases exposure to country risks, such as a change in the political environment, a change in the economic conditions, a change in the social environment, a change in the legal system, or the occurrence of riots, terrorism or war. If materialized, these risks could negatively affect the Group's business performances due to blockage to supply chains or distribution networks, damage to assets or facilities, or difficulties in allocation of personnel or sales management.

Furthermore, the Group conducts business in countries that are subject to economic sanctions. Although the Group manages its business operations appropriately and lawfully in accordance with these various economic sanctions, if it is acknowledged that the Group has violated the sanctions, the Group would be at risk of being subject to large monetary penalties or other such consequences. Also, if there is a development such as a change in the details of the sanctions, this may negatively affect the Group's business performances by, for example, making the Group unable to continue operating in the countries subject to the sanctions. Even if the Group obeys the sanctions, simply operating in the countries subject to the sanctions may have a detrimental effect on the public image of the Group.

In consideration of the state of affairs of Russia and Ukraine, the Group decided to suspend all new investments and marketing activities in Russia. The challenges of operating in Russia at this time are unprecedented and would lead to a wide range of impacts on the Group's business. Unless the operating environment and geopolitical situation improve significantly, the Group cannot exclude the possibility of a suspension of its manufacturing operations in the country.

The Group gathers and monitors information pertaining to country risk in each country and region in which it has expanded its business, and works for stable business operations while ascertaining geopolitical factors. Furthermore, by strengthening and expanding its global business base and securing multiple markets that can continuously generate profits, the Group is working to minimize the negative effects on the Group’s business performance in the event that country risks are realized in specific markets.

h. Changes in consumer preferences and behaviors

Uncertainties in the business environment in which the Group operates, such as the contraction of the global economy and a slowdown in economic growth, continue to increase. Within this, the Group recognizes that continuing to provide new value and satisfaction to consumers for continuous profit growth is important, and is working to enhance product and service added value based on changes in consumer preferences and behaviors. However, in the event that consumer preferences and behaviors change due to a deterioration of the economy, etc. and the Group is unable to appropriately respond, the Group’s business performance could be negatively affected due to factors such as consumers in existing businesses leaving and the loss of opportunities for growth.

In order to continue to provide new value and satisfaction to consumers, the Group identifies consumer preferences by analyzing market trends and carrying out qualitative and quantitative consumer surveys, and works to realize high value-added products that conform to consumers’ preferences such as by improving existing products and developing new products. For example, in the tobacco business, the Group has improved existing RRP products by increasing the convenience sought by consumers and developed new products, and has secured high-quality products, such as combustibles(Note), and set appropriate prices.

In the Processed Food Business, the Group is developing products that take health into consideration due to increasing health consciousness recently.

Note: Combustibles include all tobacco products excluding contract manufactured products, waterpipe, heated tobacco products, oral tobacco and E-Vapor.

i. Competition with rival companies

The Group is a global company operating the tobacco business, Pharmaceutical Business and Processed Food Business. It rigorously competes with rival companies engaged in any of these businesses, and going forward, competition may further intensify.

In the tobacco business, the Group expanded its business by building on its self-sustaining growth and by acquiring the RJR Nabisco Inc.’s non-U.S. tobacco business and Gallaher Group Plc. As a result, its competitive relationships with global players in the International Tobacco Business such as Phillip Morris International and British American Tobacco as well as strong firms operating in localized markets are observed.

In the Pharmaceutical Business, the Group competes with numerous companies, not only those in Japan, but also global companies, including large pharmaceutical companies and start-up companies. In the Processed Food Business, the Group is starting to see segregation of competition within the industry according to the product categories these competitors respectively own. The Company’s subsidiary, TableMark Co., Ltd., is competing against major players like Maruha Nichiro, Nichirei Foods, Ajinomoto Frozen Foods and Nippon Suisan Kaisha as well as a multitude of mid- or small-scale producers.

Each business and market share fluctuates under multiple factors including competition, regulations, pricing strategies, changing consumer preferences and behaviors, heightened societal interest in health issues, brand strengths and economic conditions occurring in different markets not to mention short-term fluctuations caused by temporary factors such as the introduction of new products by the Group and other companies and the special promotional activities effected for them. A lower market share or decreased competitiveness due to these factors may negatively affect the Group’s business performance.

In this competition with rival companies, the Group assumes that it will continue to provide new value and satisfaction to consumers in order to realize continuous profit growth. To that end, the Group provides products that match the changes in consumer preferences and behaviors, optimizes its product portfolio, reinforces the trade marketing capabilities and carries out effective promotional activities, and constantly considers and implements measures such as further increasing cost efficiency and securing multiple markets that can continuously generate profits.

j. Instability in raw material procurement and transport costs

The Group has a global manufacturing footprint, and procures various types of raw materials from Japan and various countries around the world. The status and costs of procurement are affected by factors such as weather and other natural phenomena, the balance between supply and demand, exchange fluctuations and supplier issues. Furthermore, there is the risk that increases in transport costs will be further exacerbated going forward due to increasing personnel expenses in the logistics industry, which are caused by labor shortages, and rising crude oil prices. In the event that the Group is unable to stably secure the necessary amount of raw materials, or in the event that raw material procurement costs and costs to transport products rise, the Group's business performance may be negatively affected due to being unable to guarantee the stable supply of products and other factors.

In order to reduce the risks associated with these raw material procurement costs and transport costs becoming unstable, the Group prepares for unforeseen circumstances and secures multiple suppliers. Furthermore, the Group continuously monitors raw material prices, and efficiently uses raw materials, such as by reviewing product specifications as appropriate, upon confirming manufacturing processes and quality. Similarly, the Group continuously monitors crude oil prices and trends in the logistics industry, and reviews transport methods and streamlines them as appropriate. In addition, by reinforcing its relationship with suppliers, the Group increases its procurement abilities for key raw materials, and carries out the necessary response, such as working to improve the internal sourcing ratio for the procurement of tobacco leaves.

k. Supply chain risks

The Group has formulated a sustainability strategy, and each business has also set out its own focus areas and works continuously on a variety of sustainability issues. The tobacco business and the Processed Food Business in particular have “Supply Chain” as one of its focus areas, and appropriately maintaining and managing the supply chain is a significant matter for the continuation of business activities. The Group has expanded its business in various countries and regions in the world. It collaborates with stakeholders, such as suppliers, and works on procurement activities that take the environment and society into consideration. However, in the event that environmental or human rights issues occur or laws and regulations are violated in the supply chain, the Group's business performance could be negatively affected due to factors such as the impairment or decline of public trust in the Group.

Based on the JT Group Supplier Standards, the Group is working to establish a sustainable supply chain, such as by carrying out initiatives to introduce supplier screening in accordance with the evaluated ESG items and monitoring them regularly, and understanding potential risks related to compliance, human rights, the environment and occupational safety and health. Agricultural Labor Practices (ALP) were formulated in the tobacco business based on “tackling child labor,” “respecting worker rights” and “ensuring workplace health and safety,” which work to maintain and manage the tobacco leaf supply chain.

l. Litigation

Some of the Company's subsidiaries are defendant in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or E-vapor products, or exposure to tobacco smoke. As of the fiscal year end date, there were smoking/vaping and health-related cases pending in which some of the Company's subsidiaries were named as defendant or for which the Company may have certain indemnity obligations pursuant to the agreement for the Company's acquisition of RJR Nabisco Inc.'s non-U.S. tobacco business. In addition, the Company and/or some of its subsidiaries are also a defendant in lawsuits other than the smoking/vaping and health-related cases.

The Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the Group and payment of substantial amount of monetary compensation could materially affect its financial performance. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the Group, forcing it to bear litigation costs and materially affecting its business performance.

Apart from smoking/vaping and health-related ones, the Group also may become the defendant in further litigation. Should any problems arise on the Group's product quality, this may lead to claims seeking profit liability. Such litigation cases may negatively affect the Group's business performance or manufacture, sale, and import and export of its products, should the outcome of any such claims prove unfavorable.

The Group has prepared a system in order to deeply cooperate internally and externally where the Group responds to litigation cases pertaining to the Group in a timely and appropriate manner by quickly understanding the information regarding the case, sharing information to management and relevant departments, coordinating with an outside lawyer if necessary and considering policies to deal with the situation going forward.

Regarding major litigation cases to which the Group is a party, please refer to "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 38. Contingencies."

m. Difficulty in maintaining human resource competitiveness

The Group strives for "strengthening business foundations" as one basic strategy, and aims to maximize synergies by leveraging the global footprint as represented by the Group's operations in various countries and regions around the world, and the diversity of the Group's global workforce, which represents at least 100 nationalities, and by promoting collaboration on a global scale. On the other hand, in the particular case of tobacco business, the Group is aware of the negative social image placed on this business line. Mainly for that reason, it is becoming major issues for the Group to recruit and retain talented people. Should the Group be unable to sufficiently fulfill such needs as retaining human resources, future business operations may become difficult, thus having a negative impact on the Group's business performance.

The Group strongly believes that the quality of human resources is the key to business activity and performance. Furthermore, as the Group has adopted the "Human Resources Management Philosophy" based on the belief that a diversified employee base is a major factor of its competitiveness, the Group seeks to attract talented people worldwide, and further strengthen development and retention.

Specifically, by attracting experienced people, the Group immediately secures human resources who are needed in various fields, such as people who have a high level of expertise. Additionally, in the Tobacco Business, the Group is focusing on attracting the generation known as Generation Z, which is the generation of people born between the latter half of the 1990s and 2001 as the Group believes that they have the skills to push the Group's innovation. Furthermore, the Group works to develop human resources by providing growth opportunities to all employees of the Group, such as by carrying out training applicable to all employees, including executives, which provides them with the necessary skills for their individual careers. At the same time, the Group maintains and improves a motivating work environment, which includes the promotion of diversity, provides a fair nomination and compensation system and operates fairly, and establishes systems and a corporate culture that respects diversity.

n. Infringement of intellectual property rights

In order to achieve "quality top-line growth," the Group utilizes various intellectual properties, enhances product and service added value and actively acquires the rights to these intellectual properties. Under such circumstances, if an outside party infringes the Group's intellectual property rights, the Group's technology and brands may not be sufficiently protected, which in turn could lead to negative effects on the Group's business strategies and financial position. Or, if it is acknowledged that the Group's products and services have infringed on the intellectual property rights of an outside party, the Group may risk having to pay compensation for damages, or becoming unable to provide the products and services, which could negatively affect the Group's business strategies and the financial position.

In order to avoid the risk of infringement of the Group's intellectual property rights by an outside party, the Group prepares measures to acquire the rights of intellectual properties and appropriately manage its intellectual property rights. Furthermore, in order to prevent the infringement of the intellectual property rights of an outside party before it occurs, the Group responds timely and appropriately, such as by investigating and monitoring the status of intellectual property rights.

o. Environmental regulations

The Group carries out research and development and production, the processes of which are subject to a wide variety of legal restraints both in Japan and overseas related to environmental protection with respect to hazardous substances, waste and other effects. In the future, if environmental pollution or a similar problem occurs as a result of the Group's business activities, or if environmental regulations are introduced or existing ones are changed, the Group's business performance may be negatively affected due to factors such as being liable for damages for environmental pollution, the decline of corporate reputation, the incurring of additional expenses for capital expenditures, etc. to respond to regulations or restrictions on existing business activities.

In order to prevent environmental pollution, the Group continuously monitors the establishment and revision of environment-related laws and regulations, thoroughly observes environment-related laws and regulations, such as by making them well known to relevant departments, and appropriately responds as necessary. For example, the Group confirms the status of compliance with environment-related laws and regulations annually with internal audits in accordance with ISO 14001, primarily at manufacturing facilities. In addition, the Group establishes an even stronger environmental management system by being audited by an outside agency once every three years.

Furthermore, the Operational Review and Business Assurance Division of the Company and the auditing divisions of the Group companies in Japan perform environmental audits, and make evaluations from an objective viewpoint. The results of these audits are reported to management and shared with relevant departments, which leads to the improvement of the Group's overall environmental management system.

p. Information security

In the operation of business, the Group utilizes various types of information technology to efficiently perform business and operations. To that end, in the event that damage to systems, or leaks of confidential information occur as a result of unforeseen circumstances, such as attacks by illicit access or computer viruses, or disasters, the business performance of the Group may be negatively affected due to temporary suspension of information systems, the decline of public trust, the loss of competitive advantage and the bearing of expenses to appropriately respond to these events.

The Group has clarified its position on initiatives for information security, put in place a variety of rules in relation to information security in order to comprehensively and continuously promote information security measures, and works to protect and manage information assets, such as the systems and data owned by the Group, in an appropriate manner. Furthermore, the Group works to reinforce information security from the aspect of both hardware and software. In regard to hardware, the Group continuously carries out technological and operational inspections and improvements related to security for key systems. In regard to software, the Group works to educate employees on security, such as by carrying out information security e-learning that is applicable to all employees.

(2) Risks Relating to the Group Businesses

Risks relating to the Tobacco Business

a. Decreasing tobacco demand

Demand could also decrease depending on the economic conditions, other societal conditions, trends in regulations, price rises, tax increases and other factors, although the trends in demand will vary from region to region. Should demand decrease, sales volume may decrease, and this may negatively affect the Group's business performance.

The Group strives to provide products that can capture changes in consumer preferences and behaviors and optimize our product portfolio. While pursuing self-sustaining growth by adopting a balanced approach to investing in markets in which it already has a strong base, as well as in markets with high growth potential, the Group takes the view that searching for and exploiting growth opportunities through the acquisition of external resources is also a valuable strategic option, and it is working to secure positions in multiple markets capable of generating continuous profit, rather than in just one specific market. With regard to issues such as tax increases and strengthened smoking regulations, the Group is implementing measures such as gathering information on regulatory trends with greater speed and accuracy, actively cooperating in policymaking that leads to fair and balanced regulation by engaging in constructive dialogue with government-affiliated participants (including regulators) and other stakeholders, setting prices appropriately so as to minimize the impact of higher taxation, and pursuing further cost efficiency.

b. Taxes levied on tobacco

In countries around the world, governments are discussing increases in tobacco excise taxes to secure public finances and promote public health, and are actually raising taxes in some cases. Some countries are also implementing increases in taxes such as consumption tax or value-added tax (VAT) with the aim of improving public finances.

It is difficult to predict changes in the types of taxes or tax rates imposed on tobacco products in various countries, and if tax hikes are implemented at an unexpected timing, frequency or rate of increase, or in a region where tax hikes were not anticipated, the Group may be unable to react to such tax hikes promptly and appropriately.

Increases in tobacco taxes may, if accompanied by a hike in retail prices, push down demand, move consumers toward lower priced brands, or cause or increase illicit trade such as smuggling and counterfeiting. On the other hand, if there is no retail price hike, such tax increases may cause the earnings structure of the tobacco business to deteriorate. As such, either case may negatively affect the Group's business performance.

The Group is implementing measures such as offering products that match the changing preferences and behaviors of consumers, optimizing its product portfolio, securing positions in multiple markets capable of generating continuous profit rather than in just one specific market, gathering information on trends pertaining to tax increases with greater speed and accuracy, engaging in constructive dialogue with governments and regulators, setting prices appropriately so as to minimize the impact of higher taxation, and pursuing further cost efficiency.

c. Regulations on tobacco products

- Situation overseas

The regulatory environment for tobacco is getting stricter year by year, in the wake of the Framework Convention on Tobacco Control (FCTC), which came into force in February 2005.

The purpose of the FCTC is to control continuously and substantively the proliferation of smoking. Its provisions include price and tax measures; non-price measures to reduce demand (including protection from passive smoking, testing and measuring the contents and emissions of tobacco products and their information disclosure, product packaging and labeling, regulations on tobacco advertising, promotion and sponsorship), and measures related to the reduction of tobacco supply (including prevention of illicit trade and prohibition of sale of tobacco products to minors). The Japanese government ratified the framework in June 2004.

All Parties to the FCTC are obligated to develop, implement, periodically update and review strategies, plans and programs for tobacco control. However, each party, has a right to determine the content, scope and specific implementation method of their own tobacco control. After coming into force, the Parties of FCTC continue their discussions through regularly holding the Conferences of the Parties (COP) in order to develop the protocols (for which additional ratification, acceptance, accession and other are required to the FCTC Parties) and guidelines in view of implementation of each FCTC provision.

Specific regulations are also undertaken in each country. For example, Russia, a key market of the JT Group, enacted the comprehensive tobacco control law in February 2013 and has gradually been implementing it since June 2013. The law includes a retail display ban; restrictions on sales of tobacco products in certain retail stores; a ban on advertising, sponsorship and promotions; the introduction of minimal pricing; a ban on smoking in public places; and anti-illicit trade measures.

In addition, the EU revised the EU Tobacco Product Directive (EU TPD) announced in July 2001 and it entered into force in May 2014. The revised Directive includes the tightening of packaging and labeling regulations; restrictions on the use of additives including menthol for cigarettes and Fine Cut; regulations related to electronic cigarettes; and anti-illicit trade measures. Each member state has introduced their national regulations based on the revised Directive.

Furthermore, the Australian government introduced plain packaging in December 2012, which prohibits displaying logos, brand images or promotional text on tobacco packages. The regulation only allows product names to be displayed in the prescribed color, font, font size and font color. Various countries including France, U.K. and others have also introduced and legislated similar regulations, while other countries have been discussing or determining its implementation.

For example, there are signs of increasing regulations on electronic cigarettes, such as the introduction of regulations banning the sale of some flavored electronic cigarettes by the U.S. federal government.

Although it is difficult to accurately predict the content of future laws and regulations relating to sales activities, marketing, packaging and labeling, tobacco products and smoking, the Group expects various regulations, including those like the ones above, to spread across Japan and other countries.

- Situation in Japan

The Tobacco Business Act, related acts and statutes and voluntary standards set forth the regulations for the sale and promotion activities of tobacco products in Japan that include the indication of warning labels on tobacco product advertisements and packages that urge caution over the relationship between the consumption of tobacco products and health.

In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised including the wording of the cautions over the relationship between the consumption of tobacco products and health indicated on tobacco product packages and, starting July 2005, all tobacco products sold in Japan have been in conformity to the revised regulations. In addition, the Japanese Minister of Finance has indicated a "Guideline for Advertising of Tobacco Products" (hereinafter, "Advertising Guideline") based on the Tobacco Business Act, Article 39 (warning labels) and Article 40 (recommendations, etc. relating to advertising). The Advertising Guideline was revised in March 2004 in accordance with the revision of the Ordinance for Enforcement of the Tobacco Business Act mentioned above (for details, see (3) c. (i), Notes 2 and 3 below).

The Tobacco Institute of Japan (TIOJ) has established voluntary standards regarding the advertising and sales promotion activities for tobacco products. We comply with these standards together with all other TIOJ members. In February 2016 under the Financial System Council tobacco business subcommittee meeting, a new labeling sub-committee was established, which performed a specialized investigation in relation to means of the Advertising Guideline. The labeling sub-committee reported the results of its investigation to the tobacco business subcommittee in June 2016, and as a result of further discussions conducted within the tobacco business subcommittee, "Review of Warning Labels Regulations / Advertising Regulations" was published on December 28, 2018. Based on the aforementioned review and a promulgation of a partial amendment of the Ordinance for Enforcement of the Tobacco Business Act; the Advertising Guideline; and Related Notices of the Tobacco Business Act on June 14, 2019, the Tobacco Institute of Japan revised the voluntary standards on the same day (for details of the amendment of the Ordinance for Enforcement of the Tobacco Business Act and the Advertising Guideline, see (3) c. (i), Notes 4 and 5 below). There are four criteria in this revision: the revision of standards for tobacco products; establishment of new rules for heated tobacco products; establishment of new rules for heated tobacco product devices; and establishment of new rules for business activity relating to tobacco and television advertising to advocate the improvement of smoking manners.

With regard to the caution on tobacco product packages, the revision required (a) caution statement changes on tobacco product packages by July 1, 2020 and (b) more restrictive advertisement measures for tobacco products. The changes in (a) included wording revision, which reflects the latest scientific knowledge, and increasing the area of the statements at least 50% on the surface. With regard to (b), the measures included more effective ways to prevent minors' access to internet advertisements and new restrictions on the size and presentation methods for point-of-sale advertising.

The enactment of the Partial Amendment of the Health Promotion Act (Act No. 78 of July 25, 2018) (hereinafter, the "Act") in July 2018 strengthened measures to prevent unwanted passive smoking at facilities used by numerous people. The Act classifies the facilities into three types in terms of measures to take: Facility Type 1 includes schools, hospitals and administrative agencies; Facility Type 2 includes restaurants, offices, factories and any other facilities that do not fall under Facility Type 1 or facilities whose main purpose is not for smoking; and other facilities that do not fall in Facility Type 1 or 2 whose main purpose is to provide a place for smoking (includes public smoking areas, bars that are mainly for smoking, and tobacco retailers where on-premise smoking is allowed). Facility Type 1 prohibits smoking within its site but allows designated outdoor smoking areas if they meet all of the requirements. Facility Type 2 prohibits indoor smoking but allows designated smoking rooms, etc. after meeting certain criteria. Additionally, a restaurant can allow indoor smoking once it meets certain requirements. Facilities whose main purpose is to provide a place for smoking allow smoking within their sites. The Act was enacted fully on April 1, 2020, and the Group recognizes that the number of smoking places will diminish as a result. The Group forecasts a certain level of impact on its business performance while it is difficult to predict the anticipated changes in smoking environment.

- Impact on the Group's business performance

Although it is impossible to predict the content of future laws, regulations and industry guidelines relating to sales activities, marketing, packaging and labeling, tobacco products and smoking, the Group expects regulations like the above and new regulations (including those of local governments) to diffuse in countries where the Group sells its tobacco products.

The Group's position is to support any regulation relating to tobacco that is appropriate and reasonable. Nevertheless, if regulations such as those mentioned above are tightened, or if the Group is unable to respond to this tightening of regulations in a timely and appropriate manner, subsequent declines in tobacco demand or market share, costs for compliance with new regulations or other factors may negatively affect the Group's business performance. In the tobacco business, the Group is implementing measures such as gathering information on regulatory trends with greater speed and accuracy, and engaging in constructive dialogue with governments, regulators, and various stakeholders.

d. Illicit trade such as smuggling and counterfeiting

The Group has formulated a sustainability strategy, and each business has also set out its own focus areas and works continuously on a variety of sustainability issues. In the tobacco business, the Group has selected Regulatory Environment and Illicit Trade as one of its focus areas, and is working to execute countermeasures. One of the most serious issues in the tobacco industry is the increase of illicit trade, including smuggling and counterfeit product distribution. Motivations for illicit trade are believed to include the high profit margin of tobacco products and cross-border price gaps arising from different taxation systems and tax levels among countries. As historical evidence shows, illicit trade in a market tends to increase after a steep tax increase.

Illicitly traded products not only significantly damage the credibility of brands and the companies that own those brands, but also negatively affect governments' tax revenues. Therefore, the Group and other tobacco companies are working together with governments to eliminate illicit trade.

The Group is making efforts towards countermeasures, such as by concluding cooperation agreements to counter illicit trade with the EU (including its member countries) and the governments of Canada and all its provinces and territories, respectively. Even so, growth in illicit trade such as smuggling and counterfeiting of tobacco products may negatively affect the Group's business performance because of consequences including damage to its brand equity or the need for substantial expenses for countermeasures and the like to eliminate illicit trade. In order to protect consumers and society, as well as the business and the reputation of the Group, the Group has formed an Anti-Illicit Trade team that works to prevent illicit trade. The Anti-Illicit Trade team works with the Group's various markets to prevent genuine products being diverted into illegal channels, and cooperates with law enforcement to remove illegal tobacco products from the marketplace. Making use of public-private partnerships, the team maintains proactive dialogues with governments and law enforcement authorities in various countries in relation to the threat posed by illicit trade, and has established programs around the world to educate law enforcement on how to recognize counterfeit products.

The Group also deploys and operates a Track and Trace system for tobacco products, enabling it to track and analyze the movement of products through the supply chain. For more than a decade, this Track and Trace system has played an important role in our compliance policy, and although it was at first a voluntary initiative, legislation has recently been drawn up to make such Track and Trace systems mandatory. In addition to systems already deployed in the United Arab Emirates, Saudi Arabia and Russia, an EU directive for the first regional-level tobacco products Track and Trace system applicable to all member states came into force in May 2019.

Furthermore, in accordance with our rigorous compliance policy, the Group implements measures to prevent illicit trade, such as by dealing only with reputable business partners, and raising awareness among consumers of the negative impact of purchasing unregulated products.

Risks relating to the Pharmaceutical Business

a. Research and development, manufacture and sale of pharmaceutical products

The Pharmaceutical Business engages in research and development so as to swiftly provide original and revolutionary new drugs to patients around the world. New drug development requires the Group to invest enormous amounts of time and money, and the hurdles to discovering new drugs become higher every year. In some cases development is delayed or canceled when the anticipated results in terms of efficacy and safety cannot be confirmed during development or when unexpected side effects occur during development. Such cases may have a negative impact on the performance of the Group by failing to achieve the expected investment returns, or by delaying said returns, amongst other effects.

In addition, although the pharmaceuticals thus developed undergo stringent examinations before being approved by the governmental agencies with jurisdiction in various countries around the world, if unexpected side effects and the like are discovered after the product goes on sale that subsequently develop into a suspension of sales or a product recall, such a situation could negatively impact the performance of the Group by causing a decline in revenue, the occurrence of expenses related to the suspension of sales or product recall, or the decline of public trust in the Group.

The Pharmaceutical Business maximizes effective use of its resources by focusing on fields of treatment where it can leverage the small-molecule drug knowledge and platform that it has built up over the years, and is also working to shorten research and development time, and reduce R&D costs, by utilizing AI and data science to improve the efficiency of drug discovery research. Furthermore, through collaborative initiatives with companies and academic institutions in Japan and overseas aimed at establishing proprietary drug discovery technology, the Pharmaceutical Business seeks to construct a stable earnings base by accelerating R&D, raising the hit rate for drugs discovered, and broadening the pipeline by actively licensing and adopting new compounds.

With regard to side effects, the Pharmaceutical Business collects and evaluates safety information after pharmaceutical products are launched, and takes other measures necessary to ensure the safety and appropriate use of its pharmaceutical products.

b. Regulation and healthcare policy

The Pharmaceutical Business operates under regulations, imposed by the policies of various countries, that seek to ensure the quality, effectiveness and safety of pharmaceutical products. The environment in which the pharmaceutical industry operates is expected to remain challenging, due to such factors as attempts by various governments to control healthcare costs, and the drastic reform of the drug pricing system in Japan. In the event that pharmaceutical regulations are made more stringent, the Group may incur additional costs to ensure that products comply with strengthened rules. In the event of drug prices being lower than expected as a result of trends in healthcare systems or regulatory policies, including reform of drug price standards, Group revenue may decline. In either case there would be negative effects on the performance of the Group.

The Pharmaceutical Business is working on other appropriate measures to deal with these issues, in addition to following pharmaceutical regulations and drug price standards, such as continuous monitoring of regulatory trends to get a grasp of the details of amendments at an early stage. With regard to drug prices, in addition to continuously creating innovative products, the Pharmaceutical Business is putting together the evidence that demonstrates the scientific basis for the value they provide.

c. Dependency on specific licensees/contract manufacturers

The Group’s Pharmaceutical Business has been striving to make stable profit contribution to the Group through the promotion of R&D on next-generation strategic products and by maximizing the value of each product. With regard to research and development, the Group is further broadening pre-clinical research themes as well as constructing a high-precision research strategy that emphasizes “first in class” discoveries. Its aim is to use these to drive forward R&D for next-generation strategic products, while implementing initiatives at the perfect time to maximize the value of licensing activities for proprietary compounds, and cooperating closely with licensing partners. In addition, manufacture of each product is contracted to external manufacturers, and the Group seeks to maintain close relationships with these companies. In the event that agreements with these contract manufacturers are changed or terminated, or in the event that the partnership suffers from delays or congestion, the returns expected at the point at which the agreement was concluded may not be achieved, or returns may be delayed, with a resulting negative impact on the performance of the Group.

When considering a partnership, the Pharmaceutical Business makes a judgment as to whether to approve or reject based on a multilateral analysis and evaluation. When concluding an agreement, it anticipates risks that could emerge, and engages in discussions to form a consensus on how to mitigate them. In addition, even during a partnership it seeks to enhance the quality of the relationship by working continuously to maintain and develop it further.

Risks relating to the Processed Food Business

a. Food safety and quality

The mission of the Processed Food Business is to provide consumers with safe and high-quality food. The frozen and ambient foods business, the seasonings business, and the bakery business that make up the three core operations are each responsible for food safety control functions, and take all possible measures to ensure food safety control during the operation of the business. However, in the event that problems related to food safety or quality occur that exceed those anticipated by the Group, in addition to a decline or impairment of public trust in the Group, costs related to product recalls and demands for compensatory damages may be incurred, which could negatively impact performance.

In addition to conducting continuous quality assurance activities aimed at providing safe and secure products from the four perspectives of Food Safety, Food Defense, Food Quality, and Food Communication, the Processed Food Business confirms their effectiveness through periodic audits. With the objective of constructing a management system platform to achieve the highest levels of food safety, the Company has drawn up policies, rules and guidelines related to food safety control for the Processed Food Business as a whole, and monitors the initiatives of each operating company in their operation. In addition, excluding one factory that began operations in fiscal 2020, all of the Group's factories inside and outside Japan, as well as the Group's business partners' factories that produce frozen foods, have achieved certification under the ISO 22000 or FSSC 22000 international standards for food safety management. The one remaining factory is currently in the process of obtaining certification for both ISO 22000 and FSSC 22000.

b. Food regulations

The Processed Food Business is subject to a variety of legal restrictions, such as the Food Safety Basic Act, the Food Sanitation Act, and the Food Labeling Act. The mission of the Processed Food Business is to provide consumers with safe and high-quality food, and the Group operates a thorough program of compliance to ensure conformity with all these legal restrictions. However, in the event that legal restrictions are introduced or changed, additional costs may be incurred to comply with these regulations, or existing business activities may be restricted, leading to a negative impact on the Group's business performance.

In addition to conducting advance preparations by continuously monitoring for regulatory introductions and amendments, gathering information as appropriate, and considering additional countermeasures, the Processed Food Business responds to circumstances as required.

(3) Other Factors Which May Materially Affect Investment Decisions

a. Relations with the Japanese government and the Minister of Finance

The JT Act obligates the government to continue to hold more than one-third of all the Company's shares issued. As of December 31, 2021, the government held 33.35% of all the Company's shares issued. As a consequence, the Japanese government is able to have a substantial influence on proposals for ordinary resolutions at the Company's General Meetings of Shareholders such as the election of Members of the Board. Furthermore, the Japanese government has the veto power for special resolutions for such actions as mergers, capital reductions or amendments to the Articles of Incorporation.

In addition, the Minister of Finance has the authority to supervise the Company under the JT Act and Tobacco Business Act. Under the JT Act, the scope of the Company's businesses includes the "manufacture, sale and importation of tobacco products and ancillary businesses, as well as businesses required for attaining the objective of the Company," and "business required for attaining the objective of the Company" are subject to the Minister of Finance's approval. Consequently, the Minister of Finance's approval is required in order for the Company to engage in new businesses outside the scope of currently-approved businesses (for details, see c. (ii) below).

As mentioned above, in addition to the Japanese government's rights as a shareholder of the Company, the government has the authority to supervise the Company and other powers under the JT Act and Tobacco Business Act. Since it cannot be guaranteed that the interests of the government will always coincide with the interests of other shareholders, this may have a negative effect on the interests of other shareholders.

Under the "Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake," which was promulgated on December 2, 2011, the government makes it a principle to secure revenue to fund reconstruction resources until the fiscal year ending March 31, 2023. To this end, it is required for an examination to be made of the feasibility of selling the Company's shares by reassessing the framework under which the government holds the shares, while taking into consideration the framework of the country's commitment to tobacco-related business based on the Tobacco Business Act and the like.

b. Purchasing of leaf tobacco

The Tobacco Business Act requires the Company to annually enter into purchase contracts with tobacco growers regarding the aggregate cultivation area for specific varieties of leaf tobacco and the prices for leaf tobacco by variety and grade. The Company must purchase all leaf tobacco produced pursuant to such contracts, except for any not suited for the manufacture of tobacco products. When the Company decides the aggregate cultivation area and the prices of leaf tobacco for its contracts with tobacco growers, it is required to respect the opinion of the Leaf Tobacco Council (hatabako shingi kai), which consists of members appointed by the Company with the approval of the Ministry of Finance from among the representatives of domestic leaf tobacco growers and academic appointees (for details, see c. (i) below). Much like many other agricultural products in Japan, production costs for domestically-grown leaf tobacco is higher than those of foreign-grown leaf tobacco to the extent that the purchasing price for the former (before redrying) is approximately three times that of the latter (after redrying). The obligation to purchase virtually all leaf tobacco produced in Japan may adversely impact the Group's relative competitiveness because other global tobacco companies use foreign-grown leaf tobacco only.

c. Legal matters relating to the business of filing company

(i) Tobacco Business Act (Act No. 68 of August 10, 1984)

	Description
1. Purpose	The object of this Act is, in consideration of the tax relating to tobacco products as a portion of the treasury revenue incidental to the abolishment of the tobacco monopoly system, to promote a sound development of the tobacco industry in our country by making necessary adjustments in the production and purchase of domestically produced leaf tobacco as raw material for tobacco products and in business activities etc. of manufacture and sale of the tobacco products, whereby it will contribute to ensuring treasury revenue and a sound development of the national economy. (Article 1)
2. Cultivation and purchase of domestically grown leaf tobacco for use as raw material	(1) When intending to purchase the domestically produced leaf tobacco, Japan Tobacco Inc. (hereinafter, "JT") shall enter into agreements in advance with those who intend to cultivate leaf tobacco for the purpose of selling it to JT regarding the cultivation area for each item of leaf tobacco and the prices for each item and each grade of the leaf tobacco. (Article 3) (2) JT shall purchase all leaf tobacco produced pursuant to such agreements, except those which are not suitable as raw materials for tobacco products. (Article 3) (3) In the case where JT intends to enter into an agreement, JT shall consult with the Leaf Tobacco Council that JT establishes, and respect its opinion concerning the total cultivation area and the prices of leaf tobacco. (Articles 4 and 7) (4) The Leaf Tobacco Council shall deliberate on the price of the leaf tobacco so that subsequent production of leaf tobacco is ensured, by taking into account the production costs, commodity prices and other economic conditions. (Article 4) (5) JT shall determine the regional breakdown of the aggregate cultivation area for the respective items of leaf tobacco seeking the opinion of the Japan Tobacco Growers Association (hereinafter, "JTGA") and, within the scope of such regional breakdown, enter into agreements with growers. (Article 5) (6) If a member grower of a tobacco growers association entrusts JTGA with entering into an agreement regarding fundamental matters of the agreements such as the price of leaf tobacco, JT shall establish said fundamental matters with JTGA and such agreement shall be deemed as a part of the agreements executed between JT and said grower. (Article 6)
3. Manufacture of tobacco products	(1) No tobacco products shall be manufactured by any party other than JT. (Article 8) (2) JT shall obtain the approval of the Minister of Finance on the maximum wholesale price for each item of tobacco products. (Article 9) (3) JT shall make efforts to ensure a smooth supply of tobacco products taking into account regional demand conditions for tobacco products. (Article 10)
4. Sale of tobacco products	(1) A party wanting to engage in the sale of tobacco products imported by themselves shall register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, "Specified Distributor"). (Articles 11 to 19) (2) A party wanting to engage in the wholesaling of tobacco products shall, for the time being, register with the Minister of Finance, who establishes necessary regulations relating to said registration and registered party. (Articles 20 and 21) (3) A party wanting to engage in the retailing of tobacco products shall, for the time being, obtain the approval of the Minister of Finance, who establishes necessary regulations relating to said registration and registered party (hereinafter, "Retailer"). (Articles 22 to 32) (4) If JT and a Specified Distributor want to sell manufactured or imported tobacco products, the list price of each item, and any subsequent change thereof, shall be approved by the Minister of Finance for the time being. Necessary regulations are in place with respect to the approval: for example, the Minister of Finance shall grant approval unless it deems such price is unfair to consumers, etc. (Articles 33 to 35) (Note 1) (5) A Retailer is only permitted to sell tobacco products at list prices that have been approved by the Minister of Finance. (Article 36)

	Description
5. Other	(1) JT or a Specified Distributor shall indicate the wording as prescribed by Ordinance of the Ministry of Finance for warning consumers of the relationship between the consumption of tobacco products and health prior to the commencement of sale of the tobacco products that it manufactured or imported. (Article 39)(Notes 2, 4) (2) Advertisers of tobacco products shall give due consideration to the prevention of smoking by minors, etc. and make efforts lest such advertisement should be made to an excessive extent. The Minister of Finance may implement necessary measures with respect to advertisers. (Article 40) (Notes 3, 5)

Notes: 1. The so-called list price system is maintained for the time being as a means to prevent confusion in the distribution order, a well-established constant that materialized after the list price system was adopted in 1904.

Tobacco is a luxury item different from the so-called public property and public services and, in a distribution market completely liberalized after the opening of import markets and other factors, the Company and Specified Distributors stipulate prices on application (POA) to the Minister of Finance based on their respective, independent management decisions.

Concerning the approval of list prices, the Company understands that a government delegate gave the following explanation of the gist of the process at the 1984 Diet deliberations on the proposed Tobacco Business Act:

Pertaining to tobacco product list prices, under the Tobacco Business Act, in the event an application is made for the approval of list prices, the Minister of Finance may exceptionally deny approval if it deems such list price unfair to consumers or unfairly low in comparison with wholesale prices of domestic products or import prices of imported products. In all other cases, the Minister approves list prices in line with the spirit of Tobacco Business Act.

2. In November 2003, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on tobacco product packages was changed to specify risks related to eight items, four of which are diseases associated with direct smoking (lung cancer, heart attack, stroke and emphysema), while the other four are smoking by pregnant women, passive smoking, addiction to smoking and youth smoking. Each tobacco product package must indicate, on its main surfaces, a warning regarding at least one of the four items associated with direct smoking and at least one of the other four items. The Ordinance stipulates, among others, (1) that these warnings must be rotated throughout the year in ways to ensure that they receive equal exposure on each product item and each type of package and (2) that the display must occupy 30% or more of the main surfaces of the package. In addition, the Ordinance stipulates that when wording like “mild” and “light” are used on the package, they must be accompanied by a warning that clarifies that such words do not mean that the risk to their health is lower than other tobacco products so as to prevent consumers from misunderstanding the relationship between the consumption of tobacco products and health. The Company has been adhering to this rule since July 1, 2005.
3. In March 2004, the “Guideline for Advertising of Tobacco Products” was revised to stipulate that the outdoor advertising of tobacco products (posters, billboards, etc.) shall generally be prohibited. It also specifies matters concerning the presentation and content of the health warnings that accompany tobacco advertising.
4. In June 2019, the Ordinance for Enforcement of the Tobacco Business Act was revised and the wording of warnings concerning tobacco consumption and health indicated on tobacco product packages was changed. According to the revision of this Ordinance, new warnings were established for heated tobacco products. Also, the Ordinance stipulates that a tobacco product package must indicate, on its front main surface, warnings about the effects on others and, on its back main surface, warnings about the prevention of smoking by minors, (persons under 20 years of age) and the effects on the smoker. The display of these warnings must occupy 50% or more of each main surface of the package. In addition, the Ordinance stipulates that when wording like “mild” and “light” are used on the package, they must be accompanied by a warning on the front main surface of the package that clarifies that such words do not mean that the risk to their health is lower than other tobacco products. Because the display of nicotine and tar levels on tobacco product packages may mislead consumers into thinking that the displayed levels indicate a lower risk to their health, the Ordinance also stipulates that the package must indicate that the actual intake levels of nicotine and tar could vary from the displayed levels depending on the consumer’s smoking style. The display of these warnings is required for heated tobacco products and cigarettes with a certain volume (cigarette sales volume of 0.1 billion or more cigarette equivalent units from April 2018 to March 2019) shipped from April 1, 2020 and for other products shipped from July 1, 2020.
5. In June 2019, the “Guideline for Advertising of Tobacco Products” was revised to limit the locations where tobacco products can be advertised and, excluding distribution by mail, etc., where tobacco product samples, leaflets, brochures, pamphlets, etc. can be distributed to locations where tobacco products are sold, designated smoking areas and locations restricted to use by adults only. It also specifies matters concerning the presentation and content of the health warnings that accompany tobacco advertising and the matters concerning the devices used to heat heated tobacco products.

(ii) Act on Japan Tobacco Inc. (Act No. 69 of August 10, 1984)

	Description
1. Purpose	Japan Tobacco Inc. ("JT") is a stock company whose purpose is to engage in business related to the manufacture, sale, and importation of tobacco products in order to attain the objectives set forth in Article 1 of the Tobacco Business Act. (Article 1)
2. Stock	The Japanese government must continue to hold more than one-third of all Japan Tobacco Inc. ("JT") shares issued (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the General Meeting of Shareholders; the same shall apply to the following items). (Article 2, paragraph 1) Whenever JT intends to solicit subscribers for an issuance of shares or subscription rights to shares of JT, or deliver shares (excluding own shares), subscription rights to shares (excluding subscription rights to treasury shares), or issuance of bonds with subscription rights to shares (excluding bonds with subscription rights to treasury shares) at the time of share exchange or delivery, the approval of the Minister of Finance is required. (Article 2, paragraph 2) The disposal of JT shares held by the government shall be effectuated within the maximum range stipulated by resolution of the Diet based on the budget of the corresponding year. (Article 3)
3. Scope of business	JT shall engage in the following businesses in order to attain the objectives stated in 1 above. (1) business of manufacture, sale and importation of tobacco products (2) business incidental or relating to the business in the preceding item (3) other business required for attaining the object of JT JT shall obtain authorization from the Minister of Finance before engaging in any business corresponding to (3) above. (Article 5)
4. Monitoring	(1) The appointment or dismissal of Members of the Board, Executive Officers (*sikkoyaku at a company with committees*), and Audit & Supervisory Board Members require authorization from the Minister of Finance. (Article 7) (2) Amendments to JT's articles of incorporation, appropriations of surplus (except disposal of losses), and any merger, corporate split, or dissolution of JT require authorization from the Minister of Finance. (Article 8) (3) JT shall formulate a business plan prior to each business year and obtain authorization from the Minister of Finance. Any change thereof also requires authorization from same. (Article 9) (4) Within three months after the closing of each business year, JT shall issue its balance sheet, statement of income, and business report to the Minister of Finance. (Article 10) (5) Transfers of manufacturing facilities or similar material assets require authorization from the Minister of Finance. (Article 11) (6) The Minister of Finance shall monitor JT in accordance with this Act as well as the Tobacco Business Act and may implement necessary measures in the execution of same. (Articles 12 and 13)

(iii) Acts relating to tobacco excise taxes (including tobacco special excise taxes)

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="4">Description</td></tr>
<tr><td>National Tobacco Excise Tax</td><td>National Tobacco Special Excise Tax</td><td colspan="2">Local Tobacco Excise Tax</td></tr>
<tr><td colspan="2">1. Tax item (Note 1)</td><td>Tobacco Excise Tax</td><td>Tobacco Special Excise Tax</td><td>Prefectural Tobacco Excise Tax (also applies to Tokyo)</td><td>Municipal Tobacco Excise Tax (also applies to special wards)</td></tr>
<tr><td colspan="2">2. Taxpayers (Note 2)</td><td colspan="2">Manufacturers of tobacco products or those who remove tobacco products from bonded areas</td><td colspan="2">Manufacturers of tobacco products, Specified Distributors or wholesalers selling to Retailers</td></tr>
<tr><td colspan="2">3. Tax base (Note 3)</td><td colspan="2">Number of cigarettes removed from the manufacturing site or bonded area (for tobacco products other than cigarettes, prescribed cigarette count conversion)</td><td colspan="2">Number of cigarettes relating to sales to Retailers (for tobacco products other than cigarettes, prescribed cigarette count conversion)</td></tr>
<tr><td colspan="2">4. Tax rate (Notes 4, 5)</td><td>¥6,302 per 1,000 cigarettes</td><td>¥820 per 1,000 cigarettes</td><td>¥1,000 per 1,000 cigarettes</td><td>¥6,122 per 1,000 cigarettes</td></tr>
<tr><td></td><td>On and after October 1, 2021</td><td>¥6,802 per 1,000 cigarettes</td><td>¥820 per 1,000 cigarettes</td><td>¥1,070 per 1,000 cigarettes</td><td>¥6,552 per 1,000 cigarettes</td></tr>
<tr><td colspan="2">5. Declaration and payment (Note 6)</td><td colspan="2">Tobacco product manufacturers are to declare and pay taxes for each month's shipment by the end of the following month. Parties removing tobacco products from bonded areas are to declare and pay taxes by the time of extraction</td><td>For sales of tobacco products relating to sales locations of Retailers located within a given prefecture, a declaration and payment of taxes is to be made to that prefecture for each month's transfer by the end of the following month</td><td>For sales of tobacco products relating to sales locations of Retailers located within a given municipality, a declaration and payment of taxes is to be made to that municipality for each month's transfer by the end of the following month</td></tr>
</table>

Notes: 1. Article 3 of the Tobacco Excise Tax Act, Article 4 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 1, paragraph 2 and Articles 4 and 5 of the Local Tax Act

2. Article 4 of the Tobacco Excise Tax Act, Article 5 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Article 74-2, paragraph 1 and Article 465, paragraph 1 of the Local Tax Act

3. Article 10 of the Tobacco Excise Tax Act, Article 7 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-4 and 467 of the Local Tax Act

4. Article 11, paragraph 1 of the Tobacco Excise Tax Act, Article 8, paragraph 1 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-5 and 468 of the Local Tax Act

5. Concerning "4. Tax rate"

   As a result of the 2018 Tax Reform, national and local tobacco excise tax rates were reviewed and revised in stages after October 1, 2018, and new tax rates were applied on October 1, 2021.

   As a result of the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 9 of March 31, 2015) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 2 of March 31, 2015), special tax rates for former third-class products (those equivalent to the type of tobacco products stipulated as third-class cigarettes in the Tobacco Product Price Act that was repealed on April 1, 1985) were abolished on October 1, 2019.

6. Articles 17 to 20 of the Tobacco Excise Tax Act, Article 12 of the Act Concerning Special Measures for Financing Debt Transferred to the General Accounts, and Articles 74-10 and 473 of the Local Tax Act

7. In the event the tax system relating to tobacco subject to high excise taxes is examined, on a general basis, as part of a revision of the tax system by the government each year and the tax system is revised, a decision is made upon the deliberation and resolution of the legislature subsequent to the determination of government policy through deliberation by the Tax System Council and other bodies. Relevant government policy is determined once cabinet approval of a bill is secured following the cabinet's approval of an outline of the tax reform proposal.

(iv) Taxation methods applied to tobacco products other than cigarettes

The tax base for the tobacco excise tax is held to be the number of cigarettes, but based on the fact that the number of tobacco products other than cigarettes is not understood, the following tobacco product categories are converted into the equivalent of single cigarettes, based on the respective category weights.

Classification		Tax base	Conversion method
Tobacco products for smoking			
	Pipe tobacco	Number of cigarettes resulting from conversion by weight	Converted at the rate of 1 g per cigarette
	Cigar tobacco		
	Flake tobacco		Converted at the rate of 2 g per cigarette
	Heated tobacco	Separate (refer to the figure below)	
Chewing tobacco products		Number of cigarettes resulting from conversion by weight	Converted at the rate of 2 g per cigarette
Snuff products			

Note: The review of tobacco excise tax caused by the 2020 Tax Reform resulted in a review of the tax base for little cigars (a cigar contains less than 1 g of tobacco per cigar). For details refer to Note 2 for [Main movements relating to the tobacco tax system and the Company's responses] below.

Heated tobacco products were categorized as "pipe tobacco" before the 2018 Tax Reform, and were converted to cigarettes at the rate of 1 g per cigarette, with the cigarette excise tax rate being applied to the resulting number. After the reform a new tax category was established for heated tobacco on October 1, 2018, with these tobacco products being converted to cigarettes at a rate prescribed by the new conversion methods described below. Moreover, with regard to the review of the form of excise taxation for such heated tobacco products, transitional measures have been devised to allow staged implementation between October 1, 2018 and October 1, 2022.

Tax base of heated tobacco			Conversion method
Conversion method before reform	Number of cigarettes resulting from conversion by weight	(A)	Heated tobacco is converted at the rate of 1 g per cigarette
Conversion method after reform	Number of cigarettes resulting from conversion by weight and price	(B)	The prescribed weight of heated tobacco(Note 1) of 0.4 g converts to 0.5 cigarettes
		(C)	Based on the average retail price per cigarette(Note 2), the retail price of heated tobacco (excluding the equivalent of consumption tax) is converted to 0.5 cigarettes.

Notes: 1. Weight does not include weight of filter and certain other goods

2. Calculated by dividing the total of the national and local tobacco excise tax per cigarette, and a figure equivalent to tobacco special excise tax, by 60%

		Conversion volume during the transitional measures period (tax base)
On and before September 30, 2018		(A) × 1.0
Revision	October 2018	(A) × 0.8 + {(B) + (C)} × 0.2
	October 2019	(A) × 0.6 + {(B) + (C)} × 0.4
	October 2020	(A) × 0.4 + {(B) + (C)} × 0.6
	October 2021	(A) × 0.2 + {(B) + (C)} × 0.8
	October 2022	{(B) + (C)} × 1.0

[Main movements relating to the tobacco tax system and the Company's responses]

Month/Year	Item	Description	The Company's response
May 1986	1986 Tax Reform	Tax increase equivalent to ¥900 per 1,000 cigarettes	Fixed price revised by amount equivalent to tax increase
April 1989	1989 Tax Reform	Following the introduction of the consumption tax, "tobacco consumption tax" changed to "tobacco excise tax" and taxation formula unified to a unit tax	Basically, fixed price revision unnecessary
April 1997	1997 Tax Reform	[Revision of Local Tax Act] Local Tobacco Excise Tax revenue transferred from the Prefectural Tobacco Excise Tax to the Municipal Tobacco Excise Tax	Fixed price revision unnecessary
		[Revision of Consumption Tax Act] Consumption tax rate revised from 3% to 5%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
December 1998	1998 Tax Reform	Act Concerning Special Measures for Financing Debt Transferred to the General Accounts established and ¥820 per 1,000 cigarettes of Tobacco Special Excise Tax introduced	Basically, price per cigarette raised by ¥1
May 1999	1999 Tax Reform	[Revision of Special Taxation Measures Act and Local Tax Act] Tax revenue transferred from Tobacco Excise Tax to Prefectural Tobacco Excise Tax and Municipal Tobacco Excise Tax	Fixed price revision unnecessary
July 2003	2003 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥820 per 1,000 cigarettes	Price per cigarette raised by approx. ¥1
July 2006	2006 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥852 per 1,000 cigarettes	Amount equivalent to tax increase shifted to fixed price of all brands with some prices increased higher than said amount
October 2010	2010 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥3,500 per 1,000 cigarettes	With exception of some brands, prices increased higher than the amount equivalent to tax increase
April 2014	2014 Tax Reform	[Revision of Consumption Tax Act] Consumption tax rate revised from 5% to 8%	With exception of some brands, prices raised by ¥10 or ¥20 per pack to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
April 2016	2015 Tax Reform	Acts revising portions of the Income Tax Act, Local Tax Act, among others, established and tax increase by ¥1,000 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥30 to ¥50 per pack
April 2017	2015 Tax Reform	Based on 2015 Tax Reform, tax increase by ¥1,000 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥30 per pack
April 2018	2015 Tax Reform	Based on 2015 Tax Reform, tax increase by ¥1,500 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥40 per pack

Month/Year	Item	Description	The Company's response
October 2018	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
October 2019	2015 Tax Reform	Based on 2015 Tax Reform, tax increase by ¥3,932 per 1,000 cigarettes for former third-class products	For former third-class products, prices raised by ¥90 per pack
	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased by a margin lower than the amount equivalent to tax increase
	2019 Tax Reform	[Revision of Consumption Tax Act] Consumption tax rate revised from 8% to 10%	Prices raised by ¥10 per pack for some brands in an effort to revise fixed prices overall by the amount equivalent to the consumption tax rate revision
October 2020	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
	2020 Tax Reform	Tax increase based on 2020 Tax Reform (Note 2)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
October 2021	2018 Tax Reform	Tax increase based on 2018 Tax Reform (Note 1)	With exception of some brands, prices increased higher than the amount equivalent to tax increase
	2020 Tax Reform	Tax increase based on 2020 Tax Reform (Note 2)	With exception of some brands, prices increased higher than the amount equivalent to tax increase

Notes: 1. The review of tobacco excise tax caused by the 2018 Tax Reform resulted in an increase in the national and local tobacco excise tax rate of ¥3,000 per 1,000 cigarettes, with the establishment of a new tax category for heated tobacco, and a review of the form of excise taxation based on the characteristics of these products. These reviews, viewed from the perspective of mitigating radical change, etc., have been respectively devised as transitional measures, with the former implemented in three stages, in which each stage consists of a ¥1,000 increase per 1,000 cigarettes between October 2018 and October 2021 (with no increase in the rate of excise tax in October 2019), and with the latter implemented in five stages between October 2018 and October 2022.

2. In terms of revisions to the tobacco excise tax arising from the 2020 Tax Reform, the tax base for little cigars (a cigar contains less than 1 g of tobacco per cigar) was revised to specify that one little cigar be converted into the equivalent of one cigarette. Although the results of these reviews came into force on October 1, 2020, from the perspective of mitigating radical change, etc., the proposals apply only to cigars that contain less than 0.7 g of tobacco per cigar, and in this case, a method for converting one cigar into the equivalent of 0.7 cigarette shall be used as a transitional measure from October 1, 2020 to September 30, 2021.

3. Management Analysis of Financial Position, Operating Results and Cash Flows

Major notes concerning the operating results from the viewpoint of the management are as follows.

(Non-GAAP financial measures)

The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group's target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group's performance.

Adjusted operating profit

Adjusted operating profit presented is operating profit (loss) less amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

Furthermore, growth rate in adjusted operating profit at constant FX is also presented as additional information. The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant FX, at mid to high single digit over the mid- to long-term, and will continue to pursue this goal. Adjusted operating profit at constant FX is a financial measurement that excludes foreign exchange effects calculated and translated using the foreign exchange rates of the same period of the previous year and the increase in revenue or profit caused by inflation in some markets calculated using certain methods from core revenue or from adjusted operating profit for the current period in the International Tobacco Business.

The Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29 “Financial Reporting in Hyperinflationary Economies” (hereinafter referred to as “IAS 29”). However, the impact of IAS 29 is not included in the core revenue from the tobacco business and adjusted operating profit at constant FX.

(Core revenue from tobacco business)

Regarding tobacco business, core revenue is disclosed. Specifically, the Domestic Tobacco Business includes revenue from the domestic duty-free market as well as from markets in China, Hong Kong and Macau that are under the control of the Company's China Division, in addition to revenue related to RRP, little cigars and the like, but it excludes revenue related to imported tobacco delivery charges, among others. In addition, the International Tobacco Business includes revenue related to waterpipe tobacco products and RRP, but excludes revenue related to the distribution business and contract manufacturing, among others. Furthermore, growth rate in US dollar-based core revenue from the tobacco business at constant FX is also presented as additional information.

(RRP)

Reduced-Risk Products (RRP) are products with potential to reduce the risks associated with smoking such as heated tobacco products and E-Vapor products.

Heated tobacco products use tobacco leaf, but instead of burning the leaf, they use methods such as heating the leaf to generate vapor (which includes compounds derived from the tobacco leaf) for the user to enjoy.

Conversely, E-Vapor products do not use tobacco leaf, instead using electrical heating of a liquid inside a device or specialized cartridge to generate vapor for the user to enjoy.

The Group is committed to developing, testing and bringing to market such new and innovative products for sustainable growth.

Analyses and examinations concerning the operating results from the viewpoint of the management are as follows.

(1) Business Results

a. Consolidated results

(Billions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Revenue	2,092.6	2,324.8	11.1%
Adjusted operating profit	487.0	610.4	25.4%
Operating profit	469.1	499.0	6.4%
Profit attributable to owners of the parent company	310.3	338.5	9.1%

<Revenue>

Revenue increased by 11.1% from the previous fiscal year to ¥2,324.8 billion, with declines in the Processed Food Business being offset by increases in the Domestic Tobacco Business, the International Tobacco Business and the Pharmaceutical Business. Due to the impacts of the spread of COVID-19, travel restrictions in various countries continued, and although sales volume in the duty-free market increased compared to the previous fiscal year in the tobacco business, it was unable to reach the level prior to the spread of COVID-19. In contrast, in the International Tobacco Business, industry volume remained strong in several markets due to travel restrictions. In addition, in the Processed Food Business, sales of food-service products within the frozen and ambient food business continued to decrease due to factors such as the impact of requests to restrict bar and restaurant operations.

<Adjusted operating profit>

Adjusted operating profit at constant FX increased by 22.9% from the previous fiscal year driven by growth in the Domestic Tobacco Business, the International Tobacco Business and the Processed Food Business, partially offset by a decrease in the Pharmaceutical Business. Adjusted operating profit including foreign exchange effects increased by 25.4% from the previous fiscal year to ¥610.4 billion, mainly due to the favorable foreign exchange effects in the International Tobacco Business.

<Operating profit>

Operating profit increased by 6.4% from the previous fiscal year to ¥499.0 billion, driven by the increase of adjusted operating profit, despite countering factors including the recording of expenses pertaining to the strengthening of the tobacco business and the absence of proceeds from sales of real estate assets due mainly to the sale of the former JT head office building that was recorded in fiscal 2020 because of the relocation of the Company's headquarters.

<Profit attributable to owners of the parent company>

Profit attributable to owners of the parent company increased by 9.1% from the previous fiscal year to ¥338.5 billion, due mainly to an increase in operating profit and an improvement in financing costs.

b. Segment results

Domestic Tobacco Business

(Billions of cigarette equivalent units, Billions of yen)

Domestic Tobacco Business	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Combustible industry volume [Notes 1, 2]	114.9	105.3	(8.4)%
Combustible sales volume [Note 3]	68.7	62.2	(9.5)%
RRP industry volume [Note 4]	40.2	45.1	12.3%
RRP sales volume [Note 5]	3.9	4.6	17.2%
Core revenue	515.7	519.8	0.8%
Adjusted operating profit	168.1	182.4	8.6%

<Combustible sales volume and RRP sales volume>

Combustible industry volume fell by 8.4% from the previous fiscal year as a result of the downtrend in total demand, expansion of the RRP market, impact of the fixed price revision and other factors. The Company's combustible sales volume was hit not only by the decline in combustible industry volume but also by the shift to RRP products and a fall in combustible market share, leading to a 9.5% decrease from the previous fiscal year. Combustible market share of the Company decreased by 0.7 percentage points from the previous fiscal year to 59.1% due to growth in the RRP market and intensified competition among low-end products as a result of downtrading.

RRP industry volume increased by 12.3% from the previous year to 45.1 billion cigarette equivalent units, and the share of the market was 30%. In addition to the increase in RRP industry volume, the Company's RRP sales volume increased by 0.7 billion cigarette equivalent units from the previous fiscal year to 4.6 billion cigarette equivalent units, due to the launch of new RRP products, resulting in a market share for the Company of 10.3% in the RRP category.

Combined combustible industry and RRP volume decreased by 3.0% from the previous year to 150.4 billion cigarette equivalent units, while the Company's sales volume decreased by 8.0% to 66.8 billion cigarette equivalent units, and the Company's market share declined by 2.5 percentage points to 44.4%.

The combined volume of combustibles and RRP manufactured in Japan in the fiscal year ended December 31, 2021 decreased by 5.1 billion cigarette equivalent units, or 6.9%, from the previous fiscal year to 68.3 billion cigarette equivalent units.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business grew by 0.8% from the previous fiscal year due to favorable pricing effects in combustible products and an increase in RRP-related revenue (Note 5), despite the impact of lower combustible sales volume. RRP-related revenue increased by ¥4.0 billion from the previous year to ¥59.8 billion mainly due to an increase in RRP sales volume.

Despite the impact of lower combustible sales volume, adjusted operating profit increased by 8.6% from the previous fiscal year, driven by favorable pricing effects in combustible products and RRP-related revenue growth.

Notes:
1. Combustibles include all tobacco products excluding contract manufactured products, waterpipe, heated tobacco products, oral tobacco and E-Vapor.
2. Combustible industry volume includes sales volume for the whole Japanese combustibles market. Note also that the figure stated above includes little cigars but excludes RRP and the like.
3. In addition to the figure stated above for sales volume, during the fiscal year ended December 31, 2021, 1.7 billion cigarette equivalent units were sold at duty-free shops in Japan, as well as at markets in China, Hong Kong and Macau that are under the control of the Company's China Division (1.8 billion cigarette equivalent units in the previous fiscal year). Note also that the figure stated above includes little cigars but excludes RRP and the like.
4. RRP industry volume includes sales volume for the whole Japanese RRP market (converted at the equivalent of 20 combustibles per pack). Note also that the figure stated above excludes devices and associated accessories, etc.
5. RRP sales volume does not include sales volume sold at duty-free shops in Japan. Also, RRP-related revenue includes revenue from duty-free shops in Japan and revenue from devices and associated accessories, etc.
6. Figures for industry volume and market share were estimated by the Company.

International Tobacco Business

(Billions of cigarette equivalent units, Billions of yen)

International Tobacco Business	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Total shipment volume (Note 7)	435.7	460.2	5.6%
GFB shipment volume (Note 8)	282.0	311.7	10.5%
Core revenue	1,250.8	1,482.1	18.5%
Adjusted operating profit	340.9	454.4	33.3%

(Millions of US dollars)

International Tobacco Business (US dollar-based)	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Core revenue	11,724	13,468	14.9% [10.6%]
Adjusted operating profit	3,181	4,157	30.7% [29.6%]

* The figures in parentheses "[]" show change from the previous fiscal year at constant FX (US dollar-based)

<Total shipment volume and market share>

Total shipment volume rose 5.6% from the previous fiscal year, due to rising market share in multiple markets and favorable inventory adjustments, as well as increases in domestic demand in some markets following travel restrictions and reduction in illicit trade. Total shipment volume excluding the favorable inventory adjustments rose by 4.6% from the previous year. Market share rose in all main markets, as well as various other markets such as the Philippines.

GFB shipment volume rose by 10.5% from the previous year, driven by Winston (+10.1%) and Camel (+24.1%).

The volume manufactured overseas including outsourced manufacturing in the fiscal year ended December 31, 2021 increased by 14.2 billion cigarette equivalent units, or 3.2%, from the previous fiscal year to 461.8 billion cigarette equivalent units.

<Core revenue from tobacco business and adjusted operating profit>

Core revenue from the tobacco business and adjusted operating profit increased by 18.5% and 33.3%, respectively, from the previous fiscal year as a result of favorable volume effects, pricing and foreign exchange effects.

US dollar-based core revenue from the tobacco business including foreign exchange effects increased by 14.9% from the previous year as a result of the positive volume effects and the effects of favorable pricing in Taiwan, Turkey, Russia, etc. At constant FX, it increased by 10.6% from the previous fiscal year.

US dollar-based adjusted operating profit including foreign exchange effects increased by 30.7% from the previous year as a result of the effects of favorable pricing and the volume effects, etc. At constant FX, it increased by 29.6% from the previous fiscal year.

The Regional Breakdown of International Tobacco Business (Note 9)

Results of International Tobacco Business in each region are as follows.

(Billions of cigarette equivalent units, Billions of yen, Millions of US dollars)

		Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
South and West Europe				
	Total shipment volume (Note 7)	66.3	69.1	4.2%
	GFB shipment volume (Note 8)	55.7	58.8	5.7%
	Core revenue	219.4	245.1	11.7%
	Core revenue (US dollar-based)	2,052	2,236	8.9% [4.7%]
North and Central Europe				
	Total shipment volume (Note 7)	63.4	67.9	7.1%
	GFB shipment volume (Note 8)	33.3	37.9	13.7%
	Core revenue	272.0	312.7	15.0%
	Core revenue (US dollar-based)	2,549	2,848	11.7% [5.7%]
CIS+				
	Total shipment volume (Note 7)	122.2	126.2	3.3%
	GFB shipment volume (Note 8)	82.8	90.7	9.6%
	Core revenue	294.3	342.4	16.4%
	Core revenue (US dollar-based)	2,755	3,116	13.1% [14.8%]
Rest-of-the-World				
	Total shipment volume (Note 7)	183.8	197.0	7.2%
	GFB shipment volume (Note 8)	110.2	124.3	12.7%
	Core revenue	465.2	581.9	25.1%
	Core revenue (US dollar-based)	4,367	5,268	20.6% [13.6%]

* The figures in parentheses "[]" show change from the previous fiscal year at constant FX (US dollar-based)

Notes: 7. Includes fine cut tobacco, cigars, pipe tobacco, snus, kretek and heated tobacco products, except for contract manufacturing products, waterpipe tobacco products and E-vapor products.

8. GFB (Global Flagship Brands) consists of four brands, which serve as flagships of the Group's brand portfolio - Winston, Camel, MEVIUS, LD.

9. To make the Group's International Tobacco Business more deeply understood, this segment has been divided into four regions (South and West Europe, North and Central Europe, CIS+ and Rest-of-the-World). South and West Europe includes France, Italy and Spain; North and Central Europe includes Germany and the U.K.; CIS+ includes Romania and Russia; and Rest-of-the-World includes Iran, Taiwan and Turkey.

* The exchange rates of currencies against the US dollar for the fiscal year ended December 31, 2021 were as follows.

Foreign exchange rate per US dollar	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change	
USD/JPY	106.76	109.90	3.14	2.9% depreciation
USD/RUB	72.07	73.66	1.59	2.2% depreciation
USD/GBP	0.78	0.73	(0.05)	7.3% appreciation
USD/EUR	0.88	0.85	(0.03)	3.8% appreciation
USD/CHF	0.94	0.91	(0.03)	2.8% appreciation
USD/TWD	29.47	27.94	(1.53)	5.5% appreciation
USD/TRY	7.01	8.84	1.83	20.7% depreciation
USD/IRR (Note 10)	258,747	247,776	(10,971)	4.4% appreciation

Note: 10. In accordance with IAS 29, the closing currency rates for the month ended December 2020 and 2021 have been applied when converting financial statements of subsidiaries located in hyperinflationary economies to the US dollar. The same rates are also applied upon conversions from the US dollar to the Japanese yen. (As of December 31, 2020, US dollars to Japanese yen: 103.50; As of December 31, 2021, US dollars to Japanese yen: 115.02)

Pharmaceutical Business

(Billions of yen)

Pharmaceutical Business	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Revenue	79.0	80.4	1.8%
Adjusted operating profit	17.2	11.1	(35.4)%

<Revenue and adjusted operating profit>

Despite lower royalty revenue overseas, revenue increased by 1.8% from the previous year due to an increase in sales for consolidated subsidiary of the Company Torii Pharmaceutical Co., Ltd.

Adjusted operating profit decreased by 35.4% from the previous year due mainly to an increase in research and development expenses and a decline in profit at Torii Pharmaceutical.

Processed Food Business

(Billions of yen)

Processed Food Business	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Revenue	149.3	147.2	(1.4)%
Adjusted operating profit	(0.8)	4.0	–

<Revenue and adjusted operating profit>

Revenue decreased by 1.4% from the previous year due mainly to a relative decline in demand for household products in the frozen and ambient food business, which had temporarily increased in the previous year, as well as a decrease in sales of food-service products.

Adjusted operating profit was ¥4.0 billion (compared to a loss of ¥0.8 billion in the previous fiscal year), due mainly to the absence of the impairment loss of assets such as factories and shops in the bakery business that was recorded in the previous fiscal year, and lower SG&A and other expenses.

(2) Financial Position and Cash Flow Position

a. Financial position

Assets

Total assets as of December 31, 2021 increased by ¥392.8 billion from the end of the previous fiscal year to ¥5,774.2 billion. This was due mainly to an increase in cash and equivalents, as well as to an increase in goodwill resulting from favorable foreign exchange effects.

Liabilities

Total liabilities as of December 31, 2021 increased by ¥106.2 billion from the end of the previous fiscal year to ¥2,888.1 billion. This was due mainly to an increase in trade and other payables caused by higher sales volume in the International Tobacco Business.

Equity

Total equity as of December 31, 2021 increased by ¥286.6 billion from the end of the previous fiscal year to ¥2,886.1 billion. This was mainly due to an increase in exchange differences on translation of foreign operations, as well as an increase in retained earnings as a result of the recording of profit attributable to owners of the parent company, despite payment of cash dividends.

b. Cash flow position

Cash and cash equivalents at the end of the current fiscal year increased by ¥182.9 billion from the end of the previous fiscal year to ¥721.7 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥538.8 billion.

Cash flows from (used in) operating activities

Net cash flows from operating activities during the current fiscal year were ¥598.9 billion, compared with ¥519.8 billion provided in the previous fiscal year. This was mainly due to the generation of a stable cash inflow from the tobacco business, despite payments of national and international tobacco excise taxes and income taxes.

Cash flows from (used in) investing activities

Net cash flows used in investing activities during the current fiscal year were ¥97.5 billion, compared with ¥5.4 billion provided in the previous fiscal year. This was mainly due to the purchase of property, plant and equipment, and intangible assets.

Cash flows from (used in) financing activities

Net cash flows used in financing activities during the current fiscal year were ¥353.1 billion, compared with ¥297.4 billion used in the previous fiscal year. This was mainly due to the redemption of bonds and the payment of cash dividends, despite the proceeds from issuance of bonds.

(3) Results of Production, Orders Received and Sales

The Group conducts production and sales of broad and various products in the Domestic Tobacco Business, International Tobacco Business, Pharmaceutical Business and Processed Food Business. Moreover, the types, formats, content volumes, and packages of their products are broad, and major products are not based on a made-to-order basis. For this reason, size of production and orders received are presented neither in the amount of money nor in volume by segment.

Therefore, results of “production, orders received and sales” are presented in connection with the operating results by segment in “(1) Business Results.”

Regarding business partners which are the source for 10% or more of the Group’s total revenue, the revenue from such partners and the percentage of total revenue are as follows.

Business partner	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
	Amount (Billions of yen)	Percentage	Amount (Billions of yen)	Percentage
Megapolis Group	210.8	10.1	258.4	11.1

Note: The Group's International Tobacco Business sells products to Megapolis Group, which runs logistics and wholesale businesses mainly in Russia.

(4) Significant Accounting Policies

a. Adoption of IFRS

Having acquired RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher Group Plc in 2007, the Group has been growing steadily as a global company and now operates in at least 70 countries and territories, and sells products in at least 130 countries and territories. In this context, the Group has decided to opt for an early adoption of the IFRS from the fiscal year ended March 31, 2012. A decision based on the Japanese authorities' permission for the listed companies conducting financial and business activities internationally to adopt IFRS voluntarily from the year ended March 31, 2010. Upon the adoption of IFRS, the Group aims to diversify the group's sources of financing through international markets and to improve quality of business management.

b. Significant accounting estimates and judgment on estimates

Preparation of consolidated financial statements of the Group requires the management to make estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of the management, considering past results and various factors deemed to be appropriate as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by the management. The effects of a change in the estimates and assumptions are recognized prospectively, including the period reviewed.

As for the estimates and assumptions that may have a material effect on the amounts recognized in the consolidated financial statements of the Group, please refer to "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 4. Significant Accounting Estimates and Judgments."

(5) Target Management Benchmarks

The Group considers the most important issue to be the pursuit of the 4S model, which represents our management principle, to achieve sustainable profit growth over the mid- to long-term. In order to measure the performance of the businesses that form the foundation for sustainable profit growth, the Group considers it appropriate to exclude foreign exchange effects, temporary factors and special factors, and have set a group-wide profit target of mid to high single digit annual average growth rate over the mid- to long-term in adjusted operating profit at constant FX.

Adjusted operating profit at constant FX in the fiscal year ended December 31, 2021 increased by 22.9% from the previous fiscal year, exceeding the previous year's results despite the challenging business environment.

Analyses and examinations concerning the operating results for the fiscal year ended December 31, 2021 are included in "II. Review of Operations, 3. Management Analysis of Financial Position, Operating Results and Cash Flows, (1) Business Results."

For details of management policies aimed at achieving group-wide profit targets, please refer to "II. Review of Operations, 1. Management Policy, Business Environment, Issues to Be Addressed, Etc."

(6) Factors Causing Significant Effects on Operating Results, Etc.

Along with the expansion of the International Tobacco Business and its contribution to the results, foreign exchange fluctuation greatly impacts consolidated financial statements. Adjusted operating profit at constant FX in the fiscal year ended December 31, 2021 increased by 22.9% from the previous fiscal year, while adjusted operating profit including foreign exchange effects increased by 25.4% due to favorable foreign exchange effects. Unfavorable foreign exchange effects are expected to arise in the fiscal year ending December 31, 2022.

In order to mitigate foreign exchange risk, the Group is working to implement a natural hedging strategy by matching revenue currencies to payment currencies. The Group hedges some foreign exchange risks using derivatives or foreign currency-denominated interest-bearing debt, etc.

With regard to factors causing significant effects on the Group's operating results, etc. including the above, please refer to "II. Review of Operations 2. Business and Other Risks."

(7) Basic Policies of Financing Activities

The Group's basic policies of financing activities are as follows.

a. Group Cash Management Systems

To maximize the total group cash efficiency, the Group gives first priority to utilizing internal financing mainly by the Group Cash Management Systems (CMS), where legally permissible and economically viable.

b. External financing

Short-term working capital needs are normally financed through short-term borrowings from financial institutions or through commercial paper, or a combination of both; mid- to long-term financing is done through long-term borrowings from financial institutions, bond or equity, or a combination of those.

For secure and efficient financing, the Group continues to diversify its financing means as well as the financial institutions, and set up secure financing means, such as multiple committed facilities.

c. External investments

Investments with financial institutions should be transacted ensuring safety, liquidity and optimal yield. Speculative dealings in pursuit of profit margin are not allowed.

d. Financial risk management

The Group is exposed to financial risks such as credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price fluctuation risk. The Group manages such risks according to the risk management policies and procedures to avoid or mitigate such risks. The major financial risk management status is reported regularly to the President and Chief Executive Officer and the Board of Directors.

It is the Group's policy that derivatives are only used if it is intended to mitigate risks of transactions for actual business needs, and speculative and trading transactions are not allowed.

For more details on financial risk management, please refer to "V. Accounting, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements, 33. Financial Instruments, (2) Financial Risk Management to (8) Market Price Fluctuation Risk."

(8) Analysis of Capital Resources and Liquidity of Funds

a. Funding requirements

Funds are mainly allocated for capital expenditure, working capital and acquiring external capital resources as well as the repayment of loans, the payment of interest and dividends, the acquisition of treasury shares and the payment of income taxes.

Scheduled material capital expenditures and approaches to procuring funds are as presented in "III. Facilities, 3. Plans for New Installation and Retirement of Facilities."

b. Resources of funds

The necessary funds are mainly procured from net cash flows from operating activities, loans from financial institutions and bond and commercial paper issuances.

<Cash flows>

Please refer to "(2) Financial Position and Cash Flow Position, b. Cash flow position."

<Interest-bearing debt>

Amounts of interest-bearing debt of the Group to be repaid or redeemed as of December 31, 2021 are as follows.

(Billions of yen)

	Book value	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
Short-term borrowings as loans	70.6	70.6	–	–	–	–	–
Long-term borrowings as loans (current portion)	42.3	42.3	–	–	–	–	–
Bonds (current portion)	30.0	30.0	–	–	–	–	–
Long-term borrowings as loans	154.7	–	11.9	23.3	0.1	0.1	120.1
Bonds	621.0	–	60.0	–	96.8	–	473.3
Total	918.6	142.9	71.9	23.3	96.9	0.1	593.4

Note: Lease obligations are excluded.

(Long-term debt)

Bonds issued (including the current portion) as of December 31, 2020 and as of December 31, 2021 accounted for ¥702.3 billion and ¥651.0 billion, respectively, and long-term borrowings as loans from financial institutions (including the current portion) accounted for ¥205.0 billion and ¥197.0 billion, respectively. Long-term lease liabilities totaled ¥49.4 billion as of December 31, 2020 and ¥43.3 billion as of December 31, 2021.

As of December 31, 2021, the long-term debt was rated A2 (stable) by Moody’s Japan K.K., A+ (stable) by S&P Global Ratings Japan Inc., and AA (stable) by Rating and Investment Information, Inc. (R&I). These ratings are among the highest ratings for international tobacco companies.

These ratings are affected by a number of factors such as developments in the major business markets, the quality of execution of the business strategies, and general economic trends that are beyond the Group’s control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the JT Act, bonds issued by the Company are secured by statutory preferential rights to the property of the Company. These rights give bondholders precedence over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

(Short-term debt)

Short-term borrowings from financial institutions totaled ¥51.6 billion as of December 31, 2020 and ¥70.6 billion as of December 31, 2021. There was no commercial paper outstanding on both periods. Short-term lease liabilities totaled ¥17.1 billion as of December 31, 2020 and ¥17.2 billion as of December 31, 2021.

c. Liquidity

The Group has historically had, and expects to continue to have, significant cash flows from operating activities. The Group expects that cash generated from operating activities will continue to be stable and cover funds needed for regular business activities. As of December 31, 2021, the Group had ¥478.0 billion in committed lines of credit from major financial institutions both domestic and international, none of which was used. In addition, the Group has a commercial paper program, uncommitted lines of credit, a domestic bond shelf registration, and a euro MTN program.

4. Important Operational Contracts

No items to report.

5. Research and Development Activities

Research and development activities are mainly undertaken at the Company’s Tobacco Science Research Center and Central Pharmaceutical Research Institute.

Research and development expenses of the Group during the fiscal year ended December 31, 2021 amounts to ¥65.0 billion and the research objectives and research and development expenses by each segment are as follows. The above-mentioned research and development expenses include ¥7.3 billion relating to D-LAB, which was set up by the corporate divisions of the Company for the purpose of research and development, and to basic research not affiliated to any segment.

(1) Domestic and International Tobacco Businesses

The Group is committed to strengthening its R&D capabilities to ensure a long-term competitive advantage. The focus areas in the R&D activities are the development of new leaf tobacco varieties, improvement of tobacco leafs and their processing, enhancement of aroma and taste, upgrading manufacturing technology, and continuous progress on RRP-related technologies. The Group has been striving to add value to the products in these focus areas in a cost efficient manner. It has established a global research platform in Japan, which focuses on the fundamental research and product technology development. To best meet consumers' needs and preferences, the market teams are continuously engaged in the product development. Research and development expenses relating to the Domestic Tobacco Business amounts to ¥19.3 billion with that of the International Tobacco Business amounting to ¥8.6 billion.

(2) Pharmaceutical Business

R&D activities are the foundation of the Group's Pharmaceutical Business and are critical for its long-term growth and profitability. These R&D activities focus mainly on the fields of circulatory organs, kidneys, and metabolism, immune disorders and inflammation, and brain centers. Research and development expenses for the Pharmaceutical Business is ¥29.0 billion.

(3) Processed Food Business

Regarding R&D in the Processed Food Business, the Group devotes its efforts to the development of innovative products that meet consumers' needs and preferences. Research and development expenses for the Processed Food Business is ¥0.8 billion.

III. Facilities

1. Outline of Capital Expenditures

In the fiscal year ended December 31, 2021, the Group made capital expenditures totaling ¥100.9 billion.

In the Domestic Tobacco Business, we spent ¥20.0 billion, mainly on investments accompanying maintenance and upgrade of manufacturing processes, productivity improvements, adaptation to new products, improvements in product specifications, and others. In the International Tobacco Business, we invested ¥62.5 billion in improvement, maintenance and renewals of production capability, increased production of RRP (Reduced-Risk Products) and product development, etc. In the Pharmaceutical Business, we spent ¥6.0 billion on enhancing and strengthening research and development structures and the like. In the Processed Food Business, we invested ¥10.7 billion in improvement, maintenance and renewals of production capability.

* Capital expenditures includes land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

* In this section, the names of reportable segments for the fiscal year ended December 31, 2021 are used.

2. Main Facilities

Main facilities of the Group (the Company and its consolidated subsidiaries) are as follows.

(1) Filing Company (the Company)

(As of December 31, 2021)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
Kita-kanto Factory (Utsunomiya-shi, Tochigi)	Domestic Tobacco	Tobacco manufacturing facilities	150	2,062	7,180	11,197	269	20,708	333
Tokai Factory (Iwata-shi, Shizuoka) (Note 1)	Domestic Tobacco	Tobacco manufacturing facilities	223	2,309	6,885	16,089	233	25,516	321
Kansai Factory (Fushimi-ku, Kyoto-shi, Kyoto)	Domestic Tobacco	Tobacco manufacturing facilities	116	5,831	8,797	19,664	413	34,705	357
Kyushu Factory (Chikushino-shi, Fukuoka) (Note 2)	Domestic Tobacco	Tobacco manufacturing facilities	166	4,042	2,825	5,719	161	12,747	205
Tobacco Science Research Center (Aoba-ku, Yokohama-shi, Kanagawa) (Note 1)	Domestic Tobacco	Research and development facilities	34	644	2,095	0	1,510	4,249	92
Central Pharmaceutical Research Institute (Takatsuki-shi, Osaka) (Note 1)	Pharmaceutical	Research and development facilities	75	2,687	18,608	171	2,641	24,107	607
Head Office (Minato-ku, Tokyo)	General administration	Other	–	–	12,926	61	1,597	14,584	1,489
Regional Sales Headquarters (15) (Municipality) (Note 3)	Domestic Tobacco (includes administration)	Other	28	918	2,774	635	317	4,644	2,780

(2) Domestic Subsidiaries

(As of December 31, 2021)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
TS Network Co., Ltd. Head Office and other 24 distribution bases (Head Office: Taito-ku, Tokyo) (Note 3)	Domestic Tobacco	Distribution facilities	35	755	15,758	1,944	689	19,146	1,774
Japan Filter Technology, Co., Ltd. Head Office and other 3 factories (Head Office: Sumida-ku, Tokyo) (Notes 1, 2, 3)	Domestic Tobacco	Material manufacturing facilities	131	714	4,790	5,681	358	11,543	524
Torii Pharmaceutical Co., Ltd. Headquarters, other regional sales headquarters, etc. (Head Office: Chuo-ku, Tokyo)	Pharmaceutical	Pharmaceuticals manufacturing facility and other	3	331	1,520	352	180	2,383	560
TableMark Co., Ltd. Head Office and other 5 factories (Head Office: Chuo-ku, Tokyo) (Note 4)	Processed Food	Frozen food production facilities	154	3,946	11,163	11,808	200	27,117	1,317

(3) Foreign Subsidiaries

(As of December 31, 2021)

Office and factory name (Location)	Segment	Description	Book value (Millions of yen)						Number of employees (Person)
			Land		Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	
			Size (thousand m^2)	Amount					
JTI Polska Sp. z o. o. (Poland) (Note 1)	International Tobacco	Tobacco manufacturing facilities	532	250	11,936	43,158	1,080	56,424	2,410
LLC Petro (Russia) (Note 3)	International Tobacco	Tobacco manufacturing facilities	194	122	4,387	11,864	2,702	19,075	1,116
JT International Germany GmbH (Germany)	International Tobacco	Tobacco manufacturing facilities	346	311	13,156	20,152	2,226	35,845	2,282
JTI Tütün Ürünleri Sanayi A.Ş. (Turkey)	International Tobacco	Tobacco manufacturing facilities	232	302	1,023	7,829	104	9,257	768

Notes:
1. Companies have land leased to entities other than the group companies.
2. The Company's Kyushu Tobacco Factory, and the Tagawa Factory of Group subsidiary Japan Filter Technology Co., Ltd., will be closed at the end of March 2022.
3. Companies have land leased from entities other than the group companies.
4. In the fiscal year ended December 31, 2021, the Head Office Factory, Tadotsu Factory, and Zentsuji Factory were closed.
5. Book values include right-of-use assets.

3. Plans for New Installation and Retirement of Facilities

(1) Outline of Capital Expenditures

Regarding the mid- to long-term resource allocation of the Group, it will place top priority on business investments that will lead to sustainable profit growth in the mid- to long-term based on the Group's management principle. Of the reportable segments, the Group positions the Tobacco Business as the core business and profit growth engine and places top priority on business investments that will lead to its sustainable profit growth. On the other hand, with the aim of positioning the Pharmaceutical Business and the Processed Food Business as complementary drivers of profit growth for the Group as a whole, the focus will be on rebuilding their business foundations, and making the investments required to implement that.

Based on this policy, the Group plans capital expenditures (facility construction and expansion) totaling ¥131.0 billion in the fiscal year ending December 31, 2022.

As the Company and its consolidated subsidiaries have wide-ranging plans for capital expenditure, figures are disclosed by segment.

Furthermore, in this section, the names of reportable segments for the fiscal year ending December 31, 2022 are used.

The Group's actual capital expenditures may differ significantly from the planned figures mentioned above as a result of a number of factors including those presented in "II. Review of Operations, 2. Business and Other Risks."

Segment	Capital expenditure plan for the fiscal year ending December 31, 2022 (Billions of yen)	Main purpose of investment	Funding
Tobacco Business	106.0	Expenditures for RRP-related investments and renovation, maintenance and renewal for manufacturing facilities	Internally generated funds
Pharmaceutical Business	3.0	Expenditures for the development and reinforcement of R&D capabilities	Same as above
Processed Food Business	12.5	Expenditures for the expansion of production capacity, and improvements, maintenance and upgrading of productivity	Same as above

* Capital expenditures include land; building and structures; machinery and vehicles; and other property, plant and equipment, as well as goodwill, right of trademark, software and other intangible assets, necessary for production improvements at factories and other facilities, strengthening competitiveness and executing business in a variety of fields, excluding assets acquired through business combinations.

(2) Sales or Retirement of Important Facilities, etc.

There were no other plans for sales or retirement of important facilities except for the regular renewal of facilities as of December 31, 2021.

IV. Filing Company

1. Information on the Company's Shares

(1) Total Number of Shares Authorized

a. Total number of shares authorized

Class	Total number of shares authorized (Share)
Ordinary shares	8,000,000,000
Total	8,000,000,000

b. Number of shares issued

Class	Number of shares issued (Share; as of December 31, 2021)	Number of shares issued (Share; as of the date of filing: March 23, 2022)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Ordinary shares	2,000,000,000	2,000,000,000	Tokyo Stock Exchange (First Section)	(Note 2)
Total	2,000,000,000	2,000,000,000	–	–

Notes: 1. The provisions of Article 2 of the JT Act prescribe that the Japanese government must continue to hold more than one-third of all shares issued by the Company (excluding shares of a class for which it is provided that the voting rights may not be exercised for all the matters that are subject to resolution at the General Meeting of Shareholders).

2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.

(2) Status of Subscription Rights to Shares

a. Stock options

Subscription rights to shares issued pursuant to the Companies Act are as follows. Also, the matters presented below reflect the situation as of the last day of the Company's fiscal year (December 31, 2021). Matters that have undergone change between the last day of the Company's fiscal year and the last day of the end of the month before the date of filing (February 28, 2022) are presented in parentheses [ ], while other matters have undergone no change since the last day of the Company's fiscal year.
Note that the stock option plan was abolished in fiscal 2020 (excluding the stock options already granted). The granted stock options could be exercised when the stock option holder loses all positions as Member of the Board, Audit & Supervisory Board Member or Executive Officer. The Company does not plan to change this exercise condition going forward.

- Stock options based on resolutions taken at meetings of the Board of Directors held between December 21, 2007 and September 16, 2011

Resolution date	December 21, 2007	September 19, 2008	September 28, 2009	September 17, 2010	September 16, 2011
Positions and number of persons granted	Members of the Board 11 persons Executive Officers (excluding persons serving as Member of the Board) 16 persons	Members of the Board 11 persons Executive Officers (excluding persons serving as Member of the Board) 14 persons	Members of the Board 9 persons Executive Officers (excluding persons serving as Member of the Board) 14 persons	Members of the Board 9 persons Executive Officers (excluding persons serving as Member of the Board) 14 persons	Members of the Board 8 persons Executive Officers (excluding persons serving as Member of the Board) 15 persons
Number of subscription rights to shares	16 units	53 units	115 units [110 units]	133 units	125 units
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (the Company's standard class of shares with no rights limitations)	Same as left	Same as left	Same as left	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	3,200 shares (Notes 1, 6)	10,600 shares (Notes 1, 6)	23,000 shares [22,000 shares] (Notes 1, 6)	26,600 shares (Notes 1, 6)	25,000 shares (Notes 1, 6)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left	Same as left	Same as left	Same as left
Exercise period of subscription rights to shares	From January 9, 2008 to January 8, 2038	From October 7, 2008 to October 6, 2038	From October 14, 2009 to October 13, 2039	From October 5, 2010 to October 4, 2040	From October 4, 2011 to October 3, 2041
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥581,269 per unit	¥285,904 per unit	¥197,517 per unit	¥198,386 per unit	¥277,947 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	(Note 2)	Same as left	Same as left	Same as left	Same as left

Resolution date	December 21, 2007	September 19, 2008	September 28, 2009	September 17, 2010	September 16, 2011
Conditions for Exercising subscription rights to shares	(Note 3)	Same as left	Same as left	Same as left	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left	Same as left	Same as left	Same as left
Provisions for Acquiring subscription rights to shares	(Note 4)	Same as left	Same as left	Same as left	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 5)	Same as left	Same as left	Same as left	Same as left

Notes: 1. Number of shares to be issued upon exercise of subscription rights to shares

The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each subscription right to shares (hereinafter, "Number of Shares Granted") shall be one. However, in cases where the Company conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of the Company after the date on which the Company allots subscription rights to shares (hereinafter, "Allotment Date"), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places.

In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of the Company and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders.

In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date. When adjusting the Number of Shares Granted, the Company shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, the Company shall later do so as soon as possible.

2. Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares
   a. Capital amount that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be a half of the maximum capital increase amount obtained by the calculation pursuant to Article 17, paragraph 1 of the Regulation on Corporate Accounting. If the obtained figure has a fraction less than ¥1, the figure is rounded up to the nearest yen.
   b. Capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares must be the amount obtained by subtracting the capital amount to be increased as specified in a. above from the maximum capital increase amount described in a. above.

3. Conditions for exercising subscription rights to shares
   a. The person who is a holder of subscription rights to shares and is recorded in the registry of subscription rights to shares (hereinafter, "Subscription rights to shares Holder") may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as Member of the Board (including *sikkoyaku* at a company with committees), Audit & Supervisory Board Member and Executive Officer of the Company
   b. In cases where Subscription rights to shares Holders waive their subscription rights to shares, they cannot exercise those subscription rights to shares.

4. Provisions for acquiring subscription rights to shares

   In cases where proposal a., b. or c. below is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "in cases where the resolution of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made"), the Company may acquire subscription rights to shares on the date separately provided for by the Board of Directors. In this case, the Company shall, in exchange for acquiring each subscription right to shares, deliver money at the amount obtained by multiplying the value per share calculated according to the following formula by the Number of Shares Granted (if adjusted pursuant to Note 1 above, the Number of Shares Granted after adjustment) to the Subscription rights to shares Holders of respective such subscription rights to shares.

Value per share = Closing price for regular transactions of ordinary shares of the Company on the Tokyo Stock Exchange (if there is no closing price, the base price thereof on the following business day) on the date on which such proposal is approved at the General Meeting of Shareholders of the Company (if a resolution by the General Meeting of Shareholders is not necessary, it is read as "the resolution of the Board of Directors or the decision by the representative Executive Officer (*sikkoyaku* at a company with committees) is made") – ¥1

a. Proposal to ask approval of a contract of merger where the Company is not to be the surviving company
b. Proposal to ask approval of a contract or plan of company split where the Company would be the split company
c. Proposal to ask approval of a share exchange contract or share transfer plan where the Company becomes a wholly-owned subsidiary

5. Matters regarding delivery of subscription rights to shares accompanied by reorganization

In cases where the Company merges (limited to cases where the Company is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where the Company becomes the split company in either case), or exchanges or transfers shares (limited to cases where the Company becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, "Reorganization"), the Company shall, in each case, deliver subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to the Subscription rights to shares Holders that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of share exchange when it is a share exchange, or the incorporation date of a wholly-owning parent company as a result of the share transfer when it is a share transfer (hereinafter, "Remaining Subscription rights to shares"). However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below, is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract or share transfer plan.

a. Number of subscription rights to shares to be delivered of the Company Subject to Reorganization

Subscription rights to shares whose number is identical to the number of the Remaining Subscription rights to shares held by Subscription rights to shares Holder

b. Class of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares

Ordinary shares of the Company Subject to Reorganization

c. Number of shares of the Company Subject to Reorganization to be issued upon exercise of subscription rights to shares

To be determined in the same manner as Note 1 above, taking into consideration terms and other conditions of the Reorganization.

d. Value of property to be contributed when subscription rights to shares are exercised

   The value of the property to be contributed when each subscription right to shares to be delivered is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization to be issued upon exercise of each subscription right to shares, which is decided pursuant to c. above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be delivered by exercising the delivered subscription rights to shares.

e. Period during which subscription rights to shares can be exercised

   From the effective date of the Reorganization to the expiration date of the period during which such subscription rights to shares can be exercised as specified in "Exercise period of subscription rights to shares" mentioned above.

f. Matters regarding capital and capital reserves that will be increased in cases where shares will be issued as a result of the exercise of subscription rights to shares

   To be determined in the same manner as "Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares" mentioned above.

g. Restrictions on transferring of subscription rights to shares

Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Company Subject to Reorganization

h. Provisions for acquiring subscription rights to shares

To be determined in the same manner as "Provisions for acquiring subscription rights to shares" mentioned above.

i. Other conditions for exercising subscription rights to shares

To be determined in the same manner as "Conditions for exercising subscription rights to shares" mentioned above.

6. The Company conducted a share split at a ratio of 200 to one ordinary share with July 1, 2012 as effective date. As a consequence, the number of shares to be issued upon exercise of the subscription rights to shares issued before this share split has been adjusted from one share to 200 shares and is presented accordingly.

- Stock options based on resolutions taken at meetings of the Board of Directors held between September 21, 2012 and June 14, 2019

Resolution date	September 21, 2012	September 20, 2013	September 19, 2014	July 17, 2015	June 17, 2016
Positions and number of persons granted	Members of the Board (excluding Outside Directors) 7 persons Executive Officers (excluding persons serving as Member of the Board) 17 persons	Members of the Board (excluding Outside Directors) 7 persons Executive Officers (excluding persons serving as Member of the Board) 19 persons	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 19 persons	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 18 persons	Members of the Board (excluding Outside Directors) 5 persons Executive Officers (excluding persons serving as Member of the Board) 18 persons
Number of subscription rights to shares	165 units	150 units	121 units	212 units	233 units
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (the Company's standard class of shares with no rights limitations)	Same as left	Same as left	Same as left	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	33,000 shares (Note 1)	30,000 shares (Note 1)	24,200 shares (Note 1)	42,400 shares (Note 1)	46,600 shares (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left	Same as left	Same as left	Same as left
Exercise period of subscription rights to shares	From October 10, 2012 to October 9, 2042	From October 8, 2013 to October 7, 2043	From October 7, 2014 to October 6, 2044	From August 4, 2015 to August 3, 2045	From July 5, 2016 to July 4, 2046
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥320,000 per unit	¥513,400 per unit	¥483,200 per unit	¥711,200 per unit	¥572,600 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	(Note 2)	Same as left	Same as left	Same as left	Same as left
Conditions for Exercising subscription rights to shares	(Note 3)	Same as left	Same as left	Same as left	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left	Same as left	Same as left	Same as left
Provisions for Acquiring subscription rights to shares	(Note 4)	Same as left	Same as left	Same as left	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 5)	Same as left	Same as left	Same as left	Same as left

Resolution date	June 14, 2017	June 15, 2018	June 14, 2019
Positions and number of persons granted	Members of the Board (excluding Outside Directors) 5 persons Executive Officers (excluding persons serving as Member of the Board) 19 persons	Members of the Board (excluding Outside Directors) 5 persons Executive Officers (excluding persons serving as Member of the Board) 18 persons	Members of the Board (excluding Outside Directors) 6 persons Executive Officers (excluding persons serving as Member of the Board) 20 persons
Number of subscription rights to shares	371 units [351 units]	659 units [607 units]	1,299 units [1,179 units]
Class of shares to be issued upon exercise of subscription rights to shares	Ordinary shares (the Company's standard class of shares with no rights limitations)	Same as left	Same as left
Number of shares to be issued upon exercise of subscription rights to shares	74,200 shares [70,200 shares] (Note 1)	131,800 shares [121,400 shares] (Note 1)	259,800 shares [235,800 shares] (Note 1)
Paying due upon exercise of subscription rights to shares	¥1 per share	Same as left	Same as left
Exercise period of subscription rights to shares	From July 4, 2017 to July 3, 2047	From July 3, 2018 to July 2, 2048	From July 2, 2019 to July 1 2049
Issue price of shares in cases where shares will be issued as a result of exercise of subscription rights to shares	¥482,200 per unit	¥300,000 per unit	¥188,000 per unit
Additional paid-in capital in issue price in cases where shares will be issued as a result of exercise of subscription rights to shares	(Note 2)	Same as left	Same as left
Conditions for Exercising subscription rights to shares	(Note 3)	Same as left	Same as left
Assignment of subscription rights to shares	The approval of the Board of Directors is required for the assignment of subscription rights to shares.	Same as left	Same as left
Provisions for Acquiring subscription rights to shares	(Note 4)	Same as left	Same as left
Matters regarding delivery of subscription rights to shares accompanied by reorganization	(Note 5)	Same as left	Same as left

Notes: 1. Number of shares to be issued upon exercise of subscription rights to shares

The class of shares to be issued upon exercise of subscription rights to shares shall be ordinary shares. The number of shares to be issued upon exercise of each subscription right to shares (hereinafter, “Number of Shares Granted”) shall be 200. However, in cases where the Company conducts stock split (including stock allotment without contribution; hereinafter, the same shall apply to description of stock split) or stock consolidation of ordinary shares of the Company after the date on which the Company allots subscription rights to shares (hereinafter, “Allotment Date”), the Number of Shares Granted shall be adjusted according to the following formula.

$$\text{Number of Shares Granted after adjustment} = \text{Number of Shares Granted before adjustment} \times \text{Ratio of stock split or stock consolidation}$$

Any fraction of less than one share that occurs as a result of the above adjustment shall be rounded down to two decimal places. In the case of a stock split, the Number of Shares Granted after adjustment shall be applied on and after the date following the base date (if the base date is not specified, on and after the effective date), while in the case of stock consolidation, it shall be applied on and after the effective date. However, in cases where stock split is conducted subject to approval of the proposal to reduce surplus and increase capital or reserve fund at the General Meeting of Shareholders of the Company and where the base date for stock split is set on or before the date of conclusion of that General Meeting of Shareholders, the Number of Shares Granted after adjustment shall be applied retrospectively to the date following that base date, on and after the date following the date of conclusion of that General Meeting of Shareholders. In addition, in cases where the adjustment of the Number of Shares Granted is proper, the Company shall conduct adjustments deemed necessary after the Allotment Date. When adjusting the Number of Shares Granted, the Company shall notify Subscription rights to shares Holders or make public notice of necessary information by the date before the date on which the Number of Shares Granted after adjustment is applied. However, in cases where the notice or public notice by the date before the date of the application is impracticable, the Company shall later do so as soon as possible.

2. to 5. Same as (Notes) 2-5 for stock options based on resolutions of the Board of Directors taken between December 21, 2007 and September 16, 2011.

b. Details of rights plan

No items to report.

c. Other status of subscription rights to shares

No items to report.

(3) Exercise of Bond Certificates With Subscription Rights to Shares With Exercise Price Amendment Clause

No items to report.

(4) Trends in Total Number of Shares Issued and Share Capital

Date	Fluctuation in the number of shares issued (Thousands of shares)	Balance of shares issued (Thousands of shares)	Fluctuation in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Fluctuation in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
July 1, 2012	1,990,000	2,000,000	–	100,000	–	736,400

Note: The Company conducted a share split at a ratio of 200 to one share with July 1, 2012 as effective date. Consequently, the balance of shares issued increased by 1,990,000 thousand shares to 2,000,000 thousand shares.

(5) Shareholder Composition

(As of December 31, 2021)

Category	Shareholder composition (100 shares in one share unit)								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals	Total	
					Companies	Individuals			
Number of shareholders (Person)	1	201	47	3,656	713	778	686,383	691,779	–
Number of shares held (Unit)	6,669,252	3,003,341	1,081,756	348,279	2,411,501	3,127	6,476,701	19,993,957	604,300
Holding rate of shares (%)	33.36	15.02	5.41	1.74	12.06	0.02	32.39	100.00	–

Notes: 1. 2,254,753 units of treasury shares are included in “Individuals.”
2. The number of “Other corporations” includes 336 units in the name of Japan Securities Depository Center, Inc.

(6) Status of Major Shareholders

(As of December 31, 2021)

Name of shareholder	Address	Number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (excluding treasury shares) (%)
Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, Japan	666,925,200	37.58
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	161,020,700	9.07
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo, Japan	42,916,800	2.42
Custody Bank of Japan, Ltd. (Trust Account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	41,665,100	2.35
State Street Bank West Client - Treaty 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	21,441,841	1.21
Barclays Securities Japan Limited	31F Roppongi Hills Mori Tower, 10-1, Roppongi 6-chome, Minato-ku, Tokyo, Japan	18,443,300	1.04
JAPAN SECURITIES FINANCE CO., LTD.	2-10, Nihonbashi-kayabacho 1-chome, Chuo-ku, Tokyo, Japan	17,641,100	0.99
Custody Bank of Japan, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	17,428,100	0.98
JP MORGAN CHASE BANK 385771 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity Tower A, 15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	12,397,794	0.70
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	9-2, Otemachi 1-chome, Chiyoda-ku, Tokyo, Japan	12,056,526	0.68
Total	–	1,011,936,461	57.03

Note: In addition to the above, the Company held 225,475,301 shares of ordinary shares as treasury shares.

(7) Status of Voting Rights

a. Number of shares issued

(As of December 31, 2021)

Classification	Number of shares (Share)	Number of voting rights	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares)	Ordinary shares 225,475,300	–	(Note 2)
Shares with full voting rights (Other)	Ordinary shares 1,773,920,400	17,739,204	(Note 2)
Shares less than one unit	Ordinary shares 604,300	–	(Note 3)
Total number of shares issued	2,000,000,000	–	–
Total number of voting rights	–	17,739,204	–

Notes:
1. The number of "Shares with full voting rights (Other)" includes 33,600 shares in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 336 units of voting rights related to shares with full voting rights in its name.
2. The Company's standard class of shares with no rights limitations. Its share trading unit is 100 shares.
3. Includes 1 share of treasury shares.

b. Treasury shares

(As of December 31, 2021)

Name of shareholder	Address	Number of shares held under own name (Share)	Number of shares held under the name of others (Share)	Total number of shares held (Share)	Percentage of number of shares held in the total number of shares issued (%)
JAPAN TOBACCO INC.	1-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan	225,475,300	–	225,475,300	11.27
Total	–	225,475,300	–	225,475,300	11.27

2. Acquisition of Treasury Shares

[Class of shares] Acquisition of ordinary shares falling under Article 155, item (vii) of the Companies Act

(1) Acquisition by Resolution of the General Meeting of Shareholders

No items to report.

(2) Acquisition by Resolution of the Board of Directors

No items to report.

(3) Items Not Based on Resolutions of the General Meeting of Shareholders or Board of Directors

Category	Number of shares (Share)	Total value (Millions of yen)
Treasury shares acquired during this fiscal year ended December 31, 2021	280	1
Treasury shares acquired during the period from January 1, 2022 to the filing date of this Annual Securities Report	–	–

Note: The figure for treasury shares acquired during the period from January 1, 2022 to the filing date of this Annual Securities Report does not include the number of shares from purchases of shares less than one unit from March 1, 2022 until the filing date of this Annual Securities Report.

(4) Status of Disposal and Ownership of Acquired Treasury Shares

Category	Fiscal year ended December 31, 2021		From January 1, 2022 until the filing date of this Annual Securities Report	
	Number of shares (Share)	Total disposal value (Millions of yen)	Number of shares (Share)	Total disposal value (Millions of yen)
Acquired treasury shares offered for subscription	–	–	–	–
Acquired treasury shares that were cancelled	–	–	–	–
Acquired treasury shares transferred for merger, share exchange, share delivery and company split	–	–	–	–
Others				
(Restricted stock grants)	238,400	519	–	–
(Exercise of subscription rights to shares)	41,200	90	39,400	86
(Sales resulting from requests for sale of shares less than one unit)	50	0	90	0
Treasury shares held	225,475,301	–	225,435,811	–

Notes: 1. The number of disposed shares and total disposal value in the "From January 1, 2022 until the filing date of this Annual Securities Report" column does not include transfers by the exercise of subscription rights to shares performed from March 1, 2022 until the filing date of this Annual Securities Report, nor does it include sales of shares less than one unit during that period.

2. The number of treasury shares held in the "From January 1, 2022 until the filing date of this Annual Securities Report" column does not include transfers by the exercise of subscription rights to shares performed from March 1, 2022 until the filing date of this Annual Securities Report, nor does it include purchases and sales of shares less than one unit during that period.

3. Dividend Policy

In terms of "giving the highest priority to business investments for sustainable profit growth over the mid- to long-term" under the resources allocation policy based on the "4S model" and "valuing the balance between profit growth through business investments and shareholder returns," our shareholder returns policy for the current fiscal year was as follows:

- Aim to enhance shareholder returns by realizing the Company's mid- to long-term profit growth, while maintaining a solid financial base(Note 1)
- Target a dividend payout ratio of about 75%(Note 2), a competitive level(Note 3) in the capital markets
- Consider implementing a share buy-back program, mainly taking into account the Company's financial outlook of the respective year and mid-term capital needs.

Notes: 1. The Company will maintain 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.
2. To be in the range of approximately ±5%
3. Monitor the shareholder return trends of global Fast-Moving Consumer Goods (FMCG) companies which have a stakeholder model similar to our 4S model and have realized strong business growth.

It is also a basic policy of the Company to pay an interim dividend and year-end dividend, with the former determined by the Board of Directors and the latter by the General Meeting of Shareholders. The Company's Articles of Incorporation stipulate that the Company may pay interim dividends to shareholders with the record date of June 30 each year upon a resolution by the Board of Directors.

In light of business performance in the current fiscal year, the year-end dividend for the fiscal year ended December 31, 2021 was ¥75 per share. Therefore, the total annual dividend for the fiscal year ended December 31, 2021, including the interim dividend of ¥65, is ¥140 per share.

Also, internal reserves will be prepared not only for present and future business investments and to acquire external resources but also for the purchase of treasury shares and other objectives.

The dividend for the 37th term is as follows.

Resolution date	Total amount of dividends (Millions of yen)	Cash dividends per share (Yen)
The Board of Directors on July 30, 2021	115,344	65.00
Ordinary General Meeting of Shareholders held on March 23, 2022	133,089	75.00

4. Status of Corporate Governance

(1) Outline of Corporate Governance

Whereas the following contains statements regarding the fiscal year ended December 31, 2021, the final day of that fiscal year, and the fiscal year ended December 31, 2020, the statements herein are current as of the filing date, unless otherwise indicated.

a. Basic concept on the corporate governance

The Company's belief is that corporate governance is the means for conducting transparent, fair, timely and decisive decision-making for pursuing the Group's management principle, the "4S model." Specifically, the 4S model aims "to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can."

The Company has set out the "JT Corporate Governance Policy," and strives to make enhancements based on its belief that it will enable the Group to achieve mid- to long-term sustainable profit growth and increase company value, which will contribute to the development of the Group's stakeholders and eventually the economic society as a whole.

The Company will continue to strive to make enhancements of the Group's corporate governance as one of the key challenges for its management.

JT Corporate Governance Policy: https://www.jt.com/about/corporate_governance/index.html

b. Outline of corporate governance structure and reason for adoption of the structure

As a company with an Audit & Supervisory Board, the Company has strengthened the supervisory function of management while maintaining its objectivity and neutrality by means of the Audit & Supervisory Board carrying out appropriate audits of the execution of duties by Members of the Board and Executive Officers from an independent and fair standpoint. Based on the audit system of the Audit & Supervisory Board, while facilitating the prompt execution of business through the delegation of authority by reducing the size of the Board of Directors and introducing an Executive Officer system, the Company has established the JT Group Compliance Committee, which is largely composed of outside committee members, and the Advisory Panel on Nomination and Compensation comprised entirely of Members of the Board who do not serve as Executive Officers, in which more than half of whose members being Independent Outside Directors, as voluntary structures and created an effective corporate governance system.

The Company continuously seeks to enhance corporate governance and to improve management transparency and objectivity through, for instance, the appointment of an additional Outside Director and Outside Audit & Supervisory Board Member on March 20, 2019 and further appointment of an additional Outside Director on March 23, 2022.

The Company has selected the current structure because it recognizes that, through initiatives like these, the corporate governance structure functions effectively regarding business execution and supervision.

The Board of Directors meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters, to supervise implementation of business and to receive reports from the Members of the Board on the status of implementation of business. In addition, the Chairperson of the Board has been positioned as a non-executive Director in order to concentrate on supervising management while also serving as the chairman of the Board of Directors. The Company appoints at least one-third of Independent Outside Directors with qualifications conducive to sustainable profit growth and enhancement of company value over the mid- to long-term from a viewpoint of strengthening the supervisory function and management transparency. The Board of Directors has set forth in the Board of Directors Regulations matters to be discussed at the Board of Directors meetings. In addition, from the viewpoint of realizing swift decision making and high-quality implementation of business, the Board of Directors has set forth a clear decision-making process based on internal rules on the allocation of responsibilities and authorities (hereinafter referred to as the "Responsibility and Authority Regulations") concerning essential business matters as well as delegates authority as necessary to Executive Officers based on JT Group management strategies, under the Executive Officer system. In the fiscal year ended December 31, 2021, the Board of Directors convened 13 times, and all Members of the Board attended every meeting.

In accordance with a Board of Directors resolution on November 24, 2021, the Company has adopted the concept of skills necessary for the Board of Directors, and has developed and disclosed a skills matrix that lists the areas in which the knowledge and experience of each Director and Audit & Supervisory Board Member are expected to be particularly effective.

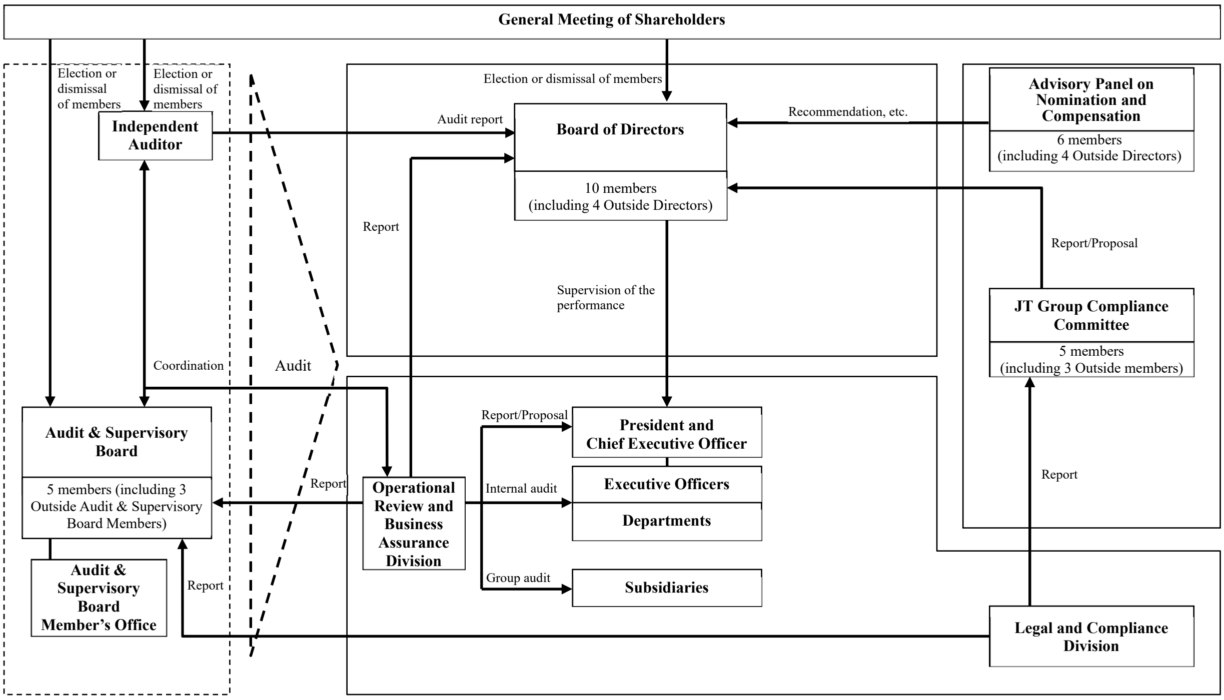
Skills Matrix: https://www.jt.com/about/officer/index.html

The Advisory Panel on Nomination and Compensation was established as an optional advisory body to the Board of Directors and integrates the functions of the previous Meeting for Talent Development and Compensation Advisory Panel. Its specific roles include supporting the growth, including succession plans, of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of designated Directors and Directors also serving as Executive Officers; and reporting the results of the deliberation on remuneration of Directors and Executive Officers. Its purpose is to render the Board's decision-making more objective and transparent and to upgrade the Board's supervisory functions by having the Board deliberate on executive appointment and remuneration in accordance with the results of the deliberation in the Panel. In order to ensure its independence and objectivity, the Panel is comprised entirely of Directors who do not serve as Executive Officers, in which more than half of its members are independent Outside Directors. Chaired by an independent Outside Director, the Panel has six members, and meets at least once a year. In the fiscal year ended December 31, 2021, the Advisory Panel on Nomination and Compensation convened five times, and all members of the Panel attended every meeting.

As an organization that reports directly to the Board of Directors, the JT Group Compliance Committee deliberates the status of implementing the Compliance Action Plan for the fiscal year, the establishment, changes, etc. to compliance-related rules and the Code of Conduct, and matters relating to compliance for the entire JT Group in order to foster awareness and ensure thorough compliance among employees. The JT Group Compliance Committee is headed by the Chairperson of the Board and consists mainly of outside members. Meanwhile, the Company appoints an Executive Officer in charge of compliance who oversees the Legal and Compliance Division in an effort to establish and promote a group-wide, cross-sectional system and shed light on issues. The compliance promotion departments of the Company and its subsidiaries (meaning the Legal and Compliance Division within the Company, and corresponding departments within subsidiaries) distribute materials including the "JT Group Code of Conduct," which explains the Code of Conduct, etc., to Members of the Board and employees of the Company and Directors, etc. and employees of subsidiaries (with Members of the Board, Directors, etc. and employees hereinafter collectively referred to as "directors and employees"), and work to enhance the effectiveness of the compliance system by enlightening directors and employees about compliance through training and other programs, etc. In the fiscal year ended December 31, 2021, the JT Group Compliance Committee convened three times, and all members of the Committee attended every meeting.

The Company has adopted the Audit & Supervisory Board system under which Audit & Supervisory Board Members of the Company (hereinafter "Audit & Supervisory Board Members," with the terms "Audit & Supervisory Board," "Audit & Supervisory Board Member's Office," and "Manager of the Audit & Supervisory Board Member's Office" also referring to those items within the Company) assertively exercise authority as an independent body with the mandate of shareholders, which includes attending and speaking at the Board of Directors meetings and other important meetings as well as actively inspecting business sites. In addition, they also perform audits appropriately from an objective viewpoint in accordance with the characteristics of the duties of the Outside Audit & Supervisory Board Members and the standing Audit & Supervisory Board Members. The Audit & Supervisory Board Members work to ensure sound and sustainable growth and maintain and enhance public trust in the Company by examining the performance of duties by Members of the Board and Executive Officers.
The Audit & Supervisory Board, which meets as necessary, is composed of members with substantial knowledge of management, law, finance, accounting and other aspects of business. Standing Audit & Supervisory Board Member Ms. Ryoko Nagata has served as Senior Vice President, Head of Beverage Business Division and in charge of CSR, etc., and has abundant experience and wide-ranging insights with regard to the Group's business operations from the perspective both of the business operations and the internal department. Furthermore, standing Audit & Supervisory Board Member Mr. Hiroshi Yamamoto has knowledge of finance and accounting as well as insight into corporate governance in the Group's business operations having served as the Company's Vice President of the Operational Review and Business Assurance. In the fiscal year ended December 31, 2021, the Audit & Supervisory Board convened 15 times, and all of the Audit & Supervisory Board Members attended every meeting.

The status of the development of the Company's corporate governance system is represented as the following schematic depiction.



As of the filing date, the members of the Company's corporate governance system are as follows:

Name of body	Members
Board of Directors	Chairman: Mutsuo Iwai, Chairman of the Board Members: Shigeaki Okamoto, Masamichi Terabatake, Naohiro Minami, Kiyohide Hirowatari, Kazuhito Yamashita, Main Kohda(*1), Yukiko Nagashima(*1), Masato Kitera(*1), Tetsuya Shoji(*1)
Audit & Supervisory Board	Chairman: Ryoko Nagata, Standing Audit & Supervisory Board Member Members: Hiroshi Yamamoto, Toru Mimura(*2), Hiroshi Obayashi(*3), Koji Yoshikuni(*3)
Advisory Panel on Nomination and Compensation	Chairman: Main Kohda, Outside Director Members: Mutsuo Iwai, Shigeaki Okamoto, Yukiko Nagashima(*1), Masato Kitera(*1), Tetsuya Shoji(*1)
JT Group Compliance Committee	Chairman: Mutsuo Iwai, Chairman of the Board Members: Shigeaki Okamoto, and 3 outside committee members

(*1) Outside Director
(*2) Standing Outside Audit and Supervisory Board Member
(*3) Outside Audit & Supervisory Board Member

c. Implementation status of internal control system, risk management system and systems necessary to ensure the properness of operations in subsidiaries

The Company has always endeavored to run an internal control system of the Company and the Group through initiatives in such areas as compliance, internal audits, and risk management. Moreover, the Company has created the systems required under the Companies Act and the Regulation for Enforcement of the Companies Act by implementing measures aimed at ensuring the effectiveness of audits by Audit & Supervisory Board Members. The Company will work to maintain and enhance the systems in each company while consecutively reviewing and revising the current system as necessary, and ensure appropriate implementation of business. For the foreign subsidiaries, the Company builds and operates the necessary system in conformity with the following provisions concerning subsidiaries, in principle, while complying with the laws and regulations in the country in which the subsidiary is incorporated.

- Systems to ensure that the performance of duties by directors and employees of the Company and its subsidiaries conforms to laws, regulations, and the Articles of Incorporation

Under the internal reporting system (whistle-blower system), the Company and each of its subsidiaries has a desk through which employees and others may consult or report, in case they detect any conduct that may violate laws and regulations. Compliance promotion departments that receive a report or request for consultation investigate the details and take necessary action, while working to prevent recurrence of the issue. In addition, separate from the consultation and reporting desks that are handled by the Legal and Compliance Division, the Company has established consultation and reporting desks that are independent of business operations and are handled by Audit & Supervisory Board Members. An Audit & Supervisory Board Member who receives a consultation or a report investigates its content, and the Company carries out necessary measures and tries to prevent the recurrence. The Company will bring matters of particular importance involving the Group to the JT Group Compliance Committee, and will request deliberation or will report on the issue.

Under the system for excluding anti-social forces, the Company and its subsidiaries are resolved to fight against them, not to comply with an unreasonable demand and not to have any relations with them. Designating the Corporate Governance Division of the Company as the department assuming the responsibility for supervising efforts to exclude anti-social forces at the Group level, the Company cooperates with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way. The Company also consistently makes enlightening activities to eliminate anti-social forces by making directors and employees of the Company and its subsidiaries informed about the rules not to have any relations with anti-social groups and organizations and by educating the directors and employees through providing relevant training as necessary.

In order to ensure the reliability of financial reporting of the Group, the Company is operating a relevant internal control system that it has established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of staff to the task of evaluating financial results and reporting them, the company is striving to maintain and improve the reliability of its financial reporting.

- Procedures and arrangements for storage and management of information on the performance of duties by the Members of the Board of the Company

  The Company makes sure to properly store and manage the minutes of General Meetings of Shareholders and meetings of the Board of Directors in line with laws and regulations. The Company makes sure that the information on important matters relating to business execution and decision-making including the conclusion of corporate contracts is stored and managed by the relevant departments and divisions as specified by the Responsibility and Authority Regulations, and establishes rules on managing the processes of decision-making, procurement and accounting.

- System for reporting matters concerning the performance of duties by Directors, etc. of subsidiaries to the Company

  The Company makes subsidiaries to regularly report important information to the Company's departments and divisions that are in charge of the subsidiaries.

- Rules on management of risk of loss of the Company and its subsidiaries, and procedures/arrangements for other matters

  The Company has established internal policies, rules and manuals relating to the Group for the management of risk of loss relating to monetary and financial affairs, and ensures that relevant reports are made to the President and Chief Executive Officer and the Board of Directors on a quarterly basis via Chief Financial Officer. With regard to the risk of loss relating to other affairs, in accordance with authority delegated to each department and division as per the Responsibility and Authority Regulations, responsible departments and divisions take on a supervisory role creating all types of committees to conduct proper management.

  The Company works to achieve an integrated understanding of all risks that may affect the Group, and to manage them accordingly. This risk management is coordinated by the person in charge of risk management promotion, who determines which risks are significant, and reports them to the President and Chief Executive Officer. Executive Officers also take the lead role in drawing up measures to address significant risks. After submitting reports to the person in charge of risk management promotion and to the President and Chief Executive Officer, the Executive Officers promote and execute these measures, and provide progress reports on them to the same individuals. With regard to risk management process, please refer to "II. Review of Operations 2. Business and Other Risks."

  In cooperation with the internal audit functions of subsidiaries, the Operational Review and Business Assurance Division of the Company examines and evaluates the internal control systems, etc. of the Group companies in light of the level of importance and the risks involved, and from an objective standpoint that is independent of organizations responsible for business execution. It provides reports and counsel to the President and Chief Executive Officer and also reports to the Board of Directors.

To prepare for possible emergencies, the Company has produced a manual for crisis management and disaster response. In the event of an emergency or a disaster, the Company is ready to establish an emergency project system, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions and subsidiaries. Events to which a response has been made and the details of such events shall be reported to the Board of Directors in a timely and appropriate manner.

- System to ensure that Members of the Board of the Company and Directors, etc. of its subsidiaries can perform their duties efficiently

The Board of Directors of the Company meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters and to supervise business execution. The Board of Directors of the Company receives reports from Members of the Board of the Company on the status of business execution at least once every three months. For important management issues, particularly management policy and basic plans regarding overall business operations of the Company, in addition to matters to be referred to the Board of Directors of the Company, a clear decision-making process is stipulated in the Responsibility and Authority Regulations to have a system that enables to realize swift decision-making and high-quality business execution. The Company has adopted the Executive Officer System, under which Executive Officers appointed by the Company's Board of Directors execute business properly by exercising the authority delegated to them in their respective areas, in accordance with JT Group management strategies decided by the Board. In order to manage business operations in ways that contribute to the business efficiency and flexibility of the Company, basic matters concerning the Company's organization, allocation of duties to officers and staff and the roles of individual divisions are specified by the relevant internal rules.

The Company has been constructing an efficient system for business execution within the Group through the formulation, etc. of rules and policies that apply to the Group.

- Systems necessary to ensure the properness of operations in the Company and the Group

The Group has set itself the mission of creating, developing and nurturing its unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals, and there is a group-wide consensus on the mission. The Company has specified the functions and rules common for the Group to effectuate group management that optimizes the operations of the entire Group as a whole. Moreover, the Company has been putting in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

- Matters for employees assisting Audit & Supervisory Board Members in their duties in the event such employees were requested by Audit & Supervisory Board Members

The Company has allocated sufficient staff to the Audit & Supervisory Board Member's Office (five persons as of December 31, 2021) as an organization supporting the Audit & Supervisory Board Members in performing their duties. In addition, the Company makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

- Matters relating to the independence of employees belonging to the Audit & Supervisory Board Member's Office from the Company's Members of the Board, and matters relating to the assurance of the effectiveness of instruction by Audit & Supervisory Board Members to those employees

The evaluation of the Manager of the Audit & Supervisory Board Member's Office is made by the Audit & Supervisory Board and the evaluation of the other employees assigned to the Audit & Supervisory Board Member's Office is made by the Manager of the Audit & Supervisory Board Member's Office based on the advice of the Audit & Supervisory Board. The transfer and discipline of employees assigned to the Audit & Supervisory Board Member's Office is to be deliberated in advance with the Audit & Supervisory Board.

The Company makes the employees belonging to the Audit & Supervisory Board Member's Office follow the direction and orders of Audit & Supervisory Board Members in assisting the duties of the latter, and not be assigned to other concurrent positions relating to the business execution of the Company.

- System for reporting by directors and employees of the Company and its subsidiaries or persons reported by directors and employees of its subsidiaries to the Audit & Supervisory Board and Audit & Supervisory Board Members

  When directors and employees of the Company and its subsidiaries detect any evidence of malfeasance in financial documents or serious breaches of laws and regulations or the Company's Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the Company's management. In addition, when directors and employees of the Company and its subsidiaries are asked by Audit & Supervisory Board Members to compile important documents for their perusal, to accept field audits and to submit reports, they are due to respond to the request in a prompt and appropriate manner.

  The Legal and Compliance Division makes reports regularly to Audit & Supervisory Board Members on the status of whistleblowing involving the Group, and makes non-regular reports as necessary.

- System to ensure that persons reporting to Audit & Supervisory Board Members are not subject to disadvantageous treatment due to having reported

  The Company thoroughly communicates within the Group that persons engaging in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions.

- Matters concerning policies for the prepayment of expenses involving the performance of duties by Audit & Supervisory Board Members, procedures for reimbursement, and the handling of other expenses or debts involving the performance of those duties

  When an Audit & Supervisory Board Member has made claim to the Company for the prepayment of expenses, etc. in accordance with Article 388 of the Companies Act, the Company will promptly handle the relevant expenses or debt, with the exception of cases in which the Company deems the claimed expenses or debt to be unnecessary to the performance of the duties of the Audit & Supervisory Board Member.

  The Company makes a budget covering audit-related expenses so as to secure effectiveness of audits by Audit & Supervisory Board Members. The Company also bears the portion of miscellaneous expenses for audits by Audit & Supervisory Board Members that are in excess of budget, with the exception of cases in which the Company deems the expenses to be unnecessary to the performance of duties.

- Other systems to ensure effective auditing by Audit & Supervisory Board Members

  Audit & Supervisory Board Members are allowed to attend not only meetings of the Board of Directors of the Company but also other important meetings of the Company. The Operational Review and Business Assurance Division and the Legal and Compliance Division maintain cooperation with Audit & Supervisory Board Members by exchanging information.

d. Other matters regarding corporate governance

- Evaluation of effectiveness of the Board of Directors

  With regard to the effectiveness of the Board of Directors, in addition to annual questionnaire-based self-evaluations by Members of the Board and Audit & Supervisory Board Members from the standpoint of such themes as business operation systems and supervisory functions of the Board of Directors, and dialogue with shareholders and investors, before compiling the results the Board of Directors Secretariat also conducts individual interviews if needed with the aim of supplementing the results of the evaluations. The results of the self-evaluations are assessed and analyzed at the Board of Directors, leading to further improvements in its effectiveness. Furthermore, we take advice from external institutions when creating the questionnaire and analyzing the results, in order to ensure objectivity and further improve the evaluation of effectiveness.

Major items evaluated

Business operation systems of the Board of Directors	Composition (internal/external ratio, diversity); status of operations (frequency of holding meetings, appropriateness of topics of discussion, advance explanations); systems for support and cooperation (cooperation between Members of the Board and Audit & Supervisory Board Members / internal audits, etc., utilization of committees, sharing of information outside the Board of Directors); status of discussions (fair and prompt decision-making that follows the management principle of the Company, free and open-minded discussion), etc.
Supervisory functions of the Board of Directors	Systems for reporting the status of business execution, risk management systems, penetration of compliance awareness, decision-making process for executive remuneration, succession planning, etc.
Dialogue with shareholders and investors	Sharing of shareholder and investor views, status of development of system for engaging in dialogue, etc.

In the evaluation of effectiveness conducted for fiscal 2020, the items undergoing evaluation obtained good results on the whole as continuing from fiscal 2019, allowing the Company to confirm that the effectiveness of the Board of Directors is improving and the Board of Directors is functioning effectively. Conversely, in addition to identifying issues related to the operation of the Board of Directors aimed at further enhancements in discussions, those related to deepening discussions on corporate governance and better information sharing that could contribute to further enhancements in the quality of decision-making were identified. Given the impacts of ongoing COVID-19 pandemic in addition to these issues, the following actions were taken in fiscal 2021.

Effective and efficient operation of the Board of Directors aimed at further enhancements in discussions

- Continuing more detailed advance explanations for critical matters
- Securing sufficient deliberation time by allocating appropriate time for each agenda
- Continuing remote hosting of some meetings of the Board of Directors, and improving meeting operation capabilities in a remote environment

Better discussions and sharing of information that could contribute to further enhancements in the quality of decision-making

- Enhanced sharing of information in relation to the following matters
  - Details and status of investigations into important policies related to mid- to long-term strategy
  - Verifying the progress of important measures/policies and their effects
  - Status and future policies on corporate governance
  - Status of dialogue with shareholders/investors
  - The impacts of COVID-19 on employees and individual businesses, measures taken in response, and status of the same

The fiscal 2021 effectiveness evaluation recognized that there had been improvements focusing on the main initiatives for the year, in addition to which the items undergoing evaluation again achieved good results, on the whole.

On the other hand, in order to make an enhanced effectiveness, the Company will target continuous improvements from fiscal 2022 onwards, focusing on the following newly identified issues.

Main issues	Policy for improvements going forward
• Actions/initiatives for further improvements in the quality of deliberation and discussions • Enhancement of discussions based on long-term perspectives	• Continual improvements in the Board of Directors operation • Further expansion of opportunities to discuss mid- to long-term strategies, etc. • Further expansion of progress reporting and information sharing on key measures/policies, etc.

The Company will continue to implement improvements required to further enhance effectiveness, including the above-mentioned activities.

- Policy for ensuring the effectiveness of the governance system for the listed subsidiary

  The Company believes it is an indispensable prerequisite for the subsidiary to maintain independence in terms of management and to duly protect its minority shareholders' interests in order for, not only the subsidiary, but also for the Group to grow in value. Therefore, the Company is striving to build an appropriate governance system for the subsidiary as a listed subsidiary. The Company has instituted the Group's Responsibility and Authority Regulations as internal decision-making rules. The listed subsidiary has opted to adopt these regulations, thereby gaining autonomy in terms of decision-making authority. Such autonomy ensures its independence as a listed subsidiary. Torii Pharmaceutical is a consolidated subsidiary of the Company and is listed on the Tokyo Stock Exchange. Torii Pharmaceutical is upgrading the effectiveness of its governance system, which effectively utilizes Independent Outside Directors, by transiting to a majority-independent Board of Directors, which was approved at its Annual General Meeting of Shareholders on March 26, 2020.

- Succession planning

  The Company places priority on fostering successive generations of executives who will manage its future operations, expanding its pool of executive candidates and improving quality thereof.

  To develop a steady stream of highly skilled, highly qualified leaders capable of excelling in the global arena, the Company aims to upgrade its executive development program, succession plan and succession planning process with input from both external consultants and the Independent Outside Directors on the Advisory Panel on Nomination and Compensation. Senior management, having the President at the core, are deeply involved in selecting executive candidates and supporting their growth.

  The Company expands its executive talent pool by selecting groups of human resources who have the potential for being future executive candidates by organizational rank through Group-wide recruitment and recommendations from management, particularly executive officers. The Company develops selected personnel mainly through diverse and challenging job assignments based on individualized development plans formulated with input from outsourced objective assessments and periodic discussions with management.

- Key points of the partial exemption of liability and liability limitation agreement

  The Company's Articles of Incorporation stipulate that the Company may enter into an agreement with Members of the Board (excluding those who are Executive Directors, etc.) and Audit & Supervisory Board Members to limit the scope of their liabilities in advance to the extent permitted by the Companies Act and the Company may exempt Members of the Board and Audit & Supervisory Board Members from liabilities to the extent permitted by the same act. This provision is intended to enable Members of the Board and Audit & Supervisory Board Members to fulfill their expected role and make it easier to appoint the right persons from a broad choice both within and outside the company. As of the date of submission, the Company has such liability limiting agreements with its Members of the Board (excluding those who are Executive Directors, etc.) and Audit & Supervisory Board Members.

- Liability agreement

  The Company has entered into liability agreements with each of its Members of the Board and Audit & Supervisory Board Members as stipulated in Article 430-2, paragraph 1 of the Companies Act, whereby the

Company shall compensate them for expenses incurred under item (i) of the same paragraph, and any losses incurred under item (ii) of the same paragraph, to the extent permitted by laws and regulations. However, to provide coverage for losses incurred under item (ii) of the same paragraph, measures have been put into place to ensure that the proper performance of duties of insureds is not impaired, by making such coverage premised upon a final judgment or the reaching of a judicial settlement (including cases where the Company recognizes there is a due process that is equivalent to this) and requiring a resolution by the Board of Directors of the matter after it has been deliberated by the Advisory Panel on Nomination and Compensation of the Company.

- Liability insurance agreement for executive officers, etc.

The Company has entered into a liability insurance agreement for executive officers, etc. with an insurance company as stipulated in Article 430-3, paragraph 1 of the Companies Act, under which all Members of the Board, Audit & Supervisory Board Members, and Executive Officers are the insured. Under the terms of this insurance, litigation expenses and compensation for damages arising from legal action against the policyholders by third parties, shareholders or companies shall be supplemented. Note that any damages, etc., incurred by the insured in association with his/her criminal act or violation of laws and regulations while he/she is aware of that are not subject to the coverage; as such, a measure is taken to ensure/maintain the appropriateness in the execution of duties by the insured.

- Number of Members of the Board

The Company's Articles of Incorporation stipulate that the number of Members of the Board must be 15 or less.

- Nomination of Member of the Board Candidates, etc.

With regard to candidates for Members of the Board, the JT Corporate Governance Policy stipulates that the proposed list of candidates created by the President shall be deliberated by the Advisory Panel on Nomination and Compensation, the content and results of which are reported to the Board of Directors, and that after appropriate opportunities to receive advice from Independent Outside Directors have been secured, a decision shall be made by resolution of the Board of Directors. The Company's Articles of Incorporation stipulate that Members of the Board must be appointed by a majority of the shareholder votes cast on an occasion where shareholders representing at least one-third of the total voting rights are present.

In the JT Corporate Governance Policy, it is prescribed that Audit & Supervisory Board Member candidates shall be nominated by resolution of the Board of Directors as persons who are expected to perform their duties appropriately from a position independent of the Board of Directors. The resolution shall be made after securing opportunities for receiving appropriate advice from Independent Outside Director by having the Advisory Panel on Nomination and Compensation deliberate on a candidate proposal formed by the President and report the content and results of its deliberations to the Board of Directors, and after receiving prior consent from the Audit & Supervisory Board. The Company's Articles of Incorporation stipulate that Audit & Supervisory Board Members must be appointed by a majority of the shareholder votes cast on an occasion where shareholders representing at least one-third of the total voting rights are present.

With regard to the dismissal of Executive Directors and Members of the Board also serving as Executive Officers, the JT Corporate Governance Policy stipulates that in cases where such persons do not meet the required qualifications or have become unable to perform their duties, a decision shall be made by resolution of the Board of Directors after securing appropriate opportunities for receiving advice from Independent Outside Directors by having those Members of the Board who are not subject to dismissal request the Advisory Panel on Nomination and Compensation to deliberate on the proposal for dismissal, and then having the panel report the content and results of its deliberations to the Board of Directors. In relation to resolutions pertaining to the dismissal of Directors, there are no provisions in the Articles of Incorporation that differ from those of the Companies Act.

Further, when bringing up the agenda item on the appointment of Member of the Board candidates at the shareholders' meeting, and when the Board of Directors has resolved to dismiss Executive Directors and Members of the Board also serving as Executive Officers, JT shall disclose the reasons for the appointment of individual candidates and for the dismissal.

- Matters to be decided by the Board of Directors without referral to General Meeting of Shareholders

  Acquisition of treasury shares

  In order to enable flexible management that meets changes in business environment, the Company's Articles of Incorporation stipulate that the Company may acquire treasury shares through means such as market transaction upon a resolution by the Board of Directors under Article 165, paragraph 2 of the Companies Act.

  Interim dividends

  In order to enable profits to be returned to shareholders in a flexible manner, the Company's Articles of Incorporation stipulate that the Company may pay interim dividends to shareholders, upon a resolution by the Board of Directors under Article 454, paragraph 5 of the Companies Act.

- Requirements for special resolutions at General Meeting of Shareholders

  In order to facilitate the smooth conduct of General Meeting of Shareholders with an easier quorum requirement for special resolutions, the Company's Articles of Incorporation stipulate that a resolution as specified by Article 309, paragraph 2 of the Companies Act is valid if it is supported by at least two-thirds of the votes cast at a General Meeting of Shareholders attended by shareholders representing at least one-third of the Company's total voting rights (compared with the usual requirement of "at least half").

- Measures regarding transactions that involve possible conflict of interest between the Company and specified shareholders to avoid harming the interests of shareholders (excluding the shareholder who is a party to such a transaction)

  The Company requires resolution by the Board of Directors with respect to gaining approval for uncustomary transactions between the Company and its major shareholders.

(2) Status of Officers

a. Officers

There are twelve male officers and three female officers (20.0% of the officers are women).

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Chairperson of the Board	Mutsuo Iwai	October 29, 1960	April 1983 Joined the Company (Japan Tobacco and Salt Public Corporation) June 2003 Vice President, Corporate Planning Division July 2004 Vice President, Corporate Strategy Division June 2005 Senior Vice President and Vice President, Food Business Division, Food Business June 2006 Member of the Board and Executive Vice President, President, Food Business June 2008 Executive Vice President, Chief Strategy Officer June 2010 Member of the Board and Senior Vice President, Chief Strategy Officer and Assistant to CEO in Food Business June 2011 Member of the Board Executive Vice President, JT International S.A. June 2013 Senior Executive Vice President, and Chief Strategy Officer January 2016 Executive Vice President, President, Tobacco Business March 2016 Representative Director and Executive Vice President January 2020 Member of the Board March 2020 Deputy Chairperson of the Board June 2020 Outside Director, Benesse Holdings, Inc. (Current Position) June 2021 Outside Director, TDK Corporation (Current Position) March 2022 Chairperson of the Board, the Company (Current Position) (Significant Concurrent Positions outside the Company) Outside Director, Benesse Holdings, Inc. Outside Director, TDK Corporation	1 year since March 2022	36,000

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Deputy Chairperson of the Board	Shigeaki Okamoto	February 20, 1961	April 1983 Entered Ministry of Finance July 2001 Head of Management Office, General Coordination Division, Planning and Coordination Bureau, Financial Services Agency July 2002 Director for Supervisory and Financial Risk Stabilization Management, General Coordination Division, Supervisory Bureau July 2004 Director of Research Division, Budget Bureau, Ministry of Finance July 2006 Director for the Budget Bureau, Planning and Administration Division of Budget Bureau July 2009 Head of Secretariat Division, Minister's Secretariat August 2012 Director-General of the Budget Bureau July 2015 Deputy Vice Minister July 2017 Director-General of the Budget Bureau July 2018 Administrative Vice Minister June 2021 Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. (Current Position) December 2021 Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office (Current Position) Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office (Current Position) March 2022 Deputy Chairperson of the Board, the Company (Current Position) (Significant Concurrent Positions outside the Company) Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office	1 year since March 2022	0

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
* Representative Director and President, Chief Executive Officer	Masamichi Terabatake	November 26, 1965	April 1989 Joined the Company July 2005 Vice President, Secretary's Office July 2008 Vice President, Corporate Strategy Division June 2011 Senior Vice President, Chief Strategy Officer and in charge of Food Business June 2012 Senior Vice President, Chief Strategy Officer June 2013 Member of the Board Executive Vice President, JT International S.A. January 2018 President and Chief Executive Officer, the Company March 2018 Representative Director and President, Chief Executive Officer (Current Position) (Significant Concurrent Positions outside the Company) JT International Group Holding B.V. Chairman and Managing Director	1 year since March 2022	132,700
* Representative Director and Executive Vice President	Naohiro Minami	January 21, 1964	April 1986 Joined the Company December 2005 Controller July 2010 Deputy Financial Officer and Controller June 2012 Senior Vice President, Chief Financial Officer and Controller July 2012 Senior Vice President, Chief Financial Officer January 2018 Executive Vice President March 2018 Representative Director and Executive Vice President (Current Position) (Significant Concurrent Positions outside the Company) JT International Holding B.V. Supervisory Board member	1 year since March 2022	48,300
* Representative Director and Executive Vice President	Kiyohide Hirowatari	November 11, 1965	April 1989 Joined the Company July 2010 Vice President, Legal Division June 2012 Senior Vice President, Chief Legal Officer and Vice President, Legal Division July 2014 Senior Vice President, Chief Legal Officer January 2015 Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business January 2017 Senior Vice President, Human Resources January 2018 Executive Vice President March 2018 Representative Director and Executive Vice President (Current Position)	1 year since March 2022	47,700
* Member of the Board	Kazuhito Yamashita	February 4, 1963	April 1986 Joined the Company May 2007 Vice President, Corporate, Scientific & Regulatory Affairs Division, Tobacco Business Headquarters July 2009 Vice President, Corporate Affairs Division, Tobacco Business Headquarters June 2010 Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business January 2015 Senior Vice President, Head of China Division, Tobacco Business January 2019 Senior Vice President, Chief Sustainability Officer, Compliance and General Affairs March 2019 Member of the Board and Senior Vice President (Current Position)	1 year since March 2022	33,100

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Member of the Board	Main Kohda	April 25, 1951	September 1995 Started independently as Novelist (Current Position) January 2003 Member of Financial System Council, Ministry of Finance Japan April 2004 Visiting professor, Faculty of Economics, Shiga University March 2005 Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism November 2006 Member of the Tax Commission, Cabinet Office, Government of Japan June 2010 Member of the Board of Governors, Japan Broadcasting Corporation June 2012 Outside Director, the Company (Current Position) June 2013 Outside Director, LIXIL Group Corporation June 2016 Outside Director, Japan Exchange Group, Inc. (Current Position) June 2018 Outside Director, MITSUBISHI MOTORS CORPORATION (Current Position) (Significant Concurrent Positions outside the Company) Novelist Outside Director, Japan Exchange Group, Inc. Outside Director, MITSUBISHI MOTORS CORPORATION	1 year since March 2022	0
Member of the Board	Yukiko Nagashima	April 4, 1961	April 1985 Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.) April 2006 Corporate Executive Officer, Recruit Co., Ltd. January 2008 President and Representative Director, Recruit Staffing Co., Ltd. October 2012 Corporate Executive Officer, Recruit Holdings Co., Ltd. June 2016 Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position) April 2018 Standing Audit and Supervisory Board Member, Recruit Co., Ltd. (Current Position) March 2019 Outside Director, the Company (Current Position) June 2021 Outside Audit & Supervisory Board Member, Sumitomo Corporation (Current Position) (Significant Concurrent Positions outside the Company) Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd. Standing Audit and Supervisory Board Member, Recruit Co., Ltd. Outside Audit & Supervisory Board Member, Sumitomo Corporation	1 year since March 2022	0

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Member of the Board	Masato Kitera	October 10, 1952	April 1976 Joined the Ministry of Foreign Affairs January 2008 Director-General for Sub-Saharan African Affairs, Middle Eastern and African Affairs Bureau, and Secretary-General, TICAD IV, Ministry of Foreign Affairs July 2008 Director-General, International Cooperation Bureau, Ministry of Foreign Affairs January 2010 Deputy Vice Minister September 2012 Assistant Chief Cabinet Secretary November 2012 Ambassador of Japan to the People's Republic of China April 2016 Ambassador of Japan to the Republic of France June 2016 Ambassador of Japan to the Republic of France, Andorra and Monaco April 2020 Advisor, the Company June 2020 External Director, Marubeni Corporation (Current Position) Outside Director, NIPPON STEEL CORPORATION (Current Position) March 2021 Outside Director, the Company (Current Position) (Significant Concurrent Positions outside the Company) External Director, Marubeni Corporation Outside Director, NIPPON STEEL CORPORATION	1 year since March 2022	0
Member of the Board	Tetsuya Shoji	February 28, 1954	April 1977 Joined Nippon Telegraph and Telephone Public Corporation June 2006 Senior Vice President, General Manager of the Personnel Department, Nippon Telegraph and Telephone West Corporation June 2009 Senior Vice President, Head of General Affairs, Nippon Telegraph and Telephone Corporation June 2012 Senior Executive Vice President, Representative Member of the Board, NTT Communications Corporation June 2015 President & CEO, Representative Member of the Board, NTT Communications Corporation October 2018 Representative Member of the Board, NTT, Inc. June 2020 Corporate Advisor, NTT Communications Corporation (Current Position) March 2021 Outside Director, Sapporo Holdings Limited (Current Position) June 2021 Outside Director, Hitachi Zosen Corporation (Current Position) Outside Director, Mitsubishi Logistics Corporation (Current Position) March 2022 Outside Director, the Company (Current Position) (Significant Concurrent Positions outside the Company) Corporate Advisor, NTT Communications Corporation Outside Director, Sapporo Holdings Limited Outside Director, Hitachi Zosen Corporation Outside Director, Mitsubishi Logistics Corporation	1 year since March 2022	0

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Audit & Supervisory Board Member	Ryoko Nagata	July 14, 1963	April 1987 Joined the Company April 2001 Vice President, Head of Products Division, Food Business Division, Food Business Headquarters June 2008 Senior Vice President, Head of Beverage Business Division, Food Business Headquarters and Products Division, Food Business Division, Food Business July 2008 Senior Vice President, Head of Beverage Business Division, Food Business Headquarters July 2010 Senior Vice President, Head of Beverage Business Division June 2013 Senior Vice President, CSR January 2018 Senior Vice President, Assistant to President March 2018 Standing Audit & Supervisory Board Member (Current Position) June 2021 Outside Director, Honda Motor Co., Ltd. (Current Position) (Significant Concurrent Positions outside the Company) Outside Director, Honda Motor Co., Ltd.	4 years since March 2019	12,400
Audit & Supervisory Board Member	Hiroshi Yamamoto	November 29, 1963	April 1987 Joined the Company July 2008 Vice President, NTM Procurement Division, Tobacco Business June 2012 Vice President, Operational Review and Business Assurance Division March 2019 Standing Audit & Supervisory Board Member (Current Position)	4 years since March 2019	2,600
Audit & Supervisory Board Member	Toru Mimura	December 26, 1955	April 1979 Entered Ministry of Finance July 2010 Deputy Director-General of the Planning and Coordination Bureau, and Secretary-General of the Executive Bureau, Certified Public Accountants and Auditing Oversight Board, Financial Services Agency July 2011 Director General, Kinki Local Finance Bureau, Ministry of Finance January 2012 Deputy Director-General, Minister's Secretariat, Ministry of Defense September 2012 Director General, Bureau of Personnel and Education, Ministry of Defense July 2013 Director General, National Institute for Defense Studies, Ministry of Defense July 2014 Director General, Bureau of Finance and Equipment, Ministry of Defense October 2015 Vice-Minister of Defense for International Affairs, Ministry of Defense September 2016 Chairman, Sompo Japan Nipponkoa Research Institute Inc. October 2017 Director, Eltes Co., Ltd. March 2018 Registered as Attorney at Law (Current Position) March 2019 Standing Outside Audit & Supervisory Board Member, the Company (Current Position) (Significant Concurrent Positions outside the Company) Attorney at Law, Shiba International Law Offices	4 years since March 2019	0

Title	Name	Date of birth	Summary of career	Term of office	Number of shares held (Share)
Audit & Supervisory Board Member	Hiroshi Obayashi	June 17, 1947	April 1970 Judicial Apprentice April 1972 Appointed as Public Prosecutor May 2001 Director-General of the Rehabilitation Bureau, Ministry of Justice January 2002 Deputy Vice Minister June 2004 Director-General of the Criminal Affairs Bureau, Ministry of Justice June 2006 Vice-Minister of Justice, Ministry of Justice July 2007 Superintending Prosecutor, Sapporo High Public Prosecutors' Office July 2008 Superintending Prosecutor, Tokyo High Public Prosecutors Office June 2010 Prosecutor-General March 2011 Registered as Attorney at Law (Current Position) April 2011 Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. (Current Position) June 2013 Outside Director, Mitsubishi Electric Corporation (Current Position) June 2014 Outside Audit & Supervisory Board Member, NIPPON STEEL & SUMITOMO METAL CORPORATION (Current NIPPON STEEL CORPORATION) March 2015 Outside Audit & Supervisory Board Member, the Company (Current Position) June 2020 Outside Director, Audit & Supervisory Committee Member, NIPPON STEEL CORPORATION (Current Position) (Significant Concurrent Positions outside the Company) Attorney at Law, Obayashi Law Office Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. Outside Director, Mitsubishi Electric Corporation Outside Director, Audit & Supervisory Committee Member, NIPPON STEEL CORPORATION	4 years since March 2019	0
Audit & Supervisory Board Member	Koji Yoshikuni	September 7, 1952	April 1975 Joined Japan Broadcasting Corporation June 2003 Director Responsible for Finance of News Department, Japan Broadcasting Corporation June 2005 Executive Director, Yokohama Broadcasting Station, Japan Broadcasting Corporation June 2007 Chief of Secretariat for Board of Governors, Japan Broadcasting Corporation February 2010 Senior Director, Japan Broadcasting Corporation April 2012 Executive Director, Japan Broadcasting Corporation April 2017 Vice President, the Graduate School of Project Design Auditor, Hosei University (Current position) March 2019 Outside Audit & Supervisory Board Member, the Company (Current Position) April 2019 President, the Graduate School of Information & Communication, Advanced Academic Agency (Current Position)	4 years since March 2019	0
Total					312,800

Notes: 1. Members of the Board Main Kohda, Yukiko Nagashima, Masato Kitera and Tetsuya Shoji are Outside Directors.
2. Standing Audit & Supervisory Board Member Toru Mimura and Audit & Supervisory Board Members Hiroshi Obayashi and Koji Yoshikuni are Outside Audit & Supervisory Board Members.
3. Persons with the title marked with * concurrently serve as Executive Officer.

4. The Company has introduced the Executive Officer System in June 2001 in order to realize prompt and proper decision-making and business execution. The following 23 persons were appointed effective March 23, 2022.

Title	Name	Post
President	Masamichi Terabatake	Chief Executive Officer
Executive Vice President	Naohiro Minami	Finance and Corporate Communications
Executive Vice President	Kiyohide Hirowatari	Corporate Strategy, Sustainability, People & Culture, Information Technology, Legal, Operation Review & Business Assurance, Pharmaceutical Business and Food Business
Senior Vice President	Kazuhito Yamashita	Corporate Governance, Compliance
Senior Vice President	Junichi Fukuchi	Chief Executive Officer, Tobacco Business, Japan
Senior Vice President	Yuki Maeda	Chief Financial Officer, Tobacco Business, Japan
Senior Vice President	Eiichi Kiyokawa	Sales, Tobacco Business, Japan
Senior Vice President	Kenji Ogura	Corporate Affairs & Communications, Tobacco Business, Japan
Senior Vice President	Chigusa Ogawa	Leaf Procurement, Tobacco Business, Japan
Senior Vice President	Yasuhiro Nakajima	Head of RRP Japan Office, Tobacco Business, Japan
Senior Vice President	Shuichi Hirosue	Marketing, Tobacco Business, Japan
Senior Vice President	Akihiro Koyanagi	Manufacturing, Tobacco Business, Japan
Senior Vice President	Daniel Torras	Performance & Integration, Tobacco Business, Japan
Senior Vice President	Muneaki Fujimoto	President, Pharmaceutical Business
Senior Vice President	Shigenori Ohkawa	Head of Central Pharmaceutical Research Institute, Pharmaceutical Business
Senior Vice President	Hiromasa Furukawa	Food Business
Senior Vice President	Kei Nakano	Corporate Strategy
Senior Vice President	Takehisa Shibayama	Information Technology
Senior Vice President	Hiroyuki Fukuda	Corporate Communications
Senior Vice President	Osamu Hirose	General Counsel
Senior Vice President	Hisato Imokawa	Chief Sustainability Officer
Senior Vice President	Nobuya Kato	Chief Financial Officer
Senior Vice President	Yoshiyuki Mishima	People & Culture

Note: President and Chief Executive Officer Masamichi Terabatake also serves as President of Tobacco Business.

b. Status of Outside Directors and Outside Audit & Supervisory Board Members

- Numbers of Outside Directors and Outside Audit & Supervisory Board Members as well as their human, capital, business or other relationships of interest

  The Company has four Outside Directors and three Outside Audit & Supervisory Board Members.

  Outside Director Ms. Main Kohda previously served as a Member of the Board of Governors of Japan Broadcasting Corporation ("NHK"), and now concurrently serves as an Outside Director of Japan Exchange Group, Inc. Although the Company has relationships involving payments with both organizations, the amount paid came to less than 0.001% of NHK's consolidated total operating income in the fiscal year ended March 2021 and less than 0.005% of consolidated operating revenue for Japan Exchange Group, Inc. in the fiscal year ended March 2021, and the amount paid to each came to less than 0.001% of the Company's consolidated revenue for the fiscal year ended December 31, 2021. Also, the payment relationship with NHK is for a certain level of receiving fees, which are based on the Broadcast Act and non-negotiable, and are not therefore categorized as business transactions. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

  Outside Director Ms. Yukiko Nagashima is standing Audit and Supervisory Board Member of Recruit Holdings Co., Ltd. and Recruit Co., Ltd. Although the Company has business relationships with both companies, the value of the business was less than 0.01% of the consolidated revenue for Recruit Holdings Co., Ltd. in the fiscal year ended March 2021 and less than 0.01% of the Company's consolidated revenue in the fiscal year ended December 31, 2021. Furthermore, Ms. Yukiko Nagashima is Outside Audit & Supervisory Board Member of Sumitomo Corporation. Although the Company has a business relationship with Sumitomo Corporation, the value of the business was less than 0.001% of the consolidated revenue for Sumitomo Corporation in the fiscal year ended March 2021 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2021. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

  Outside Director Mr. Masato Kitera is an External Director of Marubeni Corporation. Although the Company has a business relationship with Marubeni Corporation, the value of the business was less than

0.001% of the consolidated revenue for Marubeni Corporation in the fiscal year ended March 2021 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2021. Furthermore, Mr. Masato Kitera received remuneration as a part-time advisor of the Company from April 30, 2020, but this agreement has expired due to his election at the Ordinary General Meeting of Shareholders held on March 24, 2021. This remuneration was paid to him as consideration for his advice on the management and business of the Company based on the experience and insight he possesses, and satisfies the independence criteria (not more than ¥10 million) prescribed by the Company. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Director Mr. Tetsuya Shoji is Corporate Advisor of NTT Communications Corporation. Although the Company has a business relationship with NTT Communications Corporation, the value of the business was less than 0.2% of the consolidated revenue for NTT Communications Corporation in the fiscal year ended March 2021 and less than 0.05% of the Company's consolidated revenue in the fiscal year ended December 31, 2021. Furthermore, Mr. Tetsuya Shoji is an Outside Director of Mitsubishi Logistics Corporation. Although the Company has a business relationship with Mitsubishi Logistics Corporation, the value of the business was less than 0.05% of the consolidated revenue for Mitsubishi Logistics Corporation in the fiscal year ended March 2021 and less than 0.002% of the Company's consolidated revenue in the fiscal year ended December 31, 2021. The Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Audit and Supervisory Board Member Mr. Toru Mimura previously served as a Director of Eltes Co., Ltd. Although the Company has a business relationship with Eltes Co., Ltd., the value of the business was less than 1.3% of the consolidated revenue for Eltes Co., Ltd. in the fiscal year ended February 2021 and less than 0.005% of the Company's consolidated revenue in the fiscal year ended December 31, 2021, and the Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Audit and Supervisory Board Member Mr. Hiroshi Obayashi concurrently serves as an Outside Audit & Supervisory Board Member of Daiwa Securities Co., Ltd. Daiwa Securities Co., Ltd. holds shares of the Company, but this constitutes less than 0.02% of the total shares. Although the Company has a business relationship with Daiwa Securities Co., Ltd., the value of the business was less than 0.001% of the consolidated revenue for Daiwa Securities Co., Ltd. in the fiscal year ended March 2021 and less than 0.001% of the Company's consolidated revenue in the fiscal year ended December 31, 2021, and the Company has therefore concluded that there is no risk of a special relationship of interest arising.

Outside Audit and Supervisory Board Member Mr. Koji Yoshikuni previously worked for NHK. The payments involved in the relationship with NHK are as described above, and the Company has concluded that there is no risk of a special relationship of interest arising.

Other than the above, there are no human, capital, business or other relationships of interest that should be reported between the Company and the Outside Directors and Outside Audit & Supervisory Board Members.

- Outside Directors appointed and functions and roles of Outside Directors in corporate governance of the filing company

The Company has appointed Ms. Main Kohda, Ms. Yukiko Nagashima, Mr. Masato Kitera, and Mr. Tetsuya Shoji as Outside Directors. The Company expects that Ms. Kohda will draw on her deep insight into international finance, her broad experience serving on governmental advisory bodies and other such forums, and also draw on her profound insight and objective point of view developed through her activities as a novelist. The Company also anticipates that Ms. Nagashima will leverage her experience acquired through her deep involvement in emerging businesses and corporate management, her experience as a Member of the Audit and Supervisory Boards, and also her high degree of knowledge cultivated through the perspectives of both management and auditing. Furthermore, the Company counts on Mr. Kitera to make use of his abundant international experience and knowledge concerning international affairs, gained through his long diplomatic career including his important positions as a government officer mostly in the Ministry of Foreign Affairs. In addition, the Company assumes that Mr. Shoji will utilize the broad experience, track record and insights into corporate management gained in his role as president and representative director of a telecommunications company, as well as his wide experience of planning, human resources, global development, and the promotion of digitalization. Accordingly, as well as expecting that all their experiences will be reflected in the management of the Company through their active provision of proposals and advice to the Board of Directors, the Company believes that they will supervise implementation of business from a fair and independent standpoint.

- Outside Audit & Supervisory Board Members appointed and functions and roles of Outside Audit & Supervisory Board Members in corporate governance of the filing company

  Outside Audit & Supervisory Board Members are appointed in light of their significant experience in their respective backgrounds and broad perspective. The Company has appointed Mr. Toru Mimura, Mr. Hiroshi Obayashi and Mr. Koji Yoshikuni as Outside Audit & Supervisory Board Members. Mr. Mimura has developed extensive knowledge of such fields as finance, global risk management, geopolitics and company law through his extensive experience over many years of serving in a wide range of important positions in ministries and agencies, in addition to his role as research institute chairman. Mr. Obayashi has gained extensive experience in the legal circles and developed insightful perspectives based on experience as an Outside Director and Outside Audit & Supervisory Board Member across a wide range of industries. Mr. Yoshikuni has served in such roles at Japan Broadcasting Corporation as the Director Responsible for Finance of News Department, Chief of Secretariat for Board of Governors, and Executive Director. In addition to his knowledge of politics and economics cultivated over long years in his journalistic career, his perspective is also informed by his management experience, characterized by thorough acquaintance with all business operations and internal departments. The Company expects that their experiences, perspectives and knowledge will be reflected in their audit activity, and the Company believes that they will maintain objective and neutral oversight of the management of the Company by conducting audits from a fair and independent standpoint.

- Independence of Outside Directors and Outside Audit & Supervisory Board Members

  At the Board of Directors on April 26, 2012, the Company established a Criteria for Evaluating the Independence of Outside Executives. According to the Criteria, Independent Directors/Audit & Supervisory Board Members must not fall under any of the following categories.

  1. A person who belongs or belonged to the Company or an affiliate or sister company of the Company
  2. A person who belongs to a company or any other form of organization of which the Company is a major shareholder
  3. A person who is a major shareholder of the Company or who belongs to a company or any other form of organization which is a major shareholder of the Company
  4. A person who is a major supplier or customer of the Company (if the supplier or customer is a company or any other form of organization, a person who belongs thereto)
  5. A major creditor of the Company including a major loan lender (if the creditor is a company or any other form of organization, a person who belongs thereto)
  6. A certified public accountant who serves as an independent auditor or an audit advisor of the Company, or a person who belongs to an auditing firm which serves as an independent auditor or an audit advisor of the Company
  7. A person who receives a large amount of fees from the Company in exchange for providing professional services for legal, financial and tax affairs or business consulting services (if the recipient of such fee is a company or any other form of organization, a person who belongs thereto)
  8. A person who receives a large amount of donation from the Company (if the recipient of such donation is a company or any other form of organization, a person who belongs thereto)
  9. A person who has fit any of the descriptions in 2 to 8 above in the recent past
  10. A close relative of a person who fits any of the following descriptions:

  (i) A person who fits any of the descriptions in 2 to 8 above (if such descriptions apply to a company or any other form of organization, a person who performs important duties thereof)

  (ii) A member of the board, audit & supervisory board member, audit advisor, executive officer or employee of the Company or an affiliate or sister company of the Company

  (iii) A person who has fit the descriptions in (i) or (ii) in the recent past.

Notes:

- A company or any other form of organization of which the Company is a major shareholder

  A company or any other form of organization, in which the Company holds more than 10% of all shares issued

- A major shareholder of the Company, or a company or any other form of organization which is a major shareholder of the Company

  A person, or a company or any other form of organization, that holds more than 10% of all shares of the Company issued

- A major supplier or customer of the Company

  A person whose business with the Company accounts for more than 2% of the consolidated revenue of the Company, or a person whose business with the Company accounts for more than 2% of the consolidated revenue of the person

- A major creditor of the Company including a major loan lender

  A financial institution listed in the “Major Lenders” section of the Company’s Business Report, and a financial institution listed as a lender or a lead managing underwriter in materials released at the time of major M&A deals in the past, and at other times

- A person who receives a large amount of fees from the Company in exchange for providing professional services for legal, financial and tax affairs or business consulting services

  A person who receives fees of more than ¥10 million in a fiscal year from the Company in exchange for providing professional services for legal, financial and tax affairs or business consulting services.

  For a company or any other form of organization, this shall be 2% or more of total income in a fiscal year. However, even if the fees do not exceed 2%, in cases where consideration for services in which such professionals are directly involved exceeds ¥10 million, it shall be considered a large amount.

- A person who receives a large amount of donation from the Company

  A person who receives a donation of more than ¥10 million in a fiscal year from the Company. In cases where the recipient is a company or any other form of organization, a person belonging to an organization that receives a donation of ¥10 million in a fiscal year or the equivalent to 2% of the organization’s total annual income or consolidated revenue, whichever is the greater amount.

- A close relative

  A spouse or a relative within the second degree of kinship

- A person who performs important duties

  A person of head of division or executive rank

- Retrospective measure (criteria for judging “in the recent past”)

  The retrospective period shall be the past five years

Notwithstanding the above mentioned notes, as a result of investigations into the past and present state of employment of a candidate, it is judged that the person is in effect independent, that person may become an Outside Member of the Board or an Outside Audit & Supervisory Board Member after receiving the approval of the Board of Directors. In such cases, the grounds for the decision shall be disclosed publicly.

In light of the above set of criteria, the Company has designated Ms. Main Kohda, Ms. Yukiko Nagashima, Mr. Masato Kitera and Mr. Tetsuya Shoji, who are Outside Directors, and Mr. Toru Mimura, Mr. Hiroshi Obayashi and Mr. Koji Yoshikuni, who are Outside Audit & Supervisory Board Members, as independent officers as defined by financial instruments exchanges.

To ensure that supervisory tasks and audits are conducted appropriately, information is shared regarding supervision and audit results and other steps are taken to ensure cooperation among operations involving supervision or audits performed by Outside Directors or Outside Audit & Supervisory Board Members, and operations involving internal audits, audits by Audit & Supervisory Board Members and audits by the Independent Auditor. To ensure appropriate implementation of business, information is exchanged as necessary and other means of cooperation are implemented among operations involving supervision or audits performed by Outside Directors or Outside Audit & Supervisory Board Members, and the Company's Internal Control Division.

(3) Implementation status of audits

a. Status of audits by Audit & Supervisory Board Members

i. Organization, members and procedures for audits by Audit & Supervisory Board

For the organization, members and procedures for audits by Audit & Supervisory Board, please refer to "(1) Outline of Corporate Governance, b. Outline of corporate governance structure and reason for adoption of the structure" and "(2) Status of Officers, b. Status of Outside Directors and Outside Audit & Supervisory Board Members, Outside Audit & Supervisory Board Members appointed and functions and roles of Outside Audit & Supervisory Board Members in corporate governance of the filing company."

ii. Status of Audit & Supervisory Board Members and Audit & Supervisory Board activities

During the fiscal year ended December 31, 2021, the Audit & Supervisory Board meeting was held a total of 15 times, with attendance at meetings for individual Audit & Supervisory Board Members being as follows:

Classification	Name	Attendance at meetings of the Audit & Supervisory Board
Audit & Supervisory Board Member	Ryoko Nagata	15/15 (100%)
Audit & Supervisory Board Member	Hiroshi Yamamoto	15/15 (100%)
Standing Outside Audit and Supervisory Board Member	Toru Mimura	15/15 (100%)
Outside Audit & Supervisory Board Member	Hiroshi Obayashi	15/15 (100%)
Outside Audit & Supervisory Board Member	Koji Yoshikuni	15/15 (100%)

The major items considered by the Audit & Supervisory Board included the auditing policies, legality of the business report and accompanying supplemental schedules, as well as the appropriateness of execution of duties by directors, the state of the rollout and operation of the internal control system, and the reasonableness of the methods used by the Independent Auditor, and of the results thus obtained.

Other activities conducted by Audit & Supervisory Board Members were the exchange of opinions with the Board of Directors of the Company, attendance at important meetings of the Board of Directors, the reading of documents for important resolutions, etc., surveys of operations and the status of assets at the Company and its subsidiaries, the exchange of opinions with directors and Audit & Supervisory Board Members of subsidiaries, and checking progress reports and the reported results for audits implemented by the Independent Auditor.

b. Status of internal audit

The internal audit system is an entity independent of the organizations responsible for business execution that reports directly to the President and is overseen by the Operational Review and Business Assurance Division (22 employees as of December 31, 2021) of the Company. The internal audit system uses an objective position to examine and evaluate systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect the Company's assets and improve management efficiency. The Operational Review and Business Assurance Division has the authority to observe all activities, inspect all records and question all personnel of the entire Group without restrictions in order to fulfill its responsibilities. Moreover, in coordination with the internal audit functions of all subsidiaries, the Operational Review and Business Assurance Division also undertakes the planning and performance of the Group's internal audit systems and policies, and supplements the internal audit functions of subsidiaries.

The Company's Vice President of the Operational Review and Business Assurance has an obligation to report the results of audits to the President and Chief Executive Officer, and reports to the Board of Directors every year.

c. Implementation status of accounting audits

The Company, in order to ensure the Independent Auditor's appropriate audit, secures sufficient time for audit enabling high-quality audit and provide the Independent Auditor with opportunities to contact Members of the Board and Executive Officers, as well as provide appropriate auditing environment enabling sufficient cooperation between the Independent Auditor and Audit & Supervisory Board Members, the internal auditing division and Outside Directors. Further, in the event that an Independent Auditor indicates a deficiency or problem or discovers misconduct, the Company shall appropriately take measures correspondingly.

While Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits. Also, Audit & Supervisory Board Members, internal audit organizations including the Operational Review and Business Assurance Division, and the Independent Auditor cooperate with the Company's Internal Control Division to ensure appropriate implementation of business by exchanging information when necessary.

i. Name of auditing firm

Deloitte Touche Tohmatsu LLC

ii. Continuous audit period

37 years

iii. Certified public accountants

Yukitaka Maruchi, Koji Ishikawa, Yoichi Matsushita

iv. Assistants for the audit work

Certified public accountants: 9 persons, People who have passed the Certified Public Accountants Examination: 4 persons, Others: 17 persons

v. Policy and reasons for selecting the Independent Auditor

The Audit & Supervisory Board has established the "Standards for Evaluating and Selecting Independent Auditor." The evaluation and selection of Independent Auditor are conducted in accordance with said standards, and are based on a comprehensive judgment, considering the various factors such as independence from the Company, degree of expertise, adequate experience, size and overseas network which enables efficient implementation of accounting services corresponding to the Company's broad range of business, well established auditing system, fair and reasonable audit plans and expenses.

In the case that an Independent Auditor is adjudged to fall within any of the items listed in Article 340, paragraph 1 of the Companies Act, with the agreement of all of the Audit & Supervisory Board Members, the Company shall dismiss the Independent Auditor. Additionally, apart from the above, should an incident occur casting serious doubt on the ability of the Independent Auditor to continue to perform its duties, the Audit & Supervisory Board shall decide the content of proposal and submit such proposal to the General Meeting of Shareholders that the Independent Auditor should be dismissed or should not be reappointed.

vi. Evaluation of the Independent Auditor by the Audit & Supervisory Board

The Audit & Supervisory Board of the Company conducts evaluations of the Independent Auditor. Evaluation items are established in relation to the independence and expertise of the Independent Auditor, as well as the appropriateness and reasonableness of their audit activities. The materials required to evaluate each item are obtained from the relevant departments within the Company and from the Independent Auditor, and through reports, in order to assess audit quality.

d. Audit fees

i. Audit fees paid to certified public accountants

(Millions of yen)

Classification	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
The Company	330	85	330	33
Consolidated subsidiaries	115	42	116	2
Total	445	127	446	34

Note: Fees paid to Deloitte Touche Tohmatsu LLC.

Details of non-audit services for the Company are as follows.

Fiscal year ended December 31, 2020

Non-audit services for which fees are paid by the Company to certified public accountants include the advisory services relating to sustainability management and the issuance of the comfort letter in relation to the bond issuing.

Fiscal year ended December 31, 2021

Non-audit services for which fees are paid by the Company to certified public accountants include the advisory services relating to sustainability management and the issuance of the comfort letter in relation to the bond issuing.

In addition, details of non-audit services for consolidated subsidiaries are as follows.

Fiscal year ended December 31, 2020

Non-audit services for which fees are paid by consolidated subsidiaries of the Company to certified public accountants include the enhancement of the governance system and support for the introduction of risk management.

Fiscal year ended December 31, 2021

Non-audit services for which fees are paid by consolidated subsidiaries of the Company to certified public accountants include support for the enhancement of the governance system.

ii. Audit fees paid to certified public accountants and organizations that belong to the same network (excluding i.)

(Millions of yen)

Classification	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
	Fees for audit attestation services	Fees for non-audit services	Fees for audit attestation services	Fees for non-audit services
The Company	–	217	–	275
Consolidated subsidiaries	790	1,037	913	1,395
Total	790	1,254	913	1,670

Note: Fees paid to member firms of Deloitte Touche Tohmatsu Limited.

Details of non-audit services for the Company are as follows.

Fiscal year ended December 31, 2020

Non-audit services for which fees are paid by the Company to Deloitte Touche Tohmatsu Limited member firms include consulting services.

Fiscal year ended December 31, 2021

Non-audit services for which fees are paid by the Company to Deloitte Touche Tohmatsu Limited member firms include consulting services.

In addition, details of non-audit services for consolidated subsidiaries are as follows.

Fiscal year ended December 31, 2020

Non-audit services for which fees are paid by consolidated subsidiaries of the Company to Deloitte Touche Tohmatsu Limited member firms include tax consulting.

Fiscal year ended December 31, 2021

Non-audit services for which fees are paid by consolidated subsidiaries of the Company to Deloitte Touche Tohmatsu Limited member firms include tax consulting.

iii. Other important fees for audit attestation services

No items to report.

iv. Policy for determining audit fees

The audit fee is determined through the necessary and sufficient negotiations with auditors based on the audit plan and audit fee estimates provided by them.

More specifically, the audit fee is determined based on the overall information by confirming that the focused audit areas under the audit plan and the scope of group-wide audit and review considering changes in consolidation status are appropriately reflected in the audit hours, and comparing the actual hours to planning in the prior audits.

Consent from the Audit & Supervisory Board is acquired before the determination of the audit fee to ensure the independence of auditors.

v. Reasons for approval of the Independent Auditor's remuneration by the Audit & Supervisory Board:

When the Company concluded an audit contract with Independent Auditor, the Audit & Supervisory Board Members obtained necessary materials and received reports from the Members of the Board, relevant internal departments, and the Independent Auditor, and performed verification to confirm that the amount of remuneration to be paid to the Independent Auditor, the persons in charge of the audits, and other details of the audit contract were appropriate.

Based upon this verification, the Audit & Supervisory Board checked and examined matters including the content of the Independent Auditor's accounting plan, the status of the performance of the auditing duties, and the basis for calculation of the remuneration estimate, and, as a result, determined that approval was fair and reasonable.

(4) Remuneration for Members of the Board and Audit & Supervisory Board Members

a. Policy concerning the remuneration amount for Members of the Board and Audit & Supervisory Board Members or the remuneration calculation method thereof

i. Executive remuneration policy and method for determining remuneration amount

The Board of Directors determines the policies on executive remuneration including the methodology on determination of each Director's remuneration. These policies are determined after being deliberated and reported by the Advisory Panel on Nomination and Compensation comprised entirely of the Directors who do not serve as Executive Officers, in which more than half of whose members being independent Outside Directors, in order to ensure independence and objectivity.

Based on these policies, the Company's basic concept on executive remuneration is as follows:

- Set the remuneration at an adequate level to retain personnel with superior capabilities.
- Link the remuneration to company performance so as to motivate executives to achieve their performance targets.
- Link the remuneration to company value in the mid- to long-term.
- Ensure transparency by implementing an objective and quantitative framework.

Determination of the amount of remuneration for each Member of the Board is benchmarked based on a survey of remuneration of directors conducted by third parties, based on the remuneration levels of major domestic manufacturers that are expanding overseas with the similar size and profits. To be more specific, after benchmarking the level of base salary and the percentage of variable remuneration in annual bonuses and mid- and long-term incentives, we decide the amount of remuneration for Members of the Board based on the results of the review by the Advisory Panel on Nomination and Compensation, in line with the methods of calculation as set forth in the internal rules, and within the maximum remuneration approved by the General Meeting of Shareholders. At this point, judged suitable for overviewing the Company's management and consolidated performance to decide the amount of remuneration for Members of the Board by considering the evaluation of their execution of duties, the Representative Director and President is delegated to make such decisions. As to the remuneration for the fiscal year under review, based on the details of the review by the Advisory Panel on Nomination and Compensation, Representative Director and President Masamichi Terabatake has decided the amount of remuneration for Members of the Board relating to base salary, bonuses, the monetary remuneration claim toward the allotment of restricted stock, and the monetary remuneration claim toward the allotment of performance share units, by following the methods of calculation as set forth in the internal rules; and the Board of Directors judges its details in compliance with the determination policy.

The remuneration of Audit & Supervisory Board Members is also benchmarked in the same way, and is determined by deliberation among the Audit & Supervisory Board Members within the maximum remuneration approved at the General Meeting of Shareholders.

ii. Executive Remuneration Structure

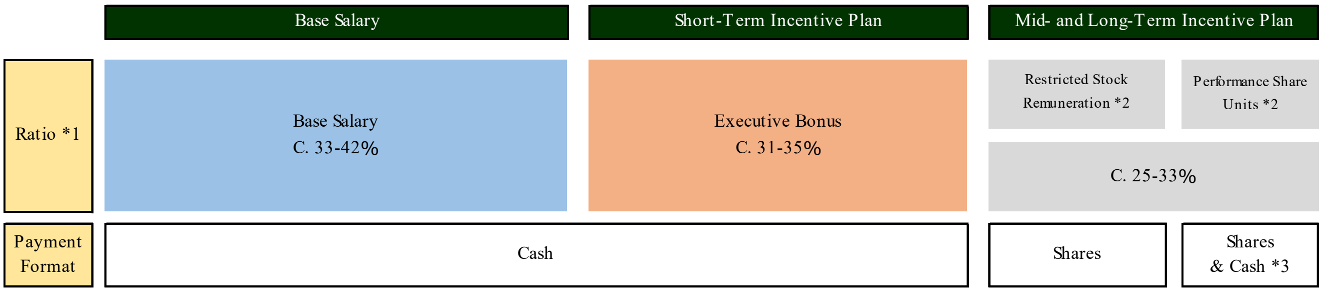
The remuneration for Members of the Board and Audit & Supervisory Board Members is made of four components. In addition to the monthly "base salary," there is an "executive bonus," which reflects the Company's business performance in the relevant fiscal year, a "restricted stock remuneration" and "performance share units," which are linked to the mid- to long-term company value of the Company. The Restricted Stock Remuneration Plan and the Performance Share Unit Plan were introduced in 2020 in order to strengthen the efforts to enhance the mid- to long-term company value and to further promote shared value with shareholders.

The composition of remuneration by member category is as follows:

- Remuneration for the Members of the Board who also serve as Executive Officers

For Members of the Board who also serve as Executive Officers (hereinafter referred to as "Eligible Directors"), remuneration consists of "base salary," "executive bonus," "restricted stock remuneration" and "performance share unit remuneration" as they are required to achieve results by executing their duties on a daily basis.

If the "executive bonus" and "performance share unit remuneration" are paid at the standard amount, the composition ratio for each type of remuneration is as follows.



*1 The composition ratios vary depending on the duties of the Members of the Board. The ranges are indicated in the illustration.
*2 The ratio of restricted stock remuneration and performance share units is about 3 to 1.
*3 Under the Performance Share Unit Plan, 50% is paid as cash towards tax payment.
*4 The above illustration is based on certain assumptions of the Company's performance and the share price. The ratios may fluctuate depending on the Company's performance and the share price.

- Remuneration for the Members of the Board who do not serve as Executive Officers (excluding Outside Directors)

For Members of the Board (excluding Outside Directors) who do not serve as Executive Officers, remuneration is not linked to business performance but is composed of "base salary" alone, as they are required to make decisions on the JT Group management strategies aimed at enhancing corporate value and to fulfill supervisory functions including monitoring the implementation of mid- to long-term growth strategies, etc.

- Remuneration for the Outside Directors

Remuneration for the Outside Directors is composed of "base salary" alone and is not linked to business performance to ensure their independence. At the Board of Directors of the Company held on February 14, 2022, a resolution was adopted that from the Advisory Panel on Nomination and Compensation held on March 23, 2022, the Chairperson shall be elected from among Independent Outside Directors by themselves, and that the Outside Director who serves as the Chairperson shall receive the remuneration at a level of the amount corresponding to the duty of the Chairperson, in addition to the remuneration Outside Directors receive.

- Remuneration for the Audit & Supervisory Board Members

Remuneration for the Audit & Supervisory Board Members is composed of "base salary" alone in light of their key responsibility to conduct audits.

(Composition of remuneration by member category)

		Base salary	Executive bonus	Restricted stock remuneration	Performance share units
Members of the Board (excluding Outside Directors)	Executive Officer	Applicable	Applicable	Applicable	Applicable
	Not an Executive Officer	Applicable	Not applicable	Not applicable	Not applicable
Outside Directors		Applicable	Not applicable	Not applicable	Not applicable
Audit & Supervisory Board Members		Applicable	Not applicable	Not applicable	Not applicable

iii. Executive Remuneration Details

- Base salary

Executives will be remunerated with monthly base salary as per their responsibilities. Eligible Directors will be individually evaluated for achievement of their performance targets through execution of their duties that will lead to the Company's sustainable profit growth. Performance targets are set through interviews with the Company's President and Chief Executive Officer at the beginning of the fiscal year and evaluated at the end of year. The base salary for the following fiscal year will be set within certain range reflecting the individual performance evaluations. However, an individual performance evaluation will not be applicable for the Company's President and Chief Executive Officer.

- Executive bonus

Executive bonuses for Eligible Directors will be paid as monetary remuneration reflecting the performance of a fiscal year. Adjusted operating profit (AOP) at constant FX and profit results will be the key performance indicators (KPI) for the calculation of executive bonuses, which will be used to measure the performance of the business itself, which is the foundation of sustainable profit growth, as well as the achievement rate of profit growth, from the viewpoint of providing shared value with the shareholders. Executive bonus will comprise of AOP at constant FX and profit in the ratio of 75% and 25%, respectively. Performance-linked payout will be based on the KPI achievement in the range of 0% - 200%. In a case where a Member of the Board who is a recipient of executive bonus has carried out certain wrongful behavior, the officer involved will be required to refund a part of the executive bonus already paid. Starting from fiscal 2022, the Company has decided to introduce core revenue at constant FX(*1), adjusted operating profit on a reported basis and an RRP-related index as new KPIs on top of its existing KPIs, namely AOP at constant FX and profit, for the purpose of setting indices conducive to sustainable profit growth over the mid to long term. In calculating the amounts of executive bonuses, 15% accounts for core revenue at constant FX, 35% for AOP at constant FX, 25% for adjusted operating profit on a reported basis and 25% for profit. With this revision, the ratio that performance on a reported basis accounts for on the KPIs used to determine executive bonuses has increased to 50%. Performance-linked payout is based on the KPI achievement in the range of 0% to 190% and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the RRP-related index.

*1 Core revenue at constant FX is the sum of revenues in the pharmaceutical business, processed food business, and others, as well as the core revenue in the tobacco business at constant FX.

KPIs related to executive bonuses that were used to evaluate Group performance in the fiscal year ended December 31, 2021, and actual results, were as follows.

(Billions of yen)

KPIs for Group performance (consolidated)	Fiscal year ended December 31, 2021	
	Target	Result
Adjusted operating profit at constant FX	512.0	598.4
Profit attributable to owners of the parent company	240.0	338.5

- Restricted Stock Remuneration Plan

The Restricted Stock Remuneration Plan is designed to strengthen the shared value with shareholders and to enhance the corporate value over the mid- to long-term. Monetary remuneration claims are provided to Eligible Directors as remuneration associated with restricted stock in each fiscal year based on resolution of the Company's Board of Directors, and each Eligible Director receives allotment of ordinary shares of the Company by providing all the monetary remuneration claims by means of contribution in kind (the allotment is made by means of disposal of treasury shares). In disposal of ordinary shares of the Company due to this Plan, a restricted stock allotment agreement shall be concluded between the Company and each Eligible Director.
The monetary compensation towards the purchase of the Company's restricted stock will be decided based on the closing price of the Company's share at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the restricted stock.
In addition, the allocation of monetary remuneration claims to the Eligible Directors, assumes that such director accepts the compensation as contribution in kind and enters into the restricted stock allotment agreement.
The specific details of the Plan are as follows. Any other matters regarding the Plan shall be determined by the Company's Board of Directors.

(1) The total amount of monetary remuneration claims and number of shares
The total amount of monetary remuneration claims for all Eligible Directors together shall not exceed ¥210 million per year or the total number of ordinary shares allotted by the Company shall not exceed 115,200 shares per year. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of shares to be allocated after this Restricted Stock Remuneration Plan has been approved in the 35th Ordinary General Meeting of Shareholders (March 19, 2020), the relevant total number shall be adjusted accordingly within a reasonable range.

(2) Transfer restriction period and details
The restriction period will be 30 years (“Restriction Period”). During this period restrictions will be applied on the allotted shares (“Allotted Shares”), so that each Eligible Director is prohibited to transfer the Allotted Shares, pledge them, mortgage them, or use any arrangement to dispose them.

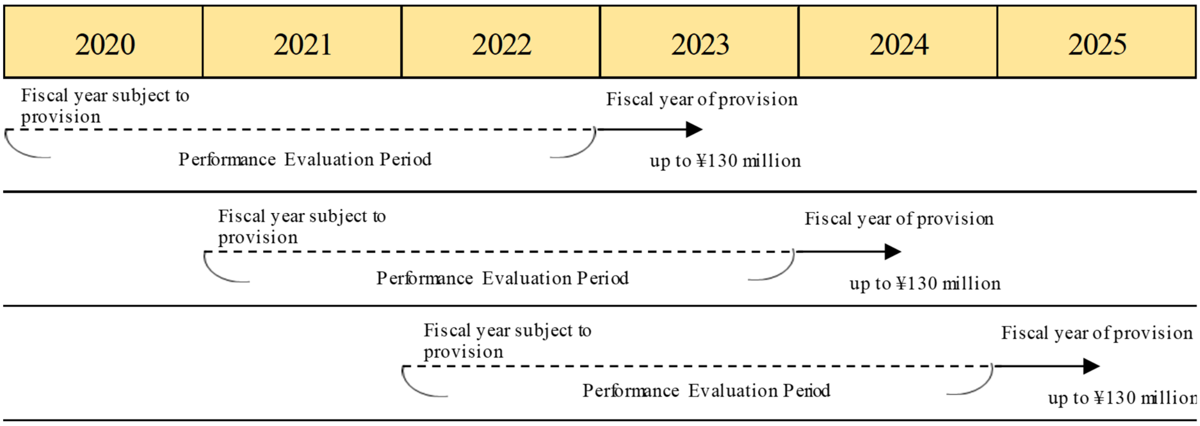
(3) Removal of transfer restrictions
In case any Eligible Director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Company’s Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company’s Board of Directors during the Restriction Period, the transfer restrictions will be removed on all the Allotted Shares.

(4) Revocation of Allotted Shares without any compensation
Allotted Shares will be revoked by the Company if an Eligible Director violates any laws and regulations or falls under any other event specified by the Company’s Board of Directors during the Restriction Period, the Company retains the right to acquire all or part of the Allotted Shares without any compensation.

(5) Handling in the case of reorganization
During the Restriction Period, if the Company becomes defunct due to merger or organization restructuring, the transfer restrictions for Allotted Shares will be removed following the resolution of the Company’s Board of Directors before the effective date of such reorganization.

- Performance Share Unit Plan

The Performance Share Unit Plan is a performance-linked stock compensation system that aims to strengthen the shared value with shareholders, to enhance the corporate value over the mid- to long-term and to commit to achieving business results over the mid-term. Members of the Board who also serve as Executive Officers are eligible to receive monetary remuneration claims and cash towards the acquisition of ordinary shares after the performance evaluation period (the “Performance Evaluation Period”)*, which is comprised of three fiscal years starting from the fiscal year subject to provision, in accordance with the rate of achievement of performance and other multi-year performance targets during the performance evaluation period. The Advisory Panel on Nomination and Compensation deliberates and decides on the achievement rate of such targets for performance and other items during the Performance Evaluation Period. The remuneration for the performance share units will be disbursed after the Performance Evaluation Period expires, in principle, as monetary remuneration claims and cash towards the acquisition of ordinary shares. Each of the Eligible Directors will receive the allocation of Company’s ordinary shares by paying all of the monetary remuneration claims in kind (the allotment is made by means of disposal of treasury shares).
The monetary compensation towards the purchase of the Company’s ordinary shares will be decided based on the closing price of the Company’s share at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company’s Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company’s Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the performance share units. In addition, since monetary remuneration claims and cash to deliver the Company’s ordinary shares are granted according to the above achievement rate of performance, the allocation of the monetary remuneration claims and cash to the Eligible Directors, the amount of the claims and cash to deliver the Company’s ordinary shares, and the number of shares delivered are not decided by the expiration of the Performance Evaluation Period.
* The initial year for the offering was set as 2020, with a Performance Evaluation Period of three fiscal years from the fiscal year ended December 31, 2020 to the fiscal year ending December 31, 2022. The offering for 2021 has a Performance Evaluation Period of three fiscal years from the fiscal year ended December 31, 2021 to the fiscal year ending December 31, 2023. From the fiscal 2022 forward, to the extent approved by the General Meeting of Shareholders, we will implement the performance-linked stock compensation plan, with respective years set as the year for offering with a new Performance Evaluation Period of three consecutive fiscal years starting thereof.



The specific details of the Plan are as follows. Any other matters regarding the Plan shall be determined by the Company's Board of Directors.

(1) The total amount of monetary remuneration claims and cash and number of shares

The total amount of monetary remuneration claims and cash for all Eligible Directors together shall not exceed ¥130 million per year or the total number of ordinary shares allotted by the Company shall not exceed 76,800 shares per year. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of shares to be allocated has been approved in the 35th Ordinary General Meeting of Shareholders (March 19, 2020), the relevant total number shall be adjusted accordingly within a reasonable range.

(2) Share allotment and cash calculation methodology

The Company determines performance indicators and others such as performance-linked figures for the Plan which are necessary to specifically calculate the number of shares to be distributed, reviewed by the Advisory Panel on Nomination and Compensation of the Company. Profit has been set as the KPI for the Performance Evaluation Period that began from fiscal 2020 and fiscal 2021 from the perspective of providing shared value with shareholders. For the evaluation period starting in fiscal 2022, the Company has decided to introduce an ESG-related index on top of profit, in order for the Company and shareholders to seek an agreement on a mutual perspective of evaluating and being evaluated. In fiscal 2022, the Company has adopted its progress on initiatives to realize net zero as an ESG-related index, specifically the target attainment rates to reduce GHG emissions.

In the specific calculation, the number of shares of the Company to be distributed to each Eligible Director is calculated based on the formula in i) below (however, any fraction of less than one share shall be rounded down), and the amount of cash to be paid as funds for tax payment to each Eligible Director is calculated based on the formula in ii) below. In the case of retirement or new appointment or alike during the Performance Evaluation Period, the number of shares of the Company or the amount of cash to be delivered to the Eligible Director, or his/her heir, may be adjusted reasonably as stipulated by the Company's Board of Directors. If the number of the ordinary shares of the Company allotted to eligible Members of the Board calculated by the formula (1) is greater than the maximum aggregate number of the ordinary shares of the Company to be allotted to eligible Members of the Board (not exceeding 76,800 shares annually), it shall be deducted in a reasonable manner, such as a proportional distribution, as laid down by the Board of Directors of the Company, within the range not exceeding the maximum aggregate number.

i) Number of Company shares to be distributed to each Eligible Director
Basic number of share units (*1) X ratio of provision (*2) X 50%

ii) Amount of monetary benefits to be paid to each Eligible Director
(Basic number of share units (*1) X ratio of provision (*2) – number of shares of the Company calculated in i) above) X share price at the time of delivery (*3)

*1 The number is determined by the Company's Board of Directors in accordance with duties of each Eligible Director and other factors.

*2 Performance-linked payout is set to be in the range of 0% to 200% based on the KPI (i.e., profit) achievement in both 2020 and 2021.
In 2022, performance-linked payout is set to be in the range of 0% to 190% based on the KPI (i.e., profit) achievement and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the ESG-related index.

*3 The share price will be set as the closing price of the Company's ordinary shares at the Tokyo Stock Exchange as of the business day immediately preceding the resolution by the Board of Directors for the allotment of shares of the Company on the basis of the Plan after the Performance Evaluation Period expires. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors.

(3) Pre-requisites for distribution

The Company shall provide the monetary remuneration claims and cash to Eligible Directors, and Eligible Directors are required to purchase the Company's ordinary shares with all the monetary remuneration claims received as contribution in kind, after the Performance Evaluation Period expires and the following conditions for distribution of Company's ordinary shares are met.

i) Remaining in his/her term of office as Member of the Board, Executive Officer or any other positions separately specified by the Board of Directors during the fiscal year subject to provision
ii) Non-existence of certain illegal acts
iii) Other requirements considered necessary, which are stipulated by the Board of Directors

(4) Handling in the case of reorganization

During the Performance Evaluation Period, if the Company becomes defunct due to merger or organization restructuring, the Company's Board of Directors may, prior to the effective date of the said organizational restructuring, decide to pay towards performance share units in accordance with the duration from the commencement date of the Performance Evaluation Period to the date of approval for the said organizational restructuring. However, in lieu of the aforementioned allocation of the Company's ordinary shares, cash will be reasonably calculated by the Company's Board of Directors as the amount equivalent to the said ordinary shares, within the limit of the remuneration for the Performance Share Unit Plan.

iv. Overview of the Resolutions on Total Executive Remuneration at the Ordinary General Meeting of Shareholders

At the 35th Ordinary General Meeting of Shareholders (held on March 19, 2020), approval was obtained for an upper limit to remuneration, consisting of base salary and executive bonuses, for the Company's Members of the Board (10 persons as of the filing date) of ¥1.1 billion per year for all Directors (including ¥80 million per year for Outside Directors). In addition, at the 37th Ordinary General Meeting of Shareholders (held on March 23, 2022), following an increase of one in the number of Outside Directors, approval was obtained for an increase in the upper limit to remuneration of ¥100 million for all Outside Directors (no change was made to the annual amount of ¥1.1 billion for all Members of the Board). In addition, at the 35th Ordinary General Meeting of Shareholders (held on March 19, 2020), approval was obtained for the adoption of the Restricted Stock Remuneration Plan and Performance Share Unit Plan for those Members of the Board who also serve as Executive Officers (4 persons as of the filing date), after abolishing the previous stock option plan, and for upper limits of remuneration of ¥210 million per year for the Restricted Stock Remuneration Plan (equivalent to 115,200 shares), and not more than ¥130 million per year (equivalent to 76,800 shares) for the Performance Share Unit Plan, respectively.

<table>
<tr><th rowspan="2"></th><th rowspan="2">Remuneration amount</th><th colspan="2">Members of the Board
(excl. Outside Directors)</th><th rowspan="2">Outside Directors</th></tr>
<tr><th>Executive Officer</th><th>Not an Executive Officer</th></tr>
<tr><td>Base salary</td><td rowspan="2">up to ¥1.1 billion
(incl. ¥100 million for Outside Directors)</td><td>Applicable</td><td>Applicable</td><td>Applicable</td></tr>
<tr><td>Executive bonus</td><td>Applicable</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>Restricted stock remuneration</td><td>up to ¥210 million
(up to 115,200 shares)</td><td>Applicable</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>Performance share units</td><td>up to ¥130 million
(up to 76,800 shares)</td><td>Applicable</td><td>Not applicable</td><td>Not applicable</td></tr>
</table>

Total remuneration amount	up to ¥1.44 billion

At the 34th Ordinary General Meeting of Shareholders (held on March 20, 2019), approval was obtained for an upper limit to remuneration for the Company's Audit & Supervisory Board Members (5 persons as of the filing date) of ¥240 million per year as a total for all Audit & Supervisory Board Members.

v. Details of the activities of the Board of Directors and the Advisory Panel on Nomination and Compensation in relation to determining remuneration for Members of the Board and Audit & Supervisory Board Members

Details of activities related to determining remuneration for Members of the Board and Audit & Supervisory Board Members were as follows.

Name	Number of meetings	Details of activities
Advisory Panel on Nomination and Compensation	5	Specifying the skills required of the Board of Directors of the Company and discussing the development of a skills matrix, confirming the level of remuneration, confirming the pool of executive candidates, discussing the nomination of Member of the Board candidates, and reviewing the key performance indicators (KPIs) for the bonuses and performance share units for the fiscal 2022
Board of Directors	3	Identification of skills with which the Board of Directors of the Company should be equipped and formulation of skill matrix, revision of rules for the Advisory Panel on Nomination and Compensation following the appointment of the Deputy Chairperson of the Board as a member of the Advisory Panel on Nomination and Compensation

(ii) Total amount of remuneration and other payments, total amount of remuneration and other payments by type, and number of Members of the Board and Audit & Supervisory Board Members to be paid, by member category for the fiscal year ended December 31, 2021

Category	Total amount of remuneration and other payments (Millions of yen)	Total amount of remuneration and other payments by type (Millions of yen)				Number to be paid (Person)
		Base salary	Executive bonus	Restricted stock remuneration	Performance share units	
Members of the Board (excluding Outside Directors)	1,405	482	549	191	183	6
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	83	83	–	–	–	2
Outside Directors and Outside Audit & Supervisory Board Members	133	133	–	–	–	7
Total	1,621	698	549	191	183	15

Notes:
1. For executive bonuses, the amounts planned to be paid are shown.
2. For performance share units, the amount to be recorded as expenses for the fiscal year under review is listed.
3. Executive bonus and performance share units of the above fall under performance-linked remuneration and others.
4. Restricted stock remuneration and performance share units of the above fall under non-monetary remuneration and others.
5. The above list includes one Member of the Board who resigned on March 24, 2021.

(iii) Total amount of consolidated remuneration and other payments for individuals whose consolidated remuneration and other payments amount to ¥100 million or more for the fiscal year ended December 31, 2021

Name	Category	Company	Amount of consolidated remuneration and other payments by type (Millions of yen)				Total (Millions of yen)
			Base salary	Executive bonus	Restricted stock remuneration	Performance share units	
Masamichi Terabatake	Representative Director	Filing company	146	277	107	103	634
Naohiro Minami	Representative Director	Filing company	54	91	28	27	200
Kiyohide Hirowatari	Representative Director	Filing company	57	108	30	29	225
Kazuhito Yamashita	Member of the Board	Filing company	46	73	25	23	167

Note: Same as (Notes) 1-4 for the Notes to the above "(2) Total amount of remuneration and other payments, total amount of remuneration and other payments by type, and number of Members of the Board and Audit & Supervisory Board Members to be paid, by member category for the fiscal year ended December 31, 2021."

(5) Share Ownership

a. Basic concept and criteria for investment stock category

The Company categorizes stocks that are held exclusively for the purpose of profiting through fluctuations in share prices or from the receipt of dividends as "investment stocks held purely for the purpose of financial investment," and all others as "investment stocks held for purposes other than financial investment" (strategic shareholdings).

b. Investment stocks held for purposes other than financial investment

i. Shareholding policy, methods used to verify the reasonableness of shareholdings, and details of verification by the Board of Directors, etc. in relation to the suitability of holding individual issues

The Company has drawn up a policy regarding strategic holdings of listed stocks as well as criteria for the exercise of voting rights, as follows, and operates them appropriately.

- The Company maintains strategic shareholdings only in cases where it has concluded that they will contribute to mid- to long-term sustainable profit growth and to increases in corporate value.
- Such shareholdings are subject to detailed investigations, such as whether the purpose of holding each issue is appropriate, and whether the benefits and risks associated with the shareholding are reasonable in the light of capital costs, and the suitability of holding is subject to verification by the Board of Directors every year.
- In cases where, as a result of this verification, a stock is recognized to be lacking the rationale for holding, the stock is sold as and when appropriate.
- The Company exercises its voting rights in relation to strategic shareholdings after coming to a comprehensive judgment regarding the purpose of the shareholding and whether the value of the stock held is impaired.

ii. Number of issues and balance sheet amount

(Fiscal year ended December 31, 2021)

	Number of issues (Issue)	Balance sheet amount (Millions of yen)
Unlisted stocks	45	1,093
Stocks other than unlisted stocks	8	12,429

(Issues for which the number of shares increased in the fiscal year ended December 31, 2021)

	Number of issues (Issue)	Total acquisition cost associated with the increase in the number of shares (Millions of yen)	Reason for increase in the number of shares
Unlisted stocks	2	120	Building and strengthening cooperative relationships aimed at setting up environments divided into smoking and non-smoking zones
Stocks other than unlisted stocks	–	–	–

(Issues for which the number of shares decreased in the fiscal year ended December 31, 2021)

	Number of issues (Issue)	Total sales proceeds associated with the decrease in the number of shares (Millions of yen)
Unlisted stocks	–	–
Stocks other than unlisted stocks	–	–

iii. Number of shares for each specified investment stock and stock deemed to be held, and information related to balance sheet amount, etc.

Specified investment stocks

Issue	Fiscal year ended December 31, 2021 Number of shares (Share) Balance sheet amount (Millions of yen)	Fiscal year ended December 31, 2020 Number of shares (Share) Balance sheet amount (Millions of yen)	Purpose of the shareholding, quantitative effects of the shareholding, and the reason for increase in number of shares	Shares of the Company held
Seven & i Holdings Co., Ltd.	852,000 4,308	852,000 3,117	Dealings with the Company are ongoing, expressed in such ways as cooperation with the sales and sales promotion activities of the tobacco business in Japan, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
DOUTOR-NICHIRES Holdings Co., Ltd.	1,320,000 2,115	1,320,000 1,958	Dealings with the Company are ongoing, expressed in such ways as cooperating with the tobacco business in Japan in the area of setting up environments divided into smoking and non-smoking zones, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
Japan Airport Terminal Co., Ltd.	400,000 1,920	400,000 2,500	Dealings with the Company are ongoing, expressed in such ways as cooperating with the tobacco business in Japan in the area of setting up environments divided into smoking and non-smoking zones, and in selling tobacco products in duty-free stores in airports and in urban locations. Shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
Central Japan Railway Company	100,000 1,535	100,000 1,459	Dealings with the Company are ongoing, expressed in such ways as cooperating with the tobacco business in Japan in the area of setting up environments divided into smoking and non-smoking zones, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	Yes

Yoshimura Food Holdings K.K.	1,052,500	1,052,500	The two companies exchange human resources and a variety of information with a view to enhancing corporate value, and shares are held for the purpose of maintaining and strengthening the stable long-term cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	None
	660	814		
NIPPON EXPRESS CO., LTD.	173,040	173,040	As a service provider that collaborates with the tobacco business in Japan in the area of distribution, dealings with the Company for the transportation of product are ongoing, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	Yes
	1,196	1,199		
Daicel Corporation	602,000	602,000	As a supplier for the tobacco products of the tobacco business in Japan, dealings with the Company for the procurement of materials are ongoing, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	Yes
	479	453		
Tokyo Automatic Machinery Works, Ltd.	134,700	134,700	As a supplier of tobacco production machinery to the tobacco business in Japan, dealings with the Company in relation to the procurement and maintenance of machinery and parts are ongoing, and shares are held for the purpose of maintaining and strengthening the stable long-term transactional and cooperative relationship. Although it is difficult to quantify the effects of the relationship, the suitability of the shareholding has been verified by the Board of Directors.	Yes
	218	223		

Notes: 1. The approach used to verify each individual shareholding is as described in “b. Investment stocks whose purpose of holding is other than for financial investment, i. Shareholding policy, methods used to verify the reasonableness of shareholdings, and details of verification by the Board of Directors, etc. in relation to the suitability of holding individual issues” above.

2. NIPPON EXPRESS CO., LTD. was delisted on December 29, 2021, but through a share transfer on January 4, 2022, the Company received an allocation in the shares of NIPPON EXPRESS HOLDINGS, INC.

Stocks deemed to be held

No items to report for the fiscal years ended December 31, 2020 and 2021.

c. Investment stocks held purely for the purpose of financial investment

No items to report for the fiscal years ended December 31, 2020 and 2021.

V. Accounting

1. Preparation Policy of the Consolidated and Nonconsolidated Financial Statements

(1) The consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the “Company”) are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the Ordinance on CFS).

(2) The nonconsolidated financial statements of the Company 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; hereinafter referred to as the Ordinance on FS). The Company is categorized as a company allowed to file specified financial statements, and prepares the nonconsolidated financial statements in accordance with the provisions of Article 127 of the Ordinance on FS.

(3) Figures stated in the consolidated and nonconsolidated financial statements are rounded to the nearest million yen.

2. Audit Certification

In accordance with the provisions of Article 193-2 (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the nonconsolidated financial statements for the year ended December 31, 2021 were audited by Deloitte Touche Tohmatsu LLC.

3. Special Effort to Ensure the Appropriateness of Consolidated Financial Statements, and Development of a System for Fair Preparation of Consolidated Financial Statements, in accordance with IFRS

The Company is making special effort to ensure the appropriateness of the consolidated financial statements and developing a system for the appropriate preparation of consolidated financial statements in accordance with IFRS. The content thereof is as follows:

(1) In order to develop a system, which is capable of responding to changes of accounting standards adequately, we strive to accumulate expert knowledge by assigning employees with sufficient knowledge on IFRS, and participating in organizations, such as the Financial Accounting Standards Foundation and attending their seminars.

(2) In order to prepare appropriate consolidated financial statements in accordance with IFRS, we established the IFRS Group Accounting Guidelines, and we comply with them. The IFRS Group Accounting Guidelines are revised and updated as needed after obtaining press releases and standards issued by the International Accounting Standards Board, understanding the latest standards and examining their impact on our results.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Assets		
Current assets		
Cash and cash equivalents (Note 7)	538,844	721,731
Trade and other receivables (Note 8)	412,144	456,587
Inventories (Note 9)	539,762	563,182
Other financial assets (Note 10)	18,828	17,254
Other current assets (Note 11)	493,992	562,034
Subtotal	2,003,570	2,320,789
Non-current assets held for sale (Note 12)	348	500
Total current assets	2,003,919	2,321,289
Non-current assets		
Property, plant and equipment (Notes 13, 15)	759,290	755,843
Goodwill (Note 14)	1,909,392	2,060,965
Intangible assets (Note 14)	363,604	307,152
Investment property (Note 16)	4,744	4,985
Retirement benefit assets (Note 22)	70,528	53,177
Investments accounted for using the equity method	40,230	41,721
Other financial assets (Note 10)	107,143	108,658
Deferred tax assets (Note 17)	122,534	120,419
Total non-current assets	3,377,464	3,452,920
Total assets	5,381,382	5,774,209

(Millions of yen)

	2020	**2021**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	436,540	555,777
Bonds and borrowings (Note 19)	141,469	142,901
Income tax payables	46,462	30,794
Other financial liabilities (Note 19)	27,588	28,342
Provisions (Note 20)	19,420	24,858
Other current liabilities (Note 21)	652,314	717,653
Total current liabilities	1,323,793	1,500,326
Non-current liabilities		
Bonds and borrowings (Note 19)	817,412	775,721
Other financial liabilities (Note 19)	50,164	43,885
Retirement benefit liabilities (Note 22)	331,752	296,176
Provisions (Note 20)	31,338	22,867
Other non-current liabilities (Note 21)	162,982	179,195
Deferred tax liabilities (Note 17)	64,447	69,959
Total non-current liabilities	1,458,095	1,387,803
Total liabilities	2,781,888	2,888,128
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,400	736,400
Treasury shares (Note 23)	(491,507)	(490,899)
Other components of equity (Note 23)	(605,776)	(400,086)
Retained earnings	2,783,718	2,863,843
Equity attributable to owners of the parent company	2,522,834	2,809,258
Non-controlling interests	76,660	76,823
Total equity	2,599,495	2,886,081
Total liabilities and equity	5,381,382	5,774,209

B. Consolidated Statement of Income
Years Ended December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Revenue (Notes 6, 25)	2,092,561	2,324,838
Cost of sales (Notes 14, 22)	(898,001)	(956,861)
Gross profit	1,194,560	1,367,976
Other operating income (Note 26)	54,924	15,622
Share of profit in investments accounted for using the equity method	4,042	3,997
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(784,472)	(888,574)
Operating profit (Note 6)	469,054	499,021
Financial income (Notes 28, 33)	12,353	19,013
Financial costs (Notes 22, 28, 33)	(61,344)	(45,645)
Profit before income taxes	420,063	472,390
Income taxes (Note 17)	(108,034)	(132,208)
Profit for the period	312,029	340,181
Attributable to		
Owners of the parent company	310,253	338,490
Non-controlling interests	1,775	1,691
Profit for the period	312,029	340,181
Earnings per share		
Basic (Yen) (Note 30)	174.88	190.76
Diluted (Yen) (Note 30)	174.80	190.68

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

(Millions of yen)

	2020	**2021**
Operating profit	469,054	499,021
Amortization cost of acquired intangibles arising from business acquisitions	63,160	68,876
Adjustment items (income)	(51,978)	(11,469)
Adjustment items (costs)	6,716	54,006
Adjusted operating profit (Note 6)	486,952	610,434

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Profit for the period	312,029	340,181
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)	(2,702)	(116)
Remeasurements of defined benefit plans (Notes 22, 29)	(5,957)	(6,246)
Total of items that will not be reclassified to profit or loss	(8,659)	(6,363)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	(170,711)	206,508
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	224	(68)
Total of items that may be reclassified subsequently to profit or loss	(170,486)	206,440
Other comprehensive income (loss), net of taxes	(179,145)	200,077
Comprehensive income (loss) for the period	132,883	540,258
Attributable to		
Owners of the parent company	131,965	538,206
Non-controlling interests	919	2,052
Comprehensive income (loss) for the period	132,883	540,258

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2020 and 2021

(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	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2020	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	(170,009)	224	(2,577)
Comprehensive income (loss) for the period	—	—	—	—	(170,009)	224	(2,577)
Acquisition of treasury shares (Note 23)	—	—	(1)	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	963	(334)	—	—	—
Share-based payments (Note 32)	—	—	—	30	—	—	—
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	—	—	—	—	—	—	(1,399)
Other increase (decrease)	—	—	—	—	—	30	—
Total transactions with the owners	—	—	962	(304)	—	30	(1,399)
As of December 31, 2020	100,000	736,400	(491,507)	1,252	(614,374)	122	7,224
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	206,199	(68)	(65)
Comprehensive income (loss) for the period	—	—	—	—	206,199	(68)	(65)
Acquisition of treasury shares (Note 23)	—	—	(0)	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	609	(51)	—	—	—
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	—	—	—	—	—	—	1
Other increase (decrease)	—	—	—	—	—	(327)	—
Total transactions with the owners	—	—	608	(51)	—	(327)	1
As of December 31, 2021	100,000	736,400	(490,899)	1,202	(408,175)	(274)	7,161

(Millions of yen)

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2020	—	(431,741)	2,750,506	2,662,696	80,916	2,743,611
Profit for the period	—	—	310,253	310,253	1,775	312,029
Other comprehensive income (loss)	(5,927)	(178,289)	—	(178,289)	(857)	(179,145)
Comprehensive income (loss) for the period	(5,927)	(178,289)	310,253	131,965	919	132,883
Acquisition of treasury shares (Note 23)	—	—	—	(1)	—	(1)
Disposal of treasury shares (Note 23)	—	(334)	(629)	0	—	0
Share-based payments (Note 32)	—	30	469	498	35	533
Dividends (Note 24)	—	—	(273,200)	(273,200)	(1,276)	(274,476)
Changes in the scope of consolidation	—	—	—	—	8	8
Changes in the ownership interest in a subsidiary without a loss of control	—	—	846	846	(3,941)	(3,095)
Transfer from other components of equity to retained earnings	5,927	4,528	(4,528)	—	—	—
Other increase (decrease)	—	30	—	30	—	30
Total transactions with the owners	5,927	4,254	(277,042)	(271,826)	(5,174)	(277,000)
As of December 31, 2020	—	(605,776)	2,783,718	2,522,834	76,660	2,599,495
Profit for the period	—	—	338,490	338,490	1,691	340,181
Other comprehensive income (loss)	(6,350)	199,716	—	199,716	361	200,077
Comprehensive income (loss) for the period	(6,350)	199,716	338,490	538,206	2,052	540,258
Acquisition of treasury shares (Note 23)	—	—	—	(0)	—	(0)
Disposal of treasury shares (Note 23)	—	(51)	(558)	0	—	0
Share-based payments (Note 32)	—	—	479	479	33	512
Dividends (Note 24)	—	—	(251,961)	(251,961)	(1,941)	(253,902)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	27	27	18	45
Transfer from other components of equity to retained earnings	6,350	6,351	(6,351)	—	—	—
Other increase (decrease)	—	(327)	—	(327)	—	(327)
Total transactions with the owners	6,350	5,973	(258,364)	(251,782)	(1,890)	(253,672)
As of December 31, 2021	—	(400,086)	2,863,843	2,809,258	76,823	2,886,081

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Cash flows from operating activities		
Profit before income taxes	420,063	472,390
Depreciation and amortization	179,654	187,057
Impairment losses	12,571	22,768
Interest and dividend income	(7,318)	(13,372)
Interest expense	22,535	23,050
Share of profit in investments accounted for using the equity method	(4,042)	(3,997)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(40,821)	(3,974)
(Increase) decrease in trade and other receivables	21,554	(29,891)
(Increase) decrease in inventories	748	9,770
Increase (decrease) in trade and other payables	39,288	111,912
Increase (decrease) in retirement benefit liabilities	(5,788)	(23,651)
(Increase) decrease in prepaid tobacco excise taxes	(29,996)	(43,617)
Increase (decrease) in tobacco excise tax payables	(18,038)	33,167
Increase (decrease) in consumption tax payables	9,762	(3,856)
Other	49,132	2,849
Subtotal	649,305	740,605
Interest and dividends received	14,589	19,245
Interest paid	(19,549)	(19,113)
Income taxes paid	(124,511)	(141,829)
Net cash flows from operating activities	519,833	598,909
Cash flows from investing activities		
Purchase of securities	(39,991)	(27,810)
Proceeds from sale and redemption of securities	49,802	24,137
Purchase of property, plant and equipment	(85,319)	(86,350)
Proceeds from sale of investment property	86,263	8,002
Purchase of intangible assets	(23,301)	(16,568)
Payments into time deposits	(491)	(1,427)
Proceeds from withdrawal of time deposits	334	1,222
Proceeds from sale of investments in associates	17,413	2,562
Other	645	(1,268)
Net cash flows from investing activities	5,354	(97,499)

(Millions of yen)

	2020	**2021**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(273,134)	(251,935)
Dividends paid to non-controlling interests	(1,404)	(1,958)
Capital contribution from non-controlling interests	117	42
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	(132,462)	22,887
Proceeds from long-term borrowings (Note 31)	100,101	3,295
Repayments of long-term borrowings (Note 31)	(11,948)	(12,442)
Proceeds from issuance of bonds (Note 19, 31)	122,201	55,334
Redemption of bonds (Note 19, 31)	(80,000)	(147,911)
Repayments of lease liabilities (Note 31)	(17,741)	(20,449)
Acquisition of treasury shares	(1)	(1)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(3,132)	(1)
Other	0	0
Net cash flows from financing activities	(297,404)	(353,138)
Net increase (decrease) in cash and cash equivalents	227,784	148,271
Cash and cash equivalents at the beginning of the period	357,158	538,844
Effect of exchange rate changes on cash and cash equivalents	(46,098)	34,616
Cash and cash equivalents at the end of the period (Note 7)	538,844	721,731

Notes to Consolidated Financial Statements
Years ended December 31, 2020 and 2021

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, 2021 were approved on March 23, 2022 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements, which satisfy the requirements concerning the "Specified Company applying Designated International Financial Reporting Standards" prescribed in Article 1-2 of the "Regulations for Consolidated Financial Statements," are prepared in accordance with IFRS pursuant to the provision of Article 93 of the same regulations.

(2) Basis of Measurement

Except for the financial instruments, stated in "3. Significant Accounting Policies," and the accounting adjustments, stated in "37. Hyperinflationary Accounting Adjustments," the Group's consolidated financial statements are prepared on the historical cost basis.

(3) Functional Currency and Presentation Currency

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

3. Significant Accounting Policies

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

(3) Foreign Currency Translation

Consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company. Each company in the Group specifies its own functional currency and measures transactions based on it.

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at year end. Differences arising from the translation and settlement are recognized as profit or loss. However, exchange differences arising from the translation of financial instruments designated as hedging instruments for net investment in foreign operations (foreign subsidiaries), financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognized as other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at year end, while income and expenses of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the dates of transactions or an approximation of the rate. The resulting translation differences are recognized as other comprehensive income. However, the income and expenses of the Group's subsidiaries in the hyperinflationary economy are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date in accordance with the hyperinflationary accounting.

In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

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

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ii) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio due to changes in an economic relationship between the hedged item and the hedging instrument but the risk management objective remains the same, the Group will adjust the hedge ratio so that it meets the qualifying criteria again. The Group discontinues hedge accounting for the portion that does not meet the requirement when the hedging relationship ceases to meet the qualifying criteria even after adjusting the hedge ratio.

Hedges that meet the stringent requirements for hedge accounting are classified in 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 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, fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

• Buildings and structures: 38 to 50 years

• Machinery and vehicles: 10 to 15 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 locations and 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 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 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 for 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) Non-current 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 a non-current 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 non-current 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 the retirement benefits.

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

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

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

(14) Share-based Payments

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

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

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

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably.

Where 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. Revenue is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group evaluates that the performance obligation is satisfied. 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 agency 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 consolidated taxation 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, for year-end dividends, the Annual Shareholders' Meeting approves the distribution and, for interim dividends, the Board of Directors approves the distribution.

(23) Contingencies

A. Contingent Liabilities

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

B. Contingent Assets

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

(24) Adjusted Financial Measures

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

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

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

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the year ended December 31, 2021.

IFRS		Description of new standards and amendments
IFRS 16	Leases	Amendments to accounting treatment for COVID-19-Related Rent Concessions beyond June 30, 2021

IFRS 16 mentioned above has been early adopted.

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

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 estimate the timing and amount of future taxable income based on the business plan.

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

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

E. Contingencies

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

The content of contingencies is described in “38. Contingencies.”

F. Impact of COVID-19

Although sales volume in the duty-free market increased compared to the same period of the previous fiscal year in the tobacco business, travel restrictions continued in various countries and it was unable to reach the level prior to the spread of COVID-19.

In contrast, in the International Tobacco Business, industry volume remained strong in several markets due to travel restrictions.

In addition, in the Processed Food Business, sales of food-service products within the frozen and ambient food business continued to decrease due to factors such as the impact of requests to restrict bar and restaurant operations.

Although the Group anticipates the impact of the spread of COVID-19 will continue to a certain extent from 2022 onward, the economies of countries around the world are expected to gradually recover. At present, there is no material impact on accounting estimates and judgements.

5. New Accounting Standards Not Yet Adopted by the Group

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

The implications from adoption of these standards and interpretations are assessed by the Group; however, the Group evaluate that none of them will have a material impact on our operating results and financial condition.

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 1	First-time Adoption of International Financial Reporting Standards	January 1, 2022	Year ending December 2022	Amendments to accounting treatment for measurement of cumulative translation differences if a subsidiary becomes a first-time adopter of IFRS later than its parent
IFRS 3	Business Combinations	January 1, 2022	Year ending December 2022	Amendments to update references to the conceptual framework
IFRS 9	Financial Instruments	January 1, 2022	Year ending December 2022	Clarifying fees and costs to be included in the 10 per cent test for derecognition of financial liabilities
IFRS 17	Insurance Contracts	January 1, 2023	Year ending December 2023	Amendments to accounting treatment for insurance contracts Amendments to comparative information upon adoption of IFRS 17
IAS 1	Presentation of Financial Statements	January 1, 2023	Year ending December 2023	Clarifying classification of liabilities into current liabilities or non-current liabilities Amendments to require companies to disclose their material accounting policy information rather than their significant accounting policies
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023	Year ending December 2023	Amendments to clarify how companies should distinguish changes in accounting policies from changes in accounting estimates
IAS 12	Income Taxes	January 1, 2023	Year ending December 2023	Clarifying the accounting for deferred tax on leases and decommissioning obligations
IAS 16	Property, Plant and Equipment	January 1, 2022	Year ending December 2022	Amendments to accounting treatment regarding proceeds from selling items produced while bringing the asset to the condition to be capable of operating in the manner intended
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	January 1, 2022	Year ending December 2022	Clarifying the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IAS 41	Agriculture	January 1, 2022	Year ending December 2022	Removal of the requirement to use pre-tax exclude taxation cash flows when measuring the fair value of a biological assets
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined	Not yet determined	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture

6. Operating Segments

(1) Outline of Reportable Segments

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

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.” They are determined by the type of products sold, their characteristics, and their markets.

The “Domestic Tobacco Business” manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company’s China Division operates). The “International Tobacco Business” manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The “Pharmaceutical Business” consists of research and development, and the manufacture and sale of prescription drugs. The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods, bakery products and seasonings.

The Group will change the current four reportable segments of “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business” to the three reportable segments of “Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business” as a result of unifying the business management structure of the tobacco business from fiscal year 2022.

(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, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue	555,568	1,306,233	78,957	149,329	2,090,087	2,474	–	2,092,561
Intersegment revenue	7,674	24,606	–	1	32,282	5,317	(37,599)	–
Total revenue	563,242	1,330,839	78,957	149,330	2,122,369	7,791	(37,599)	2,092,561
Segment profit (loss)								
Adjusted operating profit (Note 1)	168,069	340,867	17,161	(793)	525,304	(38,201)	(152)	486,952
Other items								
Depreciation and amortization (Note 3)	56,576	105,654	5,427	7,554	175,210	4,679	(234)	179,654
Impairment losses on other than financial assets	–	7,538	–	3,841	11,378	1,193	–	12,571
Reversal of impairment losses on other than financial assets	–	49	–	–	49	–	–	49
Share of profit (loss) in investments accounted for using the equity method	15	3,963	–	21	3,999	42	–	4,042
Capital expenditures (Note 4)	21,053	66,598	9,087	7,972	104,709	8,301	(127)	112,883

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue	559,449	1,535,674	80,392	147,245	2,322,759	2,078	–	2,324,838
Intersegment revenue	8,085	21,290	–	1	29,377	5,123	(34,500)	–
Total revenue	567,534	1,556,964	80,392	147,246	2,352,136	7,201	(34,500)	2,324,838
Segment profit (loss)								
Adjusted operating profit (Note 1)	182,448	454,352	11,093	3,956	651,849	(41,869)	455	610,434
Other items								
Depreciation and amortization (Note 3)	55,153	116,816	5,442	6,712	184,123	2,941	(7)	187,057
Impairment losses on other than financial assets	4,207	17,243	–	1,240	22,689	79	–	22,768
Reversal of impairment losses on other than financial assets	–	39	–	26	66	–	–	66
Share of profit (loss) in investments accounted for using the equity method	(137)	3,985	–	49	3,897	101	–	3,997
Capital expenditures (Note 4)	20,032	62,471	5,983	10,739	99,225	3,175	(1,518)	100,882

Reconciliation from "Adjusted operating profit" to "Profit before income taxes"

Year ended December 31, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	168,069	340,867	17,161	(793)	525,304	(38,201)	(152)	486,952
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(46,915)	–	–	(63,160)	–	–	(63,160)
Adjustment items (income) (Note 5)	–	5,774	150	1	5,926	46,053	–	51,978
Adjustment items (costs) (Note 6)	–	(3,280)	(822)	(44)	(4,147)	(2,569)	–	(6,716)
Operating profit (loss)	151,824	296,446	16,488	(836)	463,923	5,283	(152)	469,054
Financial income								12,353
Financial costs								(61,344)
Profit before income taxes								420,063

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	182,448	454,352	11,093	3,956	651,849	(41,869)	455	610,434
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(52,631)	–	–	(68,876)	–	–	(68,876)
Adjustment items (income) (Note 5)	988	3,411	200	129	4,728	6,742	–	11,469
Adjustment items (costs) (Note 6)	(41,672)	(10,656)	0	(1,157)	(53,485)	(521)	–	(54,006)
Operating profit (loss)	125,519	394,475	11,293	2,928	534,216	(35,649)	455	499,021
Financial income								19,013
Financial costs								(45,645)
Profit before income taxes								472,390

(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)

	2020	2021
Domestic Tobacco	3,641	5,377
International Tobacco	11,923	12,305
Pharmaceuticals	439	582
Processed Food	867	494
Other	2,797	1,201
Depreciation of right-of-use assets	19,667	19,959

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

(Note 5) The breakdown of “Adjustment items (income)” is as follows:

(Millions of yen)

	2020	**2021**
Gain on sale of the former JT Building	41,265	—
Restructuring incomes	4,803	5,088
Other	5,910	6,381
Adjustment items (income)	51,978	11,469

Restructuring incomes for the years ended December 31, 2020 and 2021 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, 2020 mainly related to gains on fair value adjustment after the measurement period for assets and liabilities acquired in a business combination in the “International Tobacco Business.” Other (income) for the year ended December 31, 2021 mainly related to gains on sale of an investment in an associate during the past fiscal years and gains on sale of real estate.

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

(Millions of yen)

	2020	**2021**
Restructuring costs	3,116	40,032
Cooperation fee for terminating leaf tobacco farming	—	6,560
Other	3,600	7,414
Adjustment items (costs)	6,716	54,006

Restructuring costs for the year ended December 31, 2021 mainly related to costs of measures to strengthen the operation in the “Domestic Tobacco Business.” and rationalization in a market in the “International Tobacco Business.” Restructuring costs included in "Cost of sales" were ¥222 million for the year ended December 31, 2021. Restructuring costs included in "Selling, general and administrative expenses" were ¥3,116 million and ¥39,810 million for the year ended December 31, 2020 and 2021, respectively. The breakdown of restructuring costs is described in “27. Selling, General and Administrative Expenses.” Other (costs) for the year ended December 31, 2021 mainly related impairment losses of trademarks in the “International 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)

	2020	**2021**
Japan	751,673	709,588
Overseas	2,285,357	2,419,357
Consolidated	3,037,030	3,128,945

(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)

	2020	**2021**
Japan	727,845	731,334
Overseas	1,364,716	1,593,504
Consolidated	2,092,561	2,324,838

(Note) Revenue is segmented by the sales destination.

(4) Major customers Information

The “International 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 ¥210,834 million (10.1% of consolidated revenue) for the year ended December 31, 2020 and ¥258,362 million (11.1% of consolidated revenue) for the year ended December 31, 2021.

7. Cash and Cash Equivalents

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

(Millions of yen)

	2020	**2021**
Cash and deposits	483,844	665,731
Short-term investments	55,000	56,000
Total	538,844	721,731

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 ¥42,807 million as of December 31, 2020 and ¥70,927 million as of December 31, 2021 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 ¥43,735 million as of December 31, 2020 and ¥74,098 million as of December 31, 2021 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)

	2020	**2021**
Note and account receivables	404,720	446,018
Other	9,347	11,875
Allowance for doubtful accounts	(1,923)	(1,306)
Total	412,144	456,587

Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.
Trade and other receivables are classified as financial assets measured at amortized cost.

9. Inventories

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

(Millions of yen)

	2020	**2021**
Merchandise and finished goods (Note 1)	130,718	135,479
Leaf tobacco (Note 2)	334,797	348,648
Other	74,247	79,056
Total	539,762	563,182

(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)

	2020	**2021**
Derivative assets	8,608	7,362
Equity securities	26,704	27,792
Debt securities	18,776	21,605
Time deposits	928	1,252
Other	76,830	74,275
Allowance for doubtful accounts	(5,875)	(6,374)
Total	125,971	125,912
Current assets	18,828	17,254
Non-current assets	107,143	108,658
Total	125,971	125,912

Other financial assets are presented net of allowance for doubtful accounts in the consolidated statement of financial position. Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits 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)

	2020	**2021**
Company name		
Seven & i Holdings Co., Ltd.	3,129	4,324
DOUTOR･NICHIRES Holdings Co., Ltd.	1,980	2,139
Japan Airport Terminal Co., Ltd.	2,500	1,920
KATO SANGYO CO., LTD.	1,968	1,886
Mitsubishi Shokuhin Co., Ltd.	1,720	1,663
Central Japan Railway Company	1,459	1,535
NIPPON EXPRESS CO., LTD.	1,199	1,196
Daicel Corporation	640	676
Yoshimura Food Holdings K.K.	814	660
Kanemi Co., Ltd.	624	581

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

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

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

(Millions of yen)

	2020	**2021**
Fair value	2,978	12
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(1,399)	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 Current Assets

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

(Millions of yen)

	2020	**2021**
Prepaid tobacco excise taxes	336,109	400,687
Prepaid expenses	15,680	18,335
Consumption tax receivables	14,960	19,028
Other	127,242	123,984
Total	493,992	562,034

12. Non-current Assets Held for Sale

The breakdown of “Non-current assets held for sale” as of December 31 is as follows:

Breakdown of Major Assets

(Millions of yen)

	2020	**2021**
Non-current assets held for sale		
Property, plant and equipment	348	14
Investment property	—	486
Other	0	—
Total	348	500

“Non-current assets held for sale” are mainly idle properties which are currently actively marketed for sale.

With regard to such assets and assets sold, impairment losses of ¥31 million and ¥41 million are recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended December 31, 2020 and 2021, respectively.

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

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

(Millions of yen)

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2020	404,973	298,665	43,897	55,704	803,239
Individual acquisition	45,618	33,073	11,434	34,242	124,367
Transfer to investment property	(979)	—	(1)	—	(980)
Transfer to non-current assets held for sale	(29,059)	(379)	(474)	(50)	(29,962)
Depreciation	(31,160)	(56,278)	(13,658)	—	(101,096)
Impairment losses	(4,405)	(4,089)	(386)	(10)	(8,891)
Reversal of impairment losses	—	34	2	—	36
Sale or disposal	(733)	(3,437)	(1,081)	(148)	(5,399)
Exchange differences on translation of foreign operations	(8,552)	(8,667)	(998)	(1,880)	(20,097)
Other	5,721	29,707	850	(38,205)	(1,927)
As of December 31, 2020	381,424	288,629	39,583	49,653	759,290
Individual acquisition	23,470	35,745	9,917	33,133	102,265
Transfer to investment property	(1,643)	—	—	—	(1,643)
Transfer to non-current assets held for sale	(399)	(77)	(2)	—	(477)
Depreciation	(30,847)	(59,409)	(13,161)	—	(103,417)
Impairment losses	(5,004)	(10,283)	(337)	(804)	(16,428)
Reversal of impairment losses	2	14	50	—	66
Sale or disposal	(1,144)	(3,169)	(431)	(364)	(5,107)
Exchange differences on translation of foreign operations	13,332	9,027	1,329	2,958	26,647
Other	5,550	31,229	1,386	(43,518)	(5,354)
As of December 31, 2021	384,742	291,708	38,334	41,059	755,843

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2020	734,009	826,909	156,328	55,709	1,772,954
As of December 31, 2020	686,208	826,889	152,000	49,653	1,714,751
As of December 31, 2021	716,359	884,552	157,427	41,059	1,799,397

(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, 2020	329,036	528,244	112,431	5	969,715
As of December 31, 2020	304,783	538,261	112,417	—	955,461
As of December 31, 2021	331,617	592,844	119,092	—	1,043,554

(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 ¥8,891 million in the year ended December 31, 2020, and ¥16,428 million in the year ended December 31, 2021 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2020 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, 2021 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles because their recoverable amounts fell below their carrying amounts due to 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, 2020	2,002,595	360,641	31,572	48,221	2,443,029
Individual acquisition	—	447	7,176	15,601	23,224
Amortization (Note)	—	(57,737)	(11,905)	(8,555)	(78,196)
Transfer to non-current assets held for sale	—	—	(20)	(0)	(20)
Impairment losses	—	(55)	(117)	(3,219)	(3,390)
Reversal of impairment losses	—	—	13	—	13
Sale or disposal	—	(7)	(798)	(236)	(1,041)
Exchange differences on translation of foreign operations	(93,203)	(15,928)	(486)	(1,216)	(110,833)
Other	—	(17)	5,829	(5,602)	210
As of December 31, 2020	1,909,392	287,344	31,264	44,995	2,272,996
Individual acquisition	—	1	6,184	10,638	16,823
Amortization (Note)	—	(64,365)	(11,935)	(7,283)	(83,582)
Transfer to non-current assets held for sale	—	—	—	—	—
Impairment losses	—	(4,667)	(1,589)	(0)	(6,256)
Reversal of impairment losses	—	—	—	—	—
Sale or disposal	—	(4)	(346)	(1,637)	(1,988)
Exchange differences on translation of foreign operations	151,573	17,433	863	1,901	171,770
Other	—	(449)	3,009	(4,205)	(1,645)
As of December 31, 2021	2,060,965	235,294	27,450	44,409	2,368,117

(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, 2020	2,002,595	1,087,865	141,954	103,762	3,336,175
As of December 31, 2020	1,909,392	1,057,235	149,251	110,884	3,226,763
As of December 31, 2021	2,060,965	1,089,212	157,665	120,635	3,428,477

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2020	—	727,224	110,382	55,540	893,146
As of December 31, 2020	—	769,891	117,987	65,889	953,767
As of December 31, 2021	—	853,918	130,216	76,227	1,060,360

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIGH Group. The carrying amounts of goodwill as of December 31, 2020 and 2021 were ¥1,618,133 million and ¥1,769,706 million, respectively. The carrying amounts of trademarks as of December 31, 2020 and 2021were ¥205,223 million and ¥169,662 million, respectively.

The majority of goodwill and trademark in the JTIGH Group was recognized as a result of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007.

Other than the above, goodwill and trademark in Domestic Tobacco business were recognized as a result of the acquisition of Natural American Spirit's non-U.S. tobacco operations in 2016. The carrying amounts of goodwill as of December 31, 2020 and 2021 were ¥265,891 million and ¥265,891 million, respectively. The carrying amounts of trademarks as of December 31, 2020 and 2021 were ¥82,120 million and ¥65,629 million, respectively.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly from 4 to 5 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2021, the carrying amount of the majority of goodwill is allocated to the domestic tobacco cash-generating unit of ¥265,891 million (¥265,891 million for the year ended December 31, 2020), the international tobacco cash-generating unit of ¥1,769,706 million (¥1,618,133 million for the year ended December 31, 2020) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2020). Details of the result of impairment tests are as follows:

A. Domestic 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, given the current domestic tobacco market situation, the Group conservatively decreases a growth rate from 0.2% in the fourth year to 0% in the ninth year gradually, and from the tenth year onward, calculates the value in use by using the same cash flows as in the ninth year. In the prior period, the Group calculates the value in use by using cash flows with a growth rate from (1.3%) in the fourth year to 0% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate.

The pre-tax discount rate is 4.3% (2020: 4.9%). 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. International 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 6.9% in the fourth year (2020: 4.6%) to 2.0% in the ninth year (2020: 2.8%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 6.9% (2020: 9.0%). 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.

C. 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 2.5% in the fourth year (2020: 2.2%) to 0.7% in the ninth year (2020: 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 4.1% (2020: 3.9%). 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 locations and 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 ¥3,390 million for the year ended December 31, 2020, and ¥6,256 million for the year ended December 31, 2021 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2020 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.

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

Impairment losses recognized in the year ended December 31, 2021 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, 2020

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	29,796	4,813	165	34,773
Depreciation	14,149	5,435	84	19,667

As of December 31, 2020

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	57,011	10,732	103	67,847

Year ended December 31, 2021

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	12,650	5,621	55	18,326
Depreciation	14,310	5,602	48	19,959

As of December 31, 2021

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	52,251	10,271	112	62,635

(2) Expense Items Related to Lease

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

(Millions of yen)

	2020	2021
Financial cost on lease liabilities	1,462	1,350
Expense relating to short-term lease or leases of low-value assets	7,519	7,784
Expense relating to variable lease payments	1,654	1,693
Total cash outflow for leases	19,315	21,798

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)

	2020	**2021**
As of January 1	16,588	4,744
Expenditure after acquisition	65	120
Transfer from property, plant and equipment	980	1,643
Transfer to non-current assets held for sale	(12,033)	(1,043)
Transfer to property, plant and equipment	(223)	(161)
Depreciation	(362)	(58)
Impairment losses	(259)	(43)
Sale or disposal	(11)	(219)
Exchange differences on translation of foreign operations	3	19
Other	(3)	(16)
As of December 31	4,744	4,985
Acquisition cost as of January 1	40,262	14,074
Accumulated depreciation and accumulated impairment losses as of January 1	23,674	9,331
Acquisition cost as of December 31	14,074	9,290
Accumulated depreciation and accumulated impairment losses as of December 31	9,331	4,306

(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, 2020

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	12,467	1,489	13,956

As of December 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	10,196	1,178	11,374

(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 ¥259 million for the year ended December 31, 2020, and ¥43 million for the year ended December 31, 2021 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized for the year ended December 31, 2020 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at “zero.”

Impairment losses recognized for the year ended December 31, 2021 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at “zero.”

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

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

Year ended December 31, 2020

(Millions of yen)

Deferred Tax Assets	As of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2020
Fixed assets (Note 2)	117,616	(12,394)	—	(332)	104,890
Retirement benefits	71,534	(2,590)	3,243	841	73,028
Carryforward of unused tax losses	42,409	8,645	—	(4,966)	46,087
Other	87,931	10,770	(1,626)	(3,354)	93,722
Subtotal	319,490	4,431	1,617	(7,811)	317,726
Valuation allowance	(52,064)	(12,815)	(921)	4,356	(61,443)
Total	267,426	(8,384)	696	(3,455)	256,283

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2020
Fixed assets (Note 2)	(93,968)	11,990	—	2,443	(79,535)
Retirement benefits	(11,632)	(826)	(1,704)	(5)	(14,166)
Other	(107,561)	328	1,275	1,462	(104,496)
Total	(213,160)	11,492	(429)	3,900	(198,197)

Year ended December 31, 2021

(Millions of yen)

Deferred Tax Assets	As of January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2021
Fixed assets (Note 2)	104,890	(17,807)	—	1,572	88,654
Retirement benefits	73,028	9,427	(2,378)	(1,247)	78,830
Carryforward of unused tax losses	46,087	9,321	—	2,269	57,678
Other	93,722	7,307	3,255	4,282	108,565
Subtotal	317,726	8,249	877	6,876	333,728
Valuation allowance	(61,443)	(13,544)	(72)	(3,601)	(78,660)
Total	256,283	(5,295)	805	3,274	255,068

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2021
Fixed assets (Note 2)	(79,535)	13,114	—	(4,888)	(71,309)
Retirement benefits	(14,166)	(8,049)	2,883	907	(18,425)
Other	(104,496)	(3,979)	888	(7,287)	(114,874)
Total	(198,197)	1,086	3,771	(11,268)	(204,608)

(Note 1) "Other" includes exchange differences on translation of foreign operations.

(Note 2) "Fixed assets" include property, plant and equipment, goodwill, intangible assets and investment property.

The deferred tax assets are recognized for the amount considered to be recoverable on deductible temporary differences, carryforward of unused tax losses and tax credits by taking taxable temporary differences and future taxable profits plan into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥38,953 million (including ¥20,743 million, for which the carryforward expires after five years) as of December 31, 2020, and ¥51,998 million (including ¥29,578 million, for which the carryforward expires after five years) as of December 31, 2021. Tax credits, for which the deferred tax assets are not recognized, were ¥5,132 million (including ¥4,705 million, for which the carryforward expires after five years) as of December 31, 2020, and ¥5,857 million (including ¥5,383 million, for which the carryforward expires after five years) as of December 31, 2021.

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax liabilities were not recognized, was ¥172,706 million as of December 31, 2021.

(2) Income Taxes

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

(Millions of yen)

	2020	**2021**
Current income taxes	111,142	127,999
Deferred income taxes	(3,108)	4,209
Total income taxes	108,034	132,208

Deferred income taxes increased by ¥1,624 million and increased by ¥7,507 million for the years ended December 31, 2020 and 2021, 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.

(%)

	2020	**2021**
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(8.81)	(10.67)
Non-deductible expenses	1.53	1.70
Dividend income	2.40	0.62
Changes in tax rates	0.39	1.59
Valuation allowance	3.16	3.30
Tax credits	(1.04)	(1.27)
Withholding tax in foreign countries	1.25	1.73
Tax contingencies	(1.11)	0.07
Other	(2.49)	0.48
Average actual tax rate	25.72	27.99

18. Trade and Other Payables

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

(Millions of yen)

	2020	**2021**
Accounts payable	233,723	272,327
Other payables	72,588	132,206
Other	130,228	151,245
Total	436,540	555,777

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)

	2020	**2021**	Due
Derivative liabilities	10,334	10,926	—
Short-term borrowings	51,633	70,636	—
Current portion of long-term borrowings	12,226	42,265	—
Current portion of bonds (Note 2)	77,609	30,000	—
Long-term borrowings (Note 1)	192,729	154,705	2023 - 2080
Bonds (Note 2)	624,683	621,016	—
Lease liabilities	66,531	60,536	—
Other	887	765	—
Total	1,036,633	990,849	
Current liabilities	169,057	171,243	
Non-current liabilities	867,576	819,606	
Total	1,036,633	990,849	

(Note 1) ¥99,085 million and ¥99,304 million of the long-term borrowings is subordinated loans due in 2080 as of December 31, 2020 and 2021 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, 2020 (Millions of yen)	As of December 31, 2021 (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Japan Tobacco Inc.	10th domestic straight bond	July 15, 2015	30,000	30,000 (30,000)	0.358	Yes	July 15, 2022
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	25,000	25,000	0.599	Yes	July 15, 2025
Japan Tobacco Inc.	12th domestic straight bond	September 10, 2018	60,000	60,000	0.110	Yes	September 8, 2023
Japan Tobacco Inc.	13th domestic straight bond	September 10, 2018	30,000	30,000	0.355	Yes	September 8, 2028
Japan Tobacco Inc.	14th domestic straight bond	September 10, 2018	10,000	10,000	0.758	Yes	September 10, 2038
Japan Tobacco Inc.	Straight bond in USD	April 13, 2016	77,609 (77,609) [USD 750 mil.]	— [—]	2.000	Yes	April 13, 2021
Japan Tobacco Inc.	Straight bond in USD	April 13, 2016	51,589 [USD 500 mil.]	— [—]	2.800	Yes	April 13, 2026 (Note 3)
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	54,109 [USD 525 mil.]	— [—]	3.500	No	September 28, 2023 (Note 3)
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	51,231 [USD 500 mil.]	56,997 [USD 500 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	69,233 [EUR 550 mil.]	71,394 [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR	November 26, 2019	62,842 [EUR 500 mil.]	64,770 [EUR 500 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	54,850 [GBP 400 mil.]	60,969 [GBP 400 mil.]	2.750	No	September 28, 2033
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	62,934 [EUR 500 mil.]	64,883 [EUR 500 mil.]	2.375	No	April 7, 2081 (Note 4)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	62,896 [EUR 500 mil.]	64,820 [EUR 500 mil.]	2.875	No	October 7, 2083 (Note 5)
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	— [—]	66,563 [USD 625 mil.]	2.250	No	September 14, 2031
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	— [—]	45,619 [USD 400 mil.]	3.300	No	September 14, 2051
		Total	702,292 (77,609)	651,016 (30,000)			

(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 Issuers purchased a portion of the bonds on September 13, 2021 and settled the remaining bonds on October 15, 2021.

(Note 4) 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 5) 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.

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, 2020

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2020	3,598	23,236	4,000	27,619	58,453
Provisions	1,887	4,254	3,697	15,949	25,787
Interest cost associated with passage of time	29	—	—	—	29
Provisions used	(173)	(7,246)	(4,000)	(5,362)	(16,782)
Provisions reversed	(108)	(2,046)	—	(10,675)	(12,828)
Exchange differences on translation of foreign operations	—	(538)	—	(3,363)	(3,901)
As of December 31, 2020	5,232	17,660	3,697	24,169	50,758
Current liabilities	43	10,637	3,697	5,043	19,420
Non-current liabilities	5,189	7,023	—	19,125	31,338
Total	5,232	17,660	3,697	24,169	50,758

Year ended December 31, 2021

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2021	5,232	17,660	3,697	24,169	50,758
Provisions	1,508	5,402	3,652	10,018	20,581
Interest cost associated with passage of time	25	—	—	—	25
Provisions used	(202)	(10,958)	(3,657)	(6,118)	(20,934)
Provisions reversed	(81)	(2,306)	—	(2,841)	(5,228)
Exchange differences on translation of foreign operations	22	1,358	—	1,143	2,523
As of December 31, 2021	6,505	11,157	3,692	26,371	47,725
Current liabilities	84	7,547	3,692	13,535	24,858
Non-current liabilities	6,422	3,610	—	12,835	22,867
Total	6,505	11,157	3,692	26,371	47,725

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 "International Tobacco Business." The timing of the payment may be affected by future business plans.

C. Provisions for Sales Rebates

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

21. Other Liabilities

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

(Millions of yen)

	2020	**2021**
Tobacco excise tax payables	268,608	295,229
Tobacco special excise tax payables	8,536	8,298
Tobacco local excise tax payables	158,905	174,445
Consumption tax payables	129,782	134,159
Bonus to employees	56,955	69,489
Employees’ unused paid vacations liabilities	20,297	21,062
Other	172,213	194,166
Total	815,295	896,848
Current liabilities	652,314	717,653
Non-current liabilities	162,982	179,195
Total	815,295	896,848

22. Employee Benefits

(1) Post-employment Benefits

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

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

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

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

(i) Investment risk

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

(ii) Interest rate risk

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

(iii) Inflation risk

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

(iv) Longevity risk

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

A pension buy-in was implemented for the U.K. pension plan of the Group in December 2021. In the implementation of the transaction, plan assets held by the pension plan have been contributed to the insurance company, and the Group concluded an insurance agreement with the insurance company that ensures the receipt of an amount of money equivalent to pension benefits for pensioners in the future. Consequently, the pension plan was released from the above risks.

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, 2020 (Notes 1, 2)	200,595	519,089	719,684
Current service cost	9,510	10,014	19,524
Past service cost and settlement	—	3,047	3,047
Interest expense	1,135	7,585	8,720
Contributions by plan participants	—	1,966	1,966
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(284)	(2,110)	(2,394)
Actuarial gains and losses arising from changes in financial assumptions	(3,618)	39,629	36,012
Actuarial gains and losses arising from experience adjustments	(678)	4,374	3,696
Benefits paid	(21,434)	(19,864)	(41,298)
Exchange differences on translation of foreign operations	—	2,621	2,621
Other	(629)	(8)	(637)
As of December 31, 2020 (Notes 1, 2)	184,597	566,343	750,940
Current service cost	9,042	11,960	21,003
Past service cost and settlement	—	1,610	1,610
Interest expense	1,585	6,164	7,750
Contributions by plan participants	—	2,313	2,313
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	1,362	(4,982)	(3,620)
Actuarial gains and losses arising from changes in financial assumptions	1,906	(24,216)	(22,310)
Actuarial gains and losses arising from experience adjustments	(1,240)	8,686	7,447
Benefits paid	(40,925)	(25,136)	(66,061)
Exchange differences on translation of foreign operations	—	49,407	49,407
Other	—	(2,277)	(2,277)
As of December 31, 2021 (Notes 1, 2)	156,327	589,874	746,201

(Note 1) The Group's weighted-average duration of the defined benefit obligations is 7.4 years for Japan and 15.1 years for overseas (2020 : 6.9 years for Japan and 15.5 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, 2020			**As of December 31, 2021**		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	129,281	198,735	328,016	109,151	205,496	314,647
Deferred members	7,830	81,218	89,048	5,912	86,748	92,660
Pensioners	47,485	286,391	333,876	41,264	297,629	338,893
Total	184,597	566,343	750,940	156,327	589,874	746,201

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

(Millions of yen)

	2020	**2021**
As of January 1	31,090	26,054
Interest expense	124	156
Remeasurement gains and losses	(1,596)	(1,283)
Benefits paid	(3,565)	(3,065)
As of December 31	26,054	21,862

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2020	57,992	408,455	466,447
Interest income	333	6,215	6,548
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	380	29,438	29,817
Contributions by the employer (Notes 2, 3)	879	7,536	8,414
Contributions by plan participants	—	1,966	1,966
Benefits paid	(5,560)	(15,100)	(20,660)
Exchange differences on translation of foreign operations	—	(2,246)	(2,246)
Other	(571)	—	(571)
As of December 31, 2020	53,453	436,263	489,715
Interest income	455	4,953	5,408
Remeasurement gains and losses:			
Return on plan assets (Note 1) (excluding amounts included in interest income)	507	(25,741)	(25,235)
Contributions by the employer (Notes 2, 3)	841	5,724	6,564
Contributions by plan participants	—	2,313	2,313
Benefits paid	(5,062)	(18,519)	(23,581)
Exchange differences on translation of foreign operations	—	48,017	48,017
As of December 31, 2021	50,193	453,009	503,203

(Note 1) "Return on plan assets" for the year ended December 31, 2021 includes (¥39,230 million) of the difference due to remeasurement of fair value of plan assets arising from the implementation of the pension buy-in transaction.

(Note 2) 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 3) The Group plans to pay contributions of ¥5,750 million in the year ending December 31, 2022.

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, 2020

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	48,531	397,336	445,868
Fair value of the plan assets	(53,453)	(436,263)	(489,715)
Subtotal	(4,921)	(38,926)	(43,847)
Present value of the unfunded defined benefit obligations	136,065	169,007	305,072
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	131,144	130,080	261,225
Retirement benefit liabilities	137,262	194,490	331,752
Retirement benefit assets	(6,118)	(64,410)	(70,528)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	131,144	130,080	261,225

As of December 31, 2021

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	44,852	421,577	466,429
Fair value of the plan assets	(50,193)	(453,009)	(503,203)
Subtotal	(5,342)	(31,432)	(36,773)
Present value of the unfunded defined benefit obligations	111,476	168,296	279,772
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	106,134	136,864	242,999
Retirement benefit liabilities	112,625	183,551	296,176
Retirement benefit assets	(6,491)	(46,686)	(53,177)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	106,134	136,864	242,999

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, 2020			As of December 31, 2021		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	7,569	—	7,569	7,776	—	7,776
Equity instruments	3,524	—	3,524	2,453	—	2,453
Japan	1,653	—	1,653	838	—	838
Overseas	1,871	—	1,871	1,615	—	1,615
Debt instruments	7,550	—	7,550	8,055	—	8,055
Japan	6,299	—	6,299	6,695	—	6,695
Overseas	1,250	—	1,250	1,360	—	1,360
General account of life insurance companies (Note 1)	—	33,048	33,048	—	29,807	29,807
Other	751	1,011	1,762	1,070	1,033	2,103
Total	19,394	34,059	53,453	19,353	30,840	50,193

(Millions of yen)

Overseas

	As of December 31, 2020			As of December 31, 2021		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	33,999	—	33,999	54,026	—	54,026
Equity instruments	63,683	0	63,683	49,027	0	49,027
United Kingdom	3,805	—	3,805	2,781	—	2,781
North America	23,876	—	23,876	14,562	—	14,562
Other	36,001	0	36,001	31,684	0	31,684
Debt instruments	296,597	6,079	302,676	80,927	6,425	87,353
United Kingdom	206,048	—	206,048	686	—	686
North America	31,588	0	31,588	34,866	—	34,866
Other	58,962	6,079	65,040	45,376	6,425	51,801
Real estate	15,673	68	15,740	20,963	88	21,051
Other (Note 2)	10,571	9,592	20,164	11,190	230,363	241,553
Total	420,524	15,739	436,263	216,133	236,876	453,009

(Millions of yen)

	Total					
	As of December 31, 2020			As of December 31, 2021		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	41,568	—	41,568	61,802	—	61,802
Equity instruments	67,206	0	67,207	51,479	0	51,480
Debt instruments	304,147	6,079	310,226	88,982	6,425	95,407
Real estate	15,673	68	15,740	20,963	88	21,051
General account of life insurance companies (Note 1)	—	33,048	33,048	—	29,807	29,807
Other (Note 2)	11,323	10,604	21,926	12,260	231,396	243,656
Total	439,917	49,798	489,715	235,486	267,716	503,203

(Note 1) A certain interest rate and principal for the general account of life insurance are guaranteed by life insurance companies.
(Note 2) “Other” as of December 31,2021 includes ¥220,408 million of the insurance agreement concluded in the U.K. pension buy-in transaction.

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, by setting a target rate of return and composition ratio of plan assets by asset category within the risk tolerance that is annually assessed, the Company invests plan assets consistently with the composition ratio. 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 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, 2020

(%)

	Japan	Overseas
Discount rate	0.8	1.0
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)	21.9 (Note 3)	24.2 (Note 3)
Future pensioners			23.2 (Note 4)	25.5 (Note 4)

As of December 31, 2021

(%)

	Japan	Overseas
Discount rate	0.7	1.4
Inflation rate	—	2.5

(years)

	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			23.0 (Note 4)	25.2 (Note 4)

(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 reflects a 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, 2020

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(5,821)	(41,376)
	Decrease by 0.5%	6,252	46,245
Inflation rate	Increase by 0.5%	—	31,073
	Decrease by 0.5%	—	(28,236)
Mortality rate	Extended 1 year	3,367	21,707
	Shortened 1 year	(3,231)	(21,346)

As of December 31, 2021

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(5,260)	(41,816)
	Decrease by 0.5%	5,664	46,655
Inflation rate	Increase by 0.5%	—	31,542
	Decrease by 0.5%	—	(28,433)
Mortality rate	Extended 1 year	2,931	23,356
	Shortened 1 year	(2,802)	(22,949)

F. Breakdown of Defined Benefit Cost

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

Year ended December 31, 2020

(Millions of yen)

	Japan	Overseas	Total
Current service cost	9,510	10,014	19,524
Past service cost and gains and losses on settlement	—	3,047	3,047
Interest expense (income)	802	1,370	2,172
Defined benefit cost through profit or loss	10,312	14,431	24,742
Actuarial gains and losses arising from changes in demographic assumptions	(284)	(2,110)	(2,394)
Actuarial gains and losses arising from changes in financial assumptions	(3,618)	39,629	36,012
Actuarial gains and losses arising from experience adjustments	(678)	4,374	3,696
Return on plan assets (excluding amounts included in interest income)	(380)	(29,438)	(29,817)
Defined benefit cost through other comprehensive income	(4,960)	12,456	7,496
Total of defined benefit cost	5,352	26,886	32,238

Year ended December 31, 2021

(Millions of yen)

	Japan	Overseas	Total
Current service cost	9,042	11,960	21,003
Past service cost and gains and losses on settlement	—	1,610	1,610
Interest expense (income)	1,130	1,212	2,341
Defined benefit cost through profit or loss	10,172	14,782	24,954
Actuarial gains and losses arising from changes in demographic assumptions	1,362	(4,982)	(3,620)
Actuarial gains and losses arising from changes in financial assumptions	1,906	(24,216)	(22,310)
Actuarial gains and losses arising from experience adjustments	(1,240)	8,686	7,447
Return on plan assets (Note 1) (excluding amounts included in interest income)	(507)	25,741	25,235
Defined benefit cost through other comprehensive income	1,522	5,230	6,752
Total of defined benefit cost	11,694	20,012	31,706

(Note 1) “Return on plan assets” for the year ended December 31, 2021 includes ¥39,230 million in the difference due to remeasurement of fair value of plan assets arising in conjunction with the pension buy-in transaction.

(Note 2) 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 3) Contributions to the defined contribution plans were ¥9,698 million for the year ended December 31, 2020 and ¥10,175 million for the year ended December 31, 2021 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)

	2020	**2021**
Remuneration and salary	241,549	257,388
Bonus to employees	97,676	99,033
Legal welfare expenses	45,458	48,513
Welfare expenses	38,258	42,097
Termination benefits	85	29,552

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2020 and 2021 is 8,000,000 thousand ordinary shares.

B. Fully Paid Issued Shares

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

	(Thousands of shares)		(Millions of yen)
	Number of ordinary issued shares	Share capital	Capital surplus
As of January 1, 2020	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2020	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2021	2,000,000	100,000	736,400

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

(2) Treasury Shares

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

	(Thousands of shares)	(Millions of yen)
	Number of shares	Amount
As of January 1, 2020	226,197	492,469
Increase (decrease) (Note 2)	(442)	(962)
As of December 31, 2020	225,755	491,507
Increase (decrease) (Note 2)	(279)	(608)
As of December 31, 2021	225,475	490,899

(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, 2020 and 0 thousand shares for the year ended December 31, 2021. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2020 and 0 thousand shares for the year ended December 31, 2021. The number of shares delivered upon exercise of share options are 203 thousand shares for the year ended December 31, 2020 and 41 thousand shares for the year ended December 31, 2021. The number of shares disposed for restricted stock remuneration are 239 thousand shares for the year ended December 31, 2020 and 238 thousand shares for the year ended December 31, 2021.

(3) Other Components of Equity

A. Subscription Rights to Shares

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

B. Exchange Differences on Translation of Foreign Operations

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

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

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

D. 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.

E. 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, 2020

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 19, 2020)	Ordinary shares	136,583	77	December 31, 2019	March 23, 2020
Board of Directors (July 31, 2020)	Ordinary shares	136,617	77	June 30, 2020	September 1, 2020

Year ended December 31, 2021

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 24, 2021)	Ordinary shares	136,617	77	December 31, 2020	March 25, 2021
Board of Directors (July 30, 2021)	Ordinary shares	115,344	65	June 30, 2021	September 1, 2021

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

Year ended December 31, 2020

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 24, 2021)	Ordinary shares	136,617	77	December 31, 2020	March 25, 2021

Year ended December 31, 2021

(Resolution)	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders' Meeting (March 23, 2022)	Ordinary shares	133,089	75	December 31, 2021	March 24, 2022

25. Revenue

(1) Disaggregation of Revenue

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

Year ended December 31, 2020

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	515,745	1,250,808	-	-	-	1,766,554
Other	39,822	55,425	78,957	149,329	2,474	326,007
Total	555,568	1,306,233	78,957	149,329	2,474	2,092,561

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments				Other	Consolidated
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	519,842	1,482,139	-	-	-	2,001,981
Other	39,606	53,535	80,392	147,245	2,078	322,857
Total	559,449	1,535,674	80,392	147,245	2,078	2,324,838

(Note 1) The "Domestic Tobacco Business" does not include revenue related to imported tobacco delivery charges. In addition, the "International Tobacco Business" does not include revenue related to the distribution business and contract manufacturing.

(Note 2) Revenues from RRP in core revenue from the "Domestic Tobacco Business" were ¥55,891 million and ¥59,846 million for the year ended December 31, 2020 and 2021, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

(Note 3) Core revenue by cluster from the "International Tobacco Business" is as follows:

(Millions of yen)

	2020	**2021**
South and West Europe	219,359	245,115
North and Central Europe	271,976	312,717
CIS+	294,283	342,399
Rest-of-the-World	465,190	581,907
Total	1,250,808	1,482,139

South and West Europe includes France, Italy and Spain. North and Central Europe includes Germany and the United Kingdom. CIS+ includes Romania and Russia. Rest-of-the-World includes Iran, Taiwan and Turkey.

A. Domestic and International Tobacco Businesses

Domestic and international tobacco businesses engage in the sale of tobacco products.

Revenue from sales of products is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group evaluates that the performance obligation is satisfied. 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 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 satisfying their performance obligations and includes no significant financing components.

The tobacco excise taxes and other transactions in which the Group is involved as an agency 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.

Revenue from sales of products is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group evaluates that the performance obligation is satisfied. 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 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.

Revenue from licensing is generated by licensing out the rights to develop and market of 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 when the progress of development is achieved. Sales-based royalties are measured based on the Group’s licensees’ sales, and recognized by taking into consideration the timing of occurrence.

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

C. Processed Foods Business

Processed foods business engages in the sale of frozen and ambient processed foods, bakery products and seasonings.

Revenue from sales of products is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Group evaluates that the performance obligation is satisfied. 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 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 satisfying their performance obligations and includes no significant financial component.

Transactions in which the Group is involved as an agency 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.

(3) Gross Turnover

The reconciliation from “Gross turnover” to “Revenue” for each year is as follows:

(Millions of yen)

	2020	**2021**
Gross turnover	7,555,062	8,391,869
Tobacco excise taxes and agency transaction amount	(5,462,501)	(6,067,032)
Revenue	2,092,561	2,324,838

The tobacco excise taxes and other transactions in which the Group is involved as an agency 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.

Gross turnover is an item that the Group discloses voluntarily and is not “Revenue” as defined by IFRS.

26. Other Operating Income

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

(Millions of yen)

	2020	**2021**
Gain on sale of the former JT building	41,265	-
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	5,332	8,219
Other (Note)	8,327	7,403
Total	54,924	15,622

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

(Millions of yen)

	2020	**2021**
Gain on sale of property, plant and equipment, intangible assets and investment property	4,744	5,061
Other	60	27
Total	4,803	5,088

27. Selling, General and Administrative Expenses

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

(Millions of yen)

	2020	**2021**
Advertising expenses	27,254	29,286
Promotion expenses	92,149	108,656
Commission (Note 2)	57,614	66,895
Employee benefit expenses (Note 2)	307,181	354,979
Research and development expenses (Note 1)	60,847	65,016
Depreciation and amortization	103,666	108,963
Impairment losses on other than financial assets (Note 2)	12,571	22,768
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	7,591	5,835
Cooperation fee for terminating leaf tobacco farming	-	6,560
Other (Note 2)	115,598	119,616
Total	784,472	888,574

(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)

	2020	**2021**
Employee benefit expenses	323	30,600
Impairment losses on other than financial assets	332	6,299
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	361	784
Other	2,100	2,126
Total	3,116	39,810

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	2020	**2021**
Dividend income		
Financial assets measured at fair value through other comprehensive income	929	936
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	6,389	12,435
Gain on net monetary position	3,143	5,087
Other	1,893	555
Total	12,353	19,013

(Millions of yen)

Financial Costs	2020	**2021**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	21,039	21,668
Other	1,495	1,382
Foreign exchange losses (Note 1)	35,812	15,565
Employee benefit expenses (Note 2)	2,172	2,341
Other	826	4,688
Total	61,344	45,645

(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, 2020

(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	(3,886)	―	(3,886)	1,184	(2,702)
Remeasurements of defined benefit plans	(7,496)	―	(7,496)	1,539	(5,957)
Total of items that will not be reclassified to profit or loss	(11,383)	―	(11,383)	2,723	(8,659)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(167,963)	(1)	(167,964)	(2,746)	(170,711)
Net gain (loss) on derivatives designated as cash flow hedges	170	152	323	(98)	224
Total of items that may be reclassified subsequently to profit or loss	(167,793)	151	(167,642)	(2,844)	(170,486)
Total	(179,175)	151	(179,024)	(121)	(179,145)

Year ended December 31, 2021

(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	344	—	344	(461)	(116)
Remeasurements of defined benefit plans	(6,752)	—	(6,752)	505	(6,246)
Total of items that will not be reclassified to profit or loss	(6,407)	—	(6,407)	45	(6,363)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	204,911	(794)	204,117	2,391	206,508
Net gain (loss) on derivatives designated as cash flow hedges	(704)	606	(98)	30	(68)
Total of items that may be reclassified subsequently to profit or loss	204,207	(188)	204,019	2,421	206,440
Total	197,800	(188)	197,611	2,466	200,077

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)

	2020	**2021**
Profit for the period attributable to owners of the parent company	310,253	338,490
Profit not attributable to ordinary shareholders of the parent company	–	–
Profit for the period used for calculation of basic earnings per share	310,253	338,490

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

(Thousands of shares)

	2020	**2021**
Weighted-average number of shares during the period	1,774,128	1,774,419

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2020	**2021**
Profit for the period used for calculation of basic earnings per share	310,253	338,490
Adjustment	(0)	–
Profit for the period used for calculation of diluted earnings per share	310,253	338,490

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

(Thousands of shares)

	2020	**2021**
Weighted-average number of ordinary shares during the period	1,774,128	1,774,419
Increased number of ordinary shares under subscription rights to shares	792	741
Weighted-average number of diluted ordinary shares during the period	1,774,921	1,775,161

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, 2020

(Millions of yen)

	As of January 1, 2020	Cash flows	Non-cash changes		As of December 31, 2020
			Foreign exchange movement	Other	
Short-term borrowings and commercial paper	192,581	(132,462)	(8,525)	39	51,633
Long-term borrowings (Note 1)	115,297	88,153	1,280	225	204,955
Bonds (Note 1)	666,623	42,201	(7,000)	468	702,292
Lease liabilities	53,705	(17,741)	(641)	31,209	66,531
Total	1,028,206	(19,849)	(14,886)	31,941	1,025,412

Year ended December 31, 2021

(Millions of yen)

	As of January 1, 2021	Cash flows	Non-cash changes		As of December 31, 2021
			Foreign exchange movement	Other	
Short-term borrowings and commercial paper	51,633	22,887	(3,885)	—	70,636
Long-term borrowings (Note 1)	204,955	(9,146)	913	248	196,970
Bonds (Note 1)	702,292	(90,031)	37,438	1,316	651,016
Lease liabilities	66,531	(20,449)	2,655	11,799	60,536
Total	1,025,412	(96,739)	37,122	13,363	979,158

(Note 1) Current portion is included.

(Note 2) Of the bonds issued and redeemed for the year ended December 31, 2021, the portion corresponding to the modification is offset on the consolidated cash flow statement.

32. Share-based Payments

(1) Share Option

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

The outline of the share option plan of the Company is as follows. Due to the introduction of the restricted stock remuneration plan and the performance share unit plan, share option plans are abolished except 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)

	2020			**2021**		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	361,000	613,600	974,600	361,000	410,600	771,600
Exercised	—	(203,000)	(203,000)	—	(41,200)	(41,200)
Balance as of December 31	361,000	410,600	771,600	361,000	369,400	730,400
Exercisable balance as of December 31	—	85,200	85,200	—	44,000	44,000

(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) The weighted-average share prices of share options at the time of exercise during the period were ¥2,256 and ¥2,089 for the years ended December 31, 2020 and 2021, respectively.

(Note 4) The weighted-average remaining contract years of unexercised share options at the end of each period were 25.6 years and 24.9 years for the years ended December 31, 2020 and 2021, 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

	2020	**2021**
Grant date	May 26, 2020	May 25, 2021
Number of allotted shares	Directors: 94,200 Executive Officers: 145,000	Directors: 92,500 Executive Officers: 145,900
Fair value at the grant date	¥2,001	¥2,061
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(3) Performance Share Unit Remuneration

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

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

The fair value in the plan is estimated based on the market price of the Company's share, which is not revised in consideration of the estimated dividend. The weighted average fair value at the reporting date for the year ended December 31, 2020 is ¥2,102 and for the year ended December 31, 2021 is ¥2,322.

(4) Share-based Payment Expenses

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

(Millions of yen)

	2020	**2021**
Share options (equity-settled)	30	—
Restricted stock remuneration (equity-settled)	479	491
Performance share unit remuneration (cash-settled)	84	451

(5) Liabilities Arising from Share-based Payment

The liabilities included in "Other non-current liabilities" in the consolidated statement of financial position as of December 31 are as follows.

(Millions of yen)

	2020	**2021**
Carrying amounts of liability	84	535

33. Financial Instruments

(1) Capital Management

The Group's management principle is pursuit of the "4S" model: balancing the interests of consumers, shareholders, employees and wider society, and fulfilling our responsibilities towards them, aiming to exceed their expectations.

The Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

For that reason, the Group maintains a strong financial base that secures stability in the case of economic crises etc., 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)

	2020	**2021**
Interest-bearing debt (Note)	958,881	918,622
Cash and cash equivalents	(538,844)	(721,731)
Net interest-bearing debt	420,037	196,891
Capital (equity attributable to owners of the parent company)	2,522,834	2,809,258

(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 environment.

(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 do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk.

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

In addition, through derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, the Group are 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, 2020	2,475	—	230	5,705	8,409
Addition	785	—	10	2	797
Decrease (intended use)	(1,003)	—	(0)	(55)	(1,059)
Decrease (reversal)	(52)	—	(31)	(23)	(107)
Other	(281)	—	(117)	155	(244)
As of December 31, 2020	1,923	—	92	5,783	7,798
Addition	618	—	10	4	632
Decrease (intended use)	(664)	—	(1)	(1)	(667)
Decrease (reversal)	(701)	—	(10)	(42)	(754)
Other	131	—	—	540	671
As of December 31, 2021	1,306	—	91	6,283	7,680

(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 addition, the Group keeps necessary credit facilities to manage liquidity risk by having commitment lines with several financial institutions.

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

As of December 31, 2020

(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	436,540	436,540	436,540	—	—	—	—	—
Short-term borrowings	51,633	51,633	51,633	—	—	—	—	—
Current portion of long-term borrowings	12,226	12,226	12,226	—	—	—	—	—
Long-term borrowings	192,729	193,722	—	41,911	11,560	20,064	49	120,140
Current portion of bonds	77,609	77,625	77,625	—	—	—	—	—
Bonds	624,683	628,628	—	30,000	114,338	—	94,728	389,563
Lease liabilities	66,531	70,383	19,031	12,896	9,336	7,132	3,223	18,764
Subtotal	1,461,952	1,470,757	597,055	84,807	135,233	27,196	98,000	528,467
Derivative financial liabilities								
Foreign exchange forward contract	10,334	10,334	10,334	—	—	—	—	—
Subtotal	10,334	10,334	10,334	—	—	—	—	—
Total	1,472,286	1,481,091	607,389	84,807	135,233	27,196	98,000	528,467

As of December 31, 2021

(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	555,777	555,777	555,777	—	—	—	—	—
Short-term borrowings	70,636	70,636	70,636	—	—	—	—	—
Current portion of long-term borrowings	42,265	42,265	42,265	—	—	—	—	—
Long-term borrowings	154,705	155,453	—	11,905	23,334	55	58	120,102
Current portion of bonds	30,000	30,000	30,000	—	—	—	—	—
Bonds	621,016	630,083	—	60,000	—	96,801	—	473,282
Lease liabilities	60,536	67,060	18,446	13,823	10,020	4,840	2,548	17,383
Subtotal	1,534,935	1,551,274	717,124	85,728	33,354	101,696	2,606	610,767
Derivative financial liabilities								
Foreign exchange forward contract	10,926	10,926	10,926	—	—	—	—	—
Subtotal	10,926	10,926	10,926	—	—	—	—	—
Total	1,545,861	1,562,200	728,050	85,728	33,354	101,696	2,606	610,767

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

(Millions of yen)

	2020	**2021**
Total committed line of credit	478,200	477,985
Withdrawing	—	—
Unused balance	478,200	477,985

(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)

	2020	**2021**
Profit before income taxes	(3,960)	(6,808)

(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)

	2020	**2021**
Profit before income taxes	1,743	3,923

(7) Hedging Transactions

The Group's policy for hedging transactions is stated in "3. Significant Accounting Policies."

A. Cash Flow Hedges

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

As of December 31, 2020

	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	218 mil.	–	324	176	¥	105.31

As of December 31, 2021

	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	136 mil.	–	149	542	¥	109.74

(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 instrument 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
As of January 1, 2020	(132)
Other comprehensive income	
Amount arising (Note 1)	170
Reclassification adjustments (Note 2)	152
Tax effects	(98)
Other	30
As of December 31, 2020	122
Other comprehensive income	
Amount arising (Note 1)	(704)
Reclassification adjustments (Note 2)	606
Tax effects	30
Other	(327)
As of December 31, 2021	(274)

(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) The amount, which is reclassified when the hedged item affects profit or loss, is recognized in "Revenue," "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, 2020

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in USD	USD	1,250 mil.	USD	500 mil.	—	129,198	¥	109.41
Bonds in EUR	EUR	1,321 mil.	EUR	1,321 mil.	—	166,119	$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	—	54,704	$	1.32
Foreign exchange forward contract								
EUR / RUB	RUB	20,294 mil.		—	543	289	€	0.011
JPY / USD	USD	300 mil.		—	519	—	¥	105.03
GBP / USD	USD	523 mil.		—	—	1,682	£	0.76

As of December 31, 2021

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	1,324 mil.	EUR	1,324 mil.	—	171,502	$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	—	60,733	$	1.32
Foreign exchange forward contract								
EUR / RUB	RUB	22,396 mil.		—	52	1,433	€	0.011
JPY / USD	USD	299 mil.		—	—	226	¥	114.02
USD / RUB	RUB	19,834 mil.		—	131	659	$	0.013
GBP / USD	USD	602 mil.		—	1,387	349	£	0.73
EUR / USD	USD	444 mil.		—	654	215	€	0.87

(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)

	2020	**2021**
As of January 1	10,338	11,480
Other comprehensive income		
Amount arising (Note 1)	3,887	(6,389)
Tax effects	(2,746)	2,391
As of December 31 (Note 2)	11,480	7,481

(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 gain arising from the hedging instruments for which hedge accounting is discontinued were ¥21,026 million and ¥9,985 million as of December 31, 2020 and 2021, respectively those 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, 2020

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	204,955	—	206,953	—	206,953
Bonds (Note)	702,292	750,417	—	—	750,417

As of December 31, 2021

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	196,970	—	198,290	—	198,290
Bonds (Note)	651,016	682,984	—	—	682,984

(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, 2020

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	8,608	—	8,608
Equity securities	19,604	—	7,100	26,704
Other	451	8,650	5,357	14,457
Total	20,055	17,257	12,457	49,769
Derivative liabilities	—	10,334	—	10,334
Total	—	10,334	—	10,334

As of December 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	7,362	—	7,362
Equity securities	19,988	—	7,804	27,792
Other	562	6,518	7,725	14,805
Total	20,550	13,880	15,529	49,959
Derivative liabilities	—	10,926	—	10,926
Total	—	10,926	—	10,926

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

(Millions of yen)

	2020	**2021**
As of January 1	11,927	12,457
Total gain (loss)		
Profit or loss (Note 1)	(930)	(116)
Other comprehensive income (Note 2)	(804)	274
Purchases	2,674	3,042
Sales	(410)	(12)
Other	—	(116)
As of December 31	12,457	15,529

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2020 and 2021 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, 2020 and 2021 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, 2021, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

The Group's revenue from CJSC TK Megapolis, the local Russian distribution affiliate, was ¥177,170 million and ¥219,135 million for the years ended December 31, 2020 and 2021, respectively. The Group held trade receivables of ¥27,668 million and ¥51,685 million from CJSC TK Megapolis as of December 31, 2020 and 2021, 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)

	2020	**2021**
Remuneration and bonuses	1,139	1,335
Share-based payments	251	374
Total	1,390	1,709

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:

	2020		**2021**	
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)
Domestic Tobacco	13	1	13	1
International Tobacco	173	8	169	8
Pharmaceuticals	2	—	2	—
Processed Food	28	2	28	2
Other	19	2	23	2
Total	235	13	235	13

(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, 2021.

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)

	2020	**2021**
Acquisition of property, plant and equipment	33,768	28,817
Acquisition of intangible assets	3,130	3,173
Total	36,897	31,990

(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 financial statements of the subsidiaries in Iran, the Group applies the conversion coefficient derived from the Consumer Price Index of Iran published by the Statistical Centre of Iran.

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	406
31 December 2016	102	373
31 December 2017	112	339
31 December 2018	152	250
31 December 2019	194	196
31 December 2020	281	135
31 December 2021	379	100

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

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

38. Contingencies

Contingent Liabilities

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

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

(1) Smoking/Vaping and Health Related Litigation

One or more members of the Group are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco products, or exposure to tobacco smoke. As of December 31, 2021, there were a total of 21 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement such as for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

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

On March 8, 2019, JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary, filed for protection from its creditors under the Companies' Creditors Arrangement Act (CCAA). The Ontario Superior Court has granted the CCAA application and extended protection in favor of JTI-Mac (hereinafter referred to as "CCAA Proceedings"). All of the below Canadian matters against JTI-Mac have been stayed by the CCAA Proceedings, under which JTI-Mac carries on business in the ordinary course.

A. Individual Claim

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

South Africa Individual Claim (Joselowitz):

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

In addition, there is one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland and one ongoing individual case (which is currently dormant) brought against the Company's subsidiaries in the United States.

B. Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

Canada Quebec Class Action (Cecilia Letourneau):

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥413.4 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥413.4 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of defendants by substantively upholding the first instance judgment and ordering a punitive damage award against the appellants of approximately ¥14.5 billion (approximately CAD 161 million), in which the share of the total damage award against JTI-Mac is approximately ¥1.4 billion (approximately CAD 15 million). The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):

This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥1,119.9 billion (approximately CAD 12.4 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥73.0 billion (approximately CAD 0.8 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of the defendants by substantively upholding the first instance judgment and ordering a compensatory damage award jointly and severally against the defendants of approximately ¥1,218.1 billion (approximately CAD 13.5 billion), in which the share of the total damage award against JTI-Mac is approximately ¥158.4 billion (approximately CAD 1.8 billion), and a punitive damage award of approximately ¥3 million (approximately CAD 0.04 million) per defendants. The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

The Quebec Court of Appeal rendered one judgment for both class actions against the defendants and ordered them to make an initial deposit of approximately ¥104.6 billion (approximately CAD 1.2 billion), in which the share of JTI-Mac is approximately ¥13.1 billion (approximately CAD 145 million). The obligation to pay the initial deposit is stayed by the CCAA Proceedings.

Canada Saskatchewan Class Action (Adams):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Manitoba Class Action (Kunta):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Nova Scotia Class Action (Semple):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada British Columbia Class Action (Bourassa):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada British Columbia Class Action (McDermid):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Ontario Class Action (Jacklin):

This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

C. Health-Care Cost Recovery Litigation

There are 10 ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by all the Canadian provinces (except three Canadian territories). These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has allegedly incurred and will incur, resulting from "tobacco related wrongs."

Canada British Columbia Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The case is stayed by the CCAA Proceedings.

Canada New Brunswick Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Ontario Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥29,713.2 billion (CAD 330 billion). The case is stayed by the CCAA Proceedings.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Manitoba Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Quebec Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total amount of the claim approximately ¥5,461.6 billion (approximately CAD 60.7 billion). The case is stayed by the CCAA Proceedings.

Canada Alberta Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of at least ¥900.4 billion (CAD 10.0 billion). The case is stayed by the CCAA Proceedings.

Canada Saskatchewan Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Prince Edward Island Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Nova Scotia Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Nova Scotia in January 2015 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

(2) Other Legal Proceedings

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

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates as of December 31, 2021.

39. Subsequent Events

The Group decided to suspend all new investments and marketing activities in Russia considering the state of affairs of Russia and Ukraine. The challenges of operating in Russia at this time are unprecedented and would lead to a wide range of impacts on the Group's business. Unless the operating environment and geopolitical situation improve significantly, the Group cannot exclude the possibility of a suspension of its manufacturing operations in the country.

As of the filing date, the future outlook and the impact on business performance are not practicable to reasonably estimate.

(2) Others

A. Quarterly Information for the Year ended December 31, 2021

(Millions of yen)

	Q1 January 1, 2021 to March 31, 2021	Q2 January 1, 2021 to June 30, 2021	Q3 January 1, 2021 to September 30, 2021	2021 January 1, 2021 to December 31, 2021
Revenue	547,366	1,144,539	1,766,075	2,324,838
Profit before income taxes for the period (year)	156,342	314,095	463,821	472,390
Profit attributable to owners of the parent company for the period (year)	113,786	225,190	338,813	338,490
Basic earnings per share for the period (year) (yen)	64.13	126.92	190.95	190.76

	Q1 January 1, 2021 to March 31, 2021	Q2 April 1, 2021 to June 30, 2021	Q3 July 1, 2021 to September 30, 2021	Q4 October 1, 2021 to December 31, 2021
Basic earnings per share for the quarter(losses) (yen)	64.13	62.78	64.03	(0.18)

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in "38. Contingencies" in the notes to consolidated financial statements.

1. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2020 and 2021

(Millions of yen)

		2020		**2021**
Assets				
Current assets				
Cash and deposits		299,366		238,127
Accounts receivable-trade	*2	34,815	*2	37,614
Securities		20,000		20,000
Merchandise and finished goods		27,142		26,768
Semi-finished goods		76,402		83,612
Work in process		2,247		1,725
Raw materials and supplies		32,234		29,364
Advance payments-trade		1,886		1,714
Prepaid expenses		4,850		5,669
Short-term loans receivable from subsidiaries and affiliates		43,406		4,967
Other	*2,*3	19,455	*2,*3	18,579
Allowance for doubtful accounts		(25)		(24)
Total current assets		561,777		468,113
Noncurrent assets				
Property, plant and equipment				
Buildings		80,030		77,170
Structures		2,375		2,404
Machinery and equipment		51,567		41,889
Vehicles		1,307		832
Tools, furniture and fixtures		14,221		11,898
Land		48,909		48,113
Construction in progress		445		384
Total property, plant and equipment		198,854		182,690
Intangible assets				
Patent right		154		91
Right of trademark		82,120		65,629
Software		18,299		14,818
Goodwill		178,855		143,084
Other		2,662		2,834
Total intangible assets		282,089		226,457
Investments and other assets				
Investment securities		16,862		19,136
Shares of subsidiaries and affiliates		1,487,617		1,492,833
Long-term loans receivable from subsidiaries and affiliates		17,792		51,299
Long-term prepaid expenses		9,090		7,881
Deferred tax assets		13,514		28,751
Other		14,118		14,998
Allowance for doubtful accounts		(3,783)		(4,179)
Total investments and other assets		1,555,210		1,610,719
Total noncurrent assets		2,036,153		2,019,866
Total assets		2,597,930		2,487,979

(Millions of yen)

		2020		**2021**
Liabilities				
Current liabilities				
Accounts payable-trade	*2	7,069	*2	5,675
Current portion of bonds	*1	77,624	*1	30,000
Current portion of long-term borrowings		—		30,000
Lease obligations	*2	2,450	*2	2,050
Accounts payable-other	*2	51,780	*2	124,329
National tobacco excise taxes payable		65,605		69,066
National tobacco special excise taxes payable		8,536		8,298
Local tobacco excise taxes payable		74,707		78,114
Income taxes payable		29,527		10,910
Accrued consumption taxes		37,973		30,596
Cash management system deposits received	*4	326,353	*4	360,786
Provision for bonuses		6,330		5,898
Other		5,914		11,584
Total current liabilities		693,867		767,305
Noncurrent liabilities				
Bonds payable	*1	206,717	*1	125,000
Long-term borrowings		170,000		140,000
Lease obligations	*2	4,529	*2	3,061
Provision for retirement benefits		128,333		102,960
Other	*2	4,472	*2	4,957
Total noncurrent liabilities		514,051		375,978
Total liabilities		1,207,918		1,143,283

(Millions of yen)

	2020	**2021**
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Total capital surplus	736,400	736,400
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	377	356
Reserve for reduction entry	41,711	37,715
Special account for reduction entry	327	425
Retained earnings brought forward	966,416	935,204
Total retained earnings	1,027,608	992,476
Treasury shares	(491,507)	(490,899)
Total shareholders' equity	1,372,501	1,337,977
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,069	5,833
Deferred gains or losses on hedges	12,189	(316)
Total valuation and translation adjustments	16,259	5,517
Subscription rights to shares	1,252	1,202
Total net assets	1,390,011	1,344,696
Total liabilities and net assets	2,597,930	2,487,979

B. Nonconsolidated Statement of Income
Years Ended December 31, 2020 and 2021

(Millions of yen)

		2020		**2021**
Net sales	*1,*6	596,887	*1,*6	592,220
Cost of sales	*6	166,144	*6	154,227
Gross profit		430,742		437,993
Selling, general and administrative expenses	*2,*6	329,792	*2,*6	344,154
Operating income		100,950		93,839
Non-operating income				
Interest income	*6	1,224	*6	91
Dividends income	*6	142,558	*6	182,091
Other	*6	7,548	*6	8,660
Total non-operating income		151,329		190,842
Non-operating expenses				
Interest expenses	*6	1,634	*6	1,697
Interest on bonds		3,895		2,188
Other	*6	6,260	*6	1,986
Total non-operating expenses		11,789		5,871
Ordinary income		240,491		278,809
Extraordinary income				
Gain on sales of noncurrent assets	*3	4,861	*3	6,688
Gain on sale of the former JT building	*7	45,806		—
Other		2,426		101
Total extraordinary income		53,094		6,789
Extraordinary losses				
Loss on sales of noncurrent assets	*4	289	*4	103
Loss on retirement of noncurrent assets	*5,*6	5,551	*5,*6	3,263
Impairment loss		999		1,402
Business restructuring costs		—	*6,*8	31,592
Cooperation fee for terminating leaf tobacco farming		—		6,560
Loss on redemption of bonds		—		4,105
Other	*6	2,051		2,371
Total extraordinary losses		8,889		49,397
Income before income taxes		284,695		236,202
Income taxes-current		44,675		30,996
Income taxes-deferred		(1,732)		(11,690)
Total income taxes		42,943		19,306
Net income		241,752		216,896

C. Nonconsolidated Statement of Changes in Net Assets
Years ended December 31, 2020 and 2021

(Millions of yen)

	Shareholders' equity								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	Total retained earnings
As of January 1, 2020	100,000	736,400	736,400	18,776	378	45,373	1,747	992,930	1,059,205
Changes of items during the period									
Provision of reserve for investment loss on developing new business					377			(377)	–
Reversal of reserve for investment loss on developing new business					(378)			378	–
Provision of reserve for reduction entry						2,924		(2,924)	–
Reversal of reserve for reduction entry						(6,586)		6,586	–
Provision of special account for reduction entry							327	(327)	–
Reversal of special account for reduction entry							(1,747)	1,747	–
Dividends from surplus								(273,200)	(273,200)
Net income								241,752	241,752
Purchase of treasury shares									
Disposal of treasury shares								(150)	(150)
Net changes of items other than shareholders' equity									
Total changes of items during the period	–	–	–	–	(1)	(3,662)	(1,421)	(26,514)	(31,597)
As of December 31, 2020	100,000	736,400	736,400	18,776	377	41,711	327	966,416	1,027,608

(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, 2020	(492,469)	1,403,136	7,283	5,390	12,673	1,556	1,417,365
Changes of items during the period							
Provision of reserve for investment loss on developing new business		–					–
Reversal of reserve for investment loss on developing new business		–					–
Provision of reserve for reduction entry		–					–
Reversal of reserve for reduction entry		–					–
Provision of special account for reduction entry		–					–
Reversal of special account for reduction entry		–					–
Dividends from surplus		(273,200)					(273,200)
Net income		241,752					241,752
Purchase of treasury shares	(1)	(1)					(1)
Disposal of treasury shares	963	813					813
Net changes of items other than shareholders' equity			(3,213)	6,799	3,586	(304)	3,281
Total changes of items during the period	962	(30,635)	(3,213)	6,799	3,586	(304)	(27,354)
As of December 31, 2020	(491,507)	1,372,501	4,069	12,189	16,259	1,252	1,390,011

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings					Total retained earnings
					Other retained earnings				
		Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
As of January 1, 2021	100,000	736,400	736,400	18,776	377	41,711	327	966,416	1,027,608
Changes of items during the period									
Provision of reserve for investment loss on developing new business					356			(356)	—
Reversal of reserve for investment loss on developing new business					(377)			377	—
Provision of reserve for reduction entry						764		(764)	—
Reversal of reserve for reduction entry						(4,761)		4,761	—
Provision of special account for reduction entry							425	(425)	—
Reversal of special account for reduction entry							(327)	327	—
Dividends from surplus								(251,961)	(251,961)
Net income								216,896	216,896
Purchase of treasury shares									
Disposal of treasury shares								(67)	(67)
Net changes of items other than shareholders' equity									
Total changes of items during the period	—	—	—	—	(22)	(3,997)	98	(31,212)	(35,132)
As of December 31, 2021	100,000	736,400	736,400	18,776	356	37,715	425	935,204	992,476

(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, 2021	(491,507)	1,372,501	4,069	12,189	16,259	1,252	1,390,011
Changes of items during the period							
Provision of reserve for investment loss on developing new business		—			—		—
Reversal of reserve for investment loss on developing new business		—			—		—
Provision of reserve for reduction entry		—			—		—
Reversal of reserve for reduction entry		—			—		—
Provision of special account for reduction entry		—			—		—
Reversal of special account for reduction entry		—			—		—
Dividends from surplus		(251,961)			—		(251,961)
Net income		216,896			—		216,896
Purchase of treasury shares	(0)	(0)			—		(0)
Disposal of treasury shares	609	542			—		542
Net changes of items other than shareholders' equity			1,764	(12,505)	(10,742)	(51)	(10,792)
Total changes of items during the period	608	(34,524)	1,764	(12,505)	(10,742)	(51)	(45,316)
As of December 31, 2021	(490,899)	1,337,977	5,833	(316)	5,517	1,202	1,344,696

Notes to Nonconsolidated Financial Statements
Years ended December 31, 2020 and 2021

(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 Fair Value:
Stated at fair value based on market prices on 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 Fair Value:
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 years

(2) Intangible Assets (Excluding Lease Assets)
The straight-line method is applied.
The main useful lives are as follows:

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

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

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

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing at 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 year ended December 31, 2019.

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

8. 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) Consumption Taxes

National consumption tax and local consumption tax are excluded from each amount in the nonconsolidated statement of income.

(3) Adoption of Consolidated Taxation System

The Company adopted the consolidated taxation system.

(4) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

Concerning items which transitioned to the group tax sharing system established under the “Act for Partial Amendment of the Income Tax Act and Relevant Acts” (Act No. 8 of 2020) and those for which the non-consolidated tax payment system was reviewed in line with the transition to the group tax sharing system, the Company will not apply the provisions of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (hereinafter, "ASBJ") Guidance No.28, February 16, 2018), in accordance with Paragraph 3 of “the Practical Solution on the Treatment of the Tax Effect Accounting from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No.39 March 31, 2020). As a result, the amounts of deferred tax assets and deferred tax liabilities are reported based on the provisions of the tax act before the amendment.

(Changes in Presentation Methods)

(Application of the "Accounting Standard for Disclosure of Accounting Estimates")

The "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31, March 31, 2020) has been applied from the current fiscal year and stated regarding accounting estimates are included in the nonconsolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso of paragraph 11 of the accounting standard in question, these notes do not contain information about the fiscal year ended December 31, 2020.

(Significant accounting estimates)

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

For the impact of the spread of COVID-19, please refer to "4. Significant Accounting Estimates and Judgments" in "Notes to Consolidated Financial Statements".

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 ¥1,492,833 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 Group Holding B.V., a subsidiary, amounted to ¥1,355,146 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 or not based on the result of impairment test of goodwill allocated per cash-generating unit in the consolidated financial statements in accordance with IFRS. (For details of the impairment test, please refer to "14. Goodwill and Intangible Assets (3) Impairment Test for Goodwill" in "Consolidated Financial Statements".) The assumptions used in the impairment test are based on management's best estimates and judgement. However, they may be affected by the results of changes in uncertain future economic conditions, and if a review is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(Accounting Standards Not Yet Adopted)

• "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
• "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

(1) Overview

These are the comprehensive accounting standards for revenue recognition. 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

(2) Scheduled Date of Adoption

This accounting standard will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of Adoption

Expenses previously recognized in "Selling, general and administrative expenses" will be partially recognized as a reduction of "Net sales," for example.

(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)

	2020	**2021**
Short-term receivables	14,173	17,166
Short-term payables	26,255	37,348
Long-term payables	3,830	2,677

*3. Repurchase agreement of ¥5,000 million is included in "Other" of Current assets in this year and the fair value of securities received as collateral is ¥5,000 million.

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

5. Contingent obligations

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

Bank loans and others

2020				**2021**			
(Millions of yen)				(Millions of yen)			
JT International Company Netherlands B.V.	60,414	(EUR	477 million)	JT International Company Netherlands B.V.	31,530	(EUR	242 million)
JT International Holding B.V.	34,274	(EUR	270 million)	JT International Hellas A.E.B.E.	27,807	(EUR	213 million)
JT International Hellas A.E.B.E.	27,891	(EUR	220 million)	JT International Holding B.V.	26,232	(EUR	180 million) others
JT International S.A.	11,001	(CHF (EUR	57 million) 20 million) others	JT International spol. s r.o	13,612	(CZK	2,595 million)
				JT International S.A.	12,212	(CHF (EUR	57 million) 21 million) others
				PT. Karyadibya Mahardhika	10,595	(IDR	1,311,940 million)
Other (54 companies)	126,532			Other (58 companies)	120,787		
Total	260,114			Total	242,775		

Bonds

2020				2021			
	(Millions of yen)				(Millions of yen)		
JT International Financial Services B.V.	421,878	(EUR (USD (GBP	2,050 million) 1,025 million) 400 million)	JT International Financial Services B.V.	505,083	(EUR (USD (GBP	2,050 million) 1,525 million) 400 million)
Total	421,878			Total	505,083		

(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. Net sales including tobacco excise taxes for each year are as follows:

(Millions of yen)

	2020	**2021**
Net sales including tobacco excise taxes	1,514,560	1,506,274

(Note) Net sales including tobacco excise taxes are net sales plus the amount equivalent to tobacco excise taxes.

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

(Millions of yen)

	2020	**2021**
Promotion expenses	45,198	47,173
Compensations, salaries and allowances	29,735	30,205
Provision for bonus	4,145	4,019
Employee benefit expenses	10,572	7,852
Commission	31,856	43,522
Depreciation and amortization	64,349	63,170
Research and development expenses	57,733	53,902
Selling expenses ratio	53%	51%
General and administrative expenses ratio	47%	49%

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

(Millions of yen)

	2020	**2021**
Land	4,732	6,684

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

(Millions of yen)

	2020	**2021**
Buildings	9	32
Structures	7	4
Tools, furniture and fixtures	249	12

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

(Millions of yen)

	2020	**2021**
Buildings	1,274	710
Machinery and equipment	2,133	1,501

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

(Millions of yen)

	2020	**2021**
Net sales	51,669	49,410
Purchase of goods	55,995	51,013
Selling, general and administrative expenses	49,949	62,312
Dividends income	142,312	182,578
Amount of non-operating transactions	12,480	12,910

*7. "Gain on sale of the former JT building" in previous fiscal year is mainly composed of gain and loss on sales of fixed assets, including following major items.

Gain on sale of land	¥	49,655	million
Loss on sale of building	¥	3,680	million

*8. Business restructuring costs is related to strengthen business operation in the Domestic Tobacco Business, mainly relate to redundancy pay associated with early retirement and impairment losses on non-current assets associated with Kyushu Factory closure.

(Securities)

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

2020

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	49,584	8,004
Total	41,580	49,584	8,004

2021

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	44,318	2,737
Total	41,580	44,318	2,737

(Note) Balance sheet amount of investments in subsidiaries and affiliates whose fair value is deemed extremely difficult to determine as of December 31 is as follows:

(Millions of yen)

Type	2020	**2021**
Investments in subsidiaries	1,445,883	1,451,114
Investments in affiliates	153	138

The above are not included in "Investments in subsidiaries and affiliates" because their market values are not available and their fair values are deemed extremely difficult to determine.

(Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause
As of December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Deferred tax assets		
Provision for retirement benefits	29,375	22,916
Obligations pertaining to mutual assistance pension benefits	9,220	7,800
Investments in subsidiaries	12,232	12,232
Accounts payable to employees who have agreed to early retirement	—	15,670
Other	31,668	36,791
Subtotal	82,495	95,409
Less valuation allowance	(22,950)	(24,447)
Total	59,545	70,962
Deferred tax liabilities		
Reserve for reduction entry	(18,245)	(16,496)
Deferred gains or losses on hedges	(13,661)	(11,157)
Valuation difference on available-for-sale securities	(1,640)	(1,933)
Other	(12,485)	(12,625)
Total	(46,030)	(42,211)
Net deferred tax assets/liabilities	13,514	28,751

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, 2020 and 2021

(%)

	2020	**2021**
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.22	0.41
Permanent difference arising from non-taxable items including dividends income	(14.45)	(22.26)
Tax credit of items including research and development expenses	(1.07)	(1.04)
Other	(0.05)	0.64
Actual effective tax rate after applying tax effect accounting	15.08	8.17

(Business Combination)

No items to report.

(Significant Subsequent Events)

No items to report.

D. Supplementary Statements

Detailed Schedule of Property, Plant and Equipment and Others

(Millions of yen)

	Type of assets	As of January 1, 2021	Increase in the year ended December 31, 2021	Decrease in the year ended December 31, 2021	Depreciation during the year ended December 31, 2021	As of December 31, 2021	Accumulated depreciation or accumulated amortization as of December 31, 2021
Property, plant and equipment	Buildings	80,030	3,380	438 (72)	5,803	77,170	173,594
	Structures	2,375	314	34 (1)	250	2,404	10,378
	Machinery and equipment	51,567	5,520	4,549 (1,336)	10,649	41,889	179,031
	Vehicles	1,307	42	96	421	832	2,008
	Tools, furniture and fixtures	14,221	4,022	326 (46)	6,019	11,898	67,581
	Land	48,909	17	813	—	48,113	—
	Construction in progress	445	373	434 (51)	—	384	—
	Total property, plant and equipment	198,854	13,669	6,690 (1,506)	23,142	182,690	432,592
Intangible assets	Patent right	154	16	—	78	91	—
	Right of trademark	82,120	6	4	16,492	65,629	—
	Software	18,299	5,142	1,525 (1,236)	7,098	14,818	—
	Goodwill	178,855	—	—	35,771	143,084	—
	Other	2,662	1,768	1,499	97	2,834	—
	Total intangible assets	282,089	6,931	3,028 (1,236)	59,536	226,457	—

(Note 1) The figures in parentheses in the “Decrease in the year ended December 31, 2021” 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, 2021	Increase in the year ended December 31, 2021	Decrease in the year ended December 31, 2021	As of December 31, 2021
Allowance for doubtful accounts	3,808	396	1	4,203
Provision for bonuses	6,330	5,898	6,330	5,898

(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.

VI. Outline of Filing Company’s Business Concerning Shares

Business year	From January 1 to December 31
Ordinary General Meeting of Shareholders	To be held in March
Record date	December 31
Record dates for dividends from surplus	June 30, December 31
Share unit	100 shares
Purchase/sale of shares less than one unit:	
Office for handling business	(Special accounts) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation Stock Transfer Agency
Shareholder registry administrator	(Special accounts) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan Mitsubishi UFJ Trust and Banking Corporation
Forwarding office	—
Handling charge for purchase/sale	No charge
Method of public notice	Public notices will be disclosed by electronic public notice. However, if the Company is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in “The Nikkei” newspaper. Public notices will be posted on the Company’s website: https://www.jt.com/
Special benefits for shareholders	Shareholder Benefit Program (1) Eligible shareholders Shareholders listed or recorded in the Company’s shareholder registry as of the December 31 record date, who have held at least 100 shares (one unit) continuously for at least one year. (2) Benefit details Shareholders receive a gift of a product of JT Group, etc. with a value depending on the number of shares held by the shareholder: (a) 100–199 shares: Approx. ¥2,500 value (b) 200–999 shares: Approx. ¥4,500 value (c) 1,000–1,999 shares: Approx. ¥7,000 value (d) 2,000 or more shares: Approx. ¥13,500 value Note: Shareholders may opt to have the value of their benefit donated to an organization conducting social contribution activities in lieu of receiving a gift.

Note: On February 14, 2022, the Board of Directors resolved to abolish the Shareholder Benefit Program for shareholders listed or recorded in the Company’s shareholder registry as of December 31, 2022, who have held at least 100 shares (one unit) continuously for at least one year. This is to take place after the distribution of shareholder benefits products for 2023.

VII. Reference Information on Filing Company

1. Information on Filing Company's Parent Company

The Company does not have a parent company as described by the provisions of Article 24-7, paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

From the beginning of this fiscal year until the filing date of this Annual Securities Report, the Company has filed the following documents.

(1) Annual Securities Report and Appendices, and Written Confirmation

Filed to Director-General of Kanto Local Finance Bureau on March 24, 2021

Business year: 36th term (from January 1, 2020 to December 31, 2020)

(2) Internal Control Report

Filed to Director-General of Kanto Local Finance Bureau on March 24, 2021

Business year: 36th term (from January 1, 2020 to December 31, 2020)

(3) Quarterly Securities Reports and Written Confirmations

Filed to Director-General of Kanto Local Finance Bureau on April 30, 2021

First quarter of the 37th term (from January 1, 2021 to March 31, 2021)

Filed to Director-General of Kanto Local Finance Bureau on July 30, 2021

Second quarter of the 37th term (from April 1, 2021 to June 30, 2021)

Filed to Director-General of Kanto Local Finance Bureau on October 29, 2021

Third quarter of the 37th term (from July 1, 2021 to September 30, 2021)

(4) Extraordinary Reports

Filed to Director-General of Kanto Local Finance Bureau on March 25, 2021

Extraordinary Report based on Article 24-5, paragraph 4 of the Financial Instruments and Exchange Act and Article 19, paragraph 2, item (ix)-2 of the Cabinet Office Order on Disclosure of Corporate Affairs.

Filed to Director-General of Kanto Local Finance Bureau on April 9, 2021

Extraordinary Report based on Article 19, paragraph 2, item (xii) (Event Which May Have Serious Effects on the Financial Position, Operating Results and Cash Flow Status) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Filed to Director-General of Kanto Local Finance Bureau on August 30, 2021

Extraordinary Report based on Article 19, paragraph 2, item (xii) (Event Which May Have Serious Effects on the Financial Position, Operating Results and Cash Flow Status) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

(5) Amendment to Shelf Registration Statements

Filed to Director-General of Kanto Local Finance Bureau on March 25, 2021

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 6, 2020.

Filed to Director-General of Kanto Local Finance Bureau on April 9, 2021

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 6, 2020.

Filed to Director-General of Kanto Local Finance Bureau on August 30, 2021

Amendment to Shelf Registration Statements pertaining to Shelf Registration Statement (bonds) filed on August 6, 2020.

(6) Securities Registration Statement and Appendices

Filed to Director-General of Kanto Local Finance Bureau on April 30, 2021

B. Information on Guarantee Companies, etc. of Filing Company

No items to report

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 23, 2022

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi

Designated Engagement Partner,
Certified Public Accountant: Koji Ishikawa

Designated Engagement Partner,
Certified Public Accountant: Yoichi Matsushita

Audit of Financial Statements

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Japan Tobacco Inc. (the "Company") and its consolidated subsidiaries (the "Group") included in the Accounting Section, namely, the consolidated statement of financial position as of December 31, 2021, 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 fiscal year from January 1, 2021 to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

Basis for Opinion

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

Key Audit Matters

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

Contingencies of Smoking and Health Litigation in Canada	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 38 to the consolidated financial statements "Contingencies," JTI-Macdonald Corp., the Company's Canadian subsidiary and/or indemnitees are defendants in eight class actions and 10 health-care cost recovery litigation in Canada (collectively, the "Canadian cases"). In two class actions in Quebec (Cecilia Letourneau and Conseil Quebecois sur le tabac et la sante), the Quebec Court of Appeal rendered a judgment ordering JTI-Macdonald Corp. to pay compensation of approximately CAD 1.8 billion (approximately ¥159.7 billion). The judgment of the Quebec Court of Appeal exceeded JTI-Macdonald Corp.'s capacity to pay, and JTI-Macdonald Corp. filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"), which was approved by the Ontario Superior Court, and is continuing as of the end of this fiscal year. Legal proceedings including the execution of the judgment against JTI-Macdonald Corp. have been stayed by the CCAA proceedings. The amount of compensation ordered by the Quebec Court of Appeal and the amount of compensatory and punitive damages sought by plaintiffs in the other Canadian cases are considered significant for the consolidated financial statements, and the Canadian cases also include some cases for which the amount of damages sought by plaintiffs has not been specified. Management is required to determine whether the recognition of provisions is necessary in accordance with the following recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets": • The company has a present obligation (legal or constructive) as a result of a past event; • The outflow of resources embodying economic benefits is probable (i.e., more likely than not) to settle the obligation; and • A reliable estimate can be made of the amount of the obligation. Since the determination of whether the recognition of provisions is necessary involves subjective judgments made by management and uncertainty that is difficult to prove, we have determined this matter regarding the Canadian cases to be a key audit matter.	We developed an audit plan and performed the following audit procedures to address this key audit matter: • We inquired of management and the Legal and Compliance Division of the Company to obtain updates on the statuses of the Canadian cases as of the end of this fiscal year, and assessed the appropriateness of management's judgment on whether the recognition requirements for provisions regarding the Canadian cases were met. • We instructed the component auditor to perform the following audit procedures and assessed the appropriateness of component management's judgment on the recognition of provisions based on discussions with the component auditor: ✓ Evaluating internal controls over the internal approval and examination process to ensure that the judgments on recognizing provisions are appropriately made; ✓ Inquiring of component management and inspecting the underlying documents that component management prepared to assess the appropriateness of the component management's judgments on the recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets"; and ✓ Sending letters to component legal counsel to confirm the appropriateness of the component management's judgment on whether JTI-Macdonald Corp. has a present obligation (legal or constructive) as a result of a past event and whether the outflow of resources embodying economic benefits is probable to settle the obligation among the recognition requirements for provisions. • We obtained a third-party opinion from an external legal firm to gain assurance that there are no logical contradictions or significant divergences in reasoning to the position adopted by the component's legal counsel.

<table>
<tr><th colspan="2">Evaluation of Goodwill Allocated to International Tobacco Cash-Generating Unit</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in Note 14 to the consolidated financial statements "Goodwill and Intangible Assets," the Group allocates goodwill generated by business combinations to the domestic tobacco cash-generating unit, the international tobacco cash-generating unit and the processed food cash-generating unit.

The Group has a goodwill balance of ¥1,769,706 million allocated to the international tobacco cash-generating unit at the end of this fiscal year, that is mainly as results of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999, Gallaher Group Plc in 2007 and Natural American Spirit's non-U.S. tobacco operations in 2016.

In accordance with International Accounting Standard 36 "Impairment of Assets," goodwill is required to be tested for impairment annually or whenever there is an indication that the asset may be impaired.

The recoverable amount of the international 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 6.9% in the fourth year to 2.0% 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 international 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 international 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 international 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.</td>
<td>In response to this key audit matter, we developed an audit plan for the impairment test of goodwill allocated to the international tobacco cash-generating unit and performed the following procedures:

• 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 instructed the component auditor to perform the following audit procedures:

✓ Evaluating internal controls over the approval and examination 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 international tobacco cash-generating unit operates as of the end of this fiscal year; and

✓ Inquiring of component management on the background and rationality of data used by component 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 international tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.</td></tr>
</table>

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 international tobacco cash-generating unit to be a key audit matter.	

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 International Financial Reporting Standards, 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 International Financial Reporting Standards.

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. 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.

- 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 International Financial Reporting Standards, 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, related safeguards.

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.

Audit of Internal Control

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Japan Tobacco Inc. as of December 31, 2021.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Japan Tobacco Inc. as of December 31, 2021, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit 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.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

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

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.

- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control 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 internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

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, related safeguards.

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.

<u>Notes to the Readers of Independent Auditor's Report</u>

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 23, 2022

To the Board of Directors of
Japan Tobacco Inc.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant: Yukitaka Maruchi

Designated Engagement Partner,
Certified Public Accountant: Koji Ishikawa

Designated Engagement Partner,
Certified Public Accountant: Yoichi Matsushita

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the nonconsolidated financial statements of Japan Tobacco Inc. (the "Company") included in the Financial Section, namely, the nonconsolidated balance sheet as of December 31, 2021, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 37th fiscal year from January 1, 2021 to December 31, 2021, 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, 2021, 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	How the Key Audit Matter Was Addressed in the Audit
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 ¥1,492,833 million (approximately 60.0% of Total assets), including shares of JT International Group Holding B.V., one of the subsidiaries, of ¥1,355,146 million. The international tobacco business manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The Company invests in JT International Group Holding B.V., which consolidates the financial results of the international tobacco business, including JT International S.A. The Company considers whether to recognize impairment of shares of JT International Group Holding B.V. by comparing the carrying amount of JT International Group Holding B.V. shares with the net assets value calculated using the net assets on the balance sheet of JT International Group Holding B.V. In addition, the Company determines whether the net assets value of JT International Group Holding B.V. shares has declined significantly based on the results of the impairment test of goodwill allocated to the international tobacco cash-generating unit. The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, and the Company conducts an impairment test on goodwill allocated to the international tobacco cash-generating unit annually based on International Accounting Standard 36 "Impairment of Assets." The recoverable amount of the international 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 6.9% in the fourth year to 2.0% 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 Group Holding B.V. shares. The three-year business plan used in the evaluation of JT International Group 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 international 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.	In response to this key audit matter, we developed the audit plan for the evaluation of JT International Group Holding B.V. shares, obtained and inspected the results of Company's evaluation. In addition, we performed the following procedures in relation to the impairment test of goodwill allocated to the international 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 instructed the component auditor to perform the following audit procedures: ✓ Evaluating internal controls over the approval and examination 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 international tobacco cash-generating unit operates as of the end of this fiscal year; and ✓ Inquiring of component management on the background and rationality of data used by component 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 the management regarding the results of the impairment test of goodwill allocated to the international tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

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 Group Holding B.V. shares to be a key audit matter.	

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.

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. 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.

- 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, related safeguards.

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.

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.

<u>Notes to the Readers of Independent Auditor's Report</u>

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.