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

Year Ended December 31, 2022

Index

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2021 and 2022

(Millions of yen)

	2021	**2022**
Assets		
Current assets		
Cash and cash equivalents (Note 7)	721,731	866,885
Trade and other receivables (Note 8)	456,587	477,239
Inventories (Note 9)	563,182	691,906
Other financial assets (Note 10)	17,254	37,677
Other current assets (Note 11)	562,034	649,181
Subtotal	2,320,789	2,722,889
Assets held for sale (Note 12)	500	702
Total current assets	2,321,289	2,723,591
Non-current assets		
Property, plant and equipment (Notes 13, 15)	755,843	775,957
Goodwill (Note 14)	2,060,965	2,446,063
Intangible assets (Note 14)	307,152	246,442
Investment property (Note 16)	4,985	9,495
Retirement benefit assets (Note 22)	53,177	57,792
Investments accounted for using the equity method	41,721	56,943
Other financial assets (Note 10)	108,658	140,366
Deferred tax assets (Note 17)	120,419	91,430
Total non-current assets	3,452,920	3,824,487
Total assets	5,774,209	6,548,078

(Millions of yen)

	2021	**2022**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	555,777	540,089
Bonds and borrowings (Note 19)	142,901	137,308
Income tax payables	30,794	37,470
Other financial liabilities (Note 19)	28,342	40,065
Provisions (Note 20)	24,858	26,610
Other current liabilities (Note 21)	717,653	781,093
Subtotal	1,500,326	1,562,635
Liabilities directly associated with assets held for sale	-	29
Total current liabilities	1,500,326	1,562,664
Non-current liabilities		
Bonds and borrowings (Note 19)	775,721	821,003
Other financial liabilities (Note 19)	43,885	41,735
Retirement benefit liabilities (Note 22)	296,176	244,116
Provisions (Note 20)	22,867	26,490
Other non-current liabilities (Note 21)	179,195	195,248
Deferred tax liabilities (Note 17)	69,959	40,061
Total non-current liabilities	1,387,803	1,368,653
Total liabilities	2,888,128	2,931,317
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,400	736,400
Treasury shares (Note 23)	(490,899)	(490,183)
Other components of equity (Note 23)	(400,086)	104,309
Retained earnings	2,863,843	3,089,909
Equity attributable to owners of the parent company	2,809,258	3,540,435
Non-controlling interests	76,823	76,326
Total equity	2,886,081	3,616,761
Total liabilities and equity	5,774,209	6,548,078

B. Consolidated Statement of Income

Years Ended December 31, 2021 and 2022

(Millions of yen)

	2021	**2022**
Revenue (Notes 6, 25)	2,324,838	2,657,832
Cost of sales (Notes 14, 22)	(956,861)	(1,090,989)
Gross profit	1,367,976	1,566,843
Other operating income (Note 26)	15,622	20,262
Share of profit in investments accounted for using the equity method	3,997	8,009
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(888,574)	(941,538)
Operating profit (Note 6)	499,021	653,575
Financial income (Notes 28, 33)	19,013	31,147
Financial costs (Notes 22, 28, 33)	(45,645)	(91,272)
Profit before income taxes	472,390	593,450
Income taxes (Note 17)	(132,208)	(149,277)
Profit for the period	340,181	444,174
Attributable to		
Owners of the parent company	338,490	442,716
Non-controlling interests	1,691	1,458
Profit for the period	340,181	444,174
Earnings per share		
Basic (Yen) (Note 30)	190.76	249.45
Diluted (Yen) (Note 30)	190.68	249.36

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

(Millions of yen)

	2021	**2022**
Operating profit	499,021	653,575
Amortization cost of acquired intangibles arising from business acquisitions	68,876	71,392
Adjustment items (income)	(11,469)	(15,865)
Adjustment items (costs)	54,006	18,677
Adjusted operating profit (Note 6)	610,434	727,779

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2021 and 2022

(Millions of yen)

	2021	**2022**
Profit for the period	340,181	444,174
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)	(116)	1,741
Remeasurements of defined benefit plans (Notes 22, 29)	(6,246)	49,744
Total of items that will not be reclassified to profit or loss	(6,363)	51,485
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	206,508	493,986
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	(68)	8,584
Total of items that may be reclassified subsequently to profit or loss	206,440	502,570
Other comprehensive income (loss), net of taxes	200,077	554,055
Comprehensive income (loss) for the period	540,258	998,229
Attributable to		
Owners of the parent company	538,206	996,687
Non-controlling interests	2,052	1,542
Comprehensive income (loss) for the period	540,258	998,229

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2021 and 2022

(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, 2021	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
Profit for the period	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	493,971	8,584	1,880
Comprehensive income (loss) for the period	–	–	–	–	493,971	8,584	1,880
Acquisition of treasury shares (Note 23)	–	–	(1)	–	–	–	–
Disposal of treasury shares (Note 23)	–	–	717	(200)	–	–	–
Share-based payments (Note 32)	–	–	–	–	–	–	–
Dividends (Note 24)	–	–	–	–	–	–	–
Changes in the scope of consolidation	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(75)
Other increase (decrease)	–	–	–	–	–	236	–
Total transactions with the owners	–	–	716	(200)	–	236	(75)
As of December 31, 2022	100,000	736,400	(490,183)	1,001	85,796	8,546	8,966

(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, 2021	—	(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
Profit for the period	—	—	442,716	442,716	1,458	444,174
Other comprehensive income (loss)	49,535	553,970	—	553,970	85	554,055
Comprehensive income (loss) for the period	49,535	553,970	442,716	996,687	1,542	998,229
Acquisition of treasury shares (Note 23)	—	—	—	(1)	—	(1)
Disposal of treasury shares (Note 23)	—	(200)	(516)	0	—	0
Share-based payments (Note 32)	—	—	460	460	21	481
Dividends (Note 24)	—	—	(266,203)	(266,203)	(1,631)	(267,834)
Changes in the scope of consolidation	—	—	—	—	(429)	(429)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(1)	(1)	(0)	(1)
Transfer from other components of equity to retained earnings	(49,535)	(49,610)	49,610	—	—	—
Other increase (decrease)	—	236	—	236	—	236
Total transactions with the owners	(49,535)	(49,575)	(216,650)	(265,510)	(2,039)	(267,548)
As of December 31, 2022	—	104,309	3,089,909	3,540,435	76,326	3,616,761

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2021 and 2022

(Millions of yen)

	2021	**2022**
Cash flows from operating activities		
Profit before income taxes	472,390	593,450
Depreciation and amortization	187,057	199,651
Impairment losses	22,768	27,539
Interest and dividend income	(13,372)	(26,535)
Interest expense	23,050	27,019
Share of profit in investments accounted for using the equity method	(3,997)	(8,009)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(3,974)	(4,891)
(Gains) losses on sale of investments in subsidiaries	—	(849)
(Increase) decrease in trade and other receivables	(29,891)	26,574
(Increase) decrease in inventories	9,770	(93,910)
Increase (decrease) in trade and other payables	111,912	(38,251)
Increase (decrease) in retirement benefit liabilities	(23,651)	(4,156)
(Increase) decrease in prepaid tobacco excise taxes	(43,617)	(6,825)
Increase (decrease) in tobacco excise tax payables	33,167	24,989
Increase (decrease) in consumption tax payables	(3,856)	(11,461)
Other	2,849	(28,608)
Subtotal	740,605	675,728
Interest and dividends received	19,245	25,530
Interest paid	(19,113)	(23,728)
Income taxes paid	(141,829)	(193,731)
Net cash flows from operating activities	598,909	483,799
Cash flows from investing activities		
Purchase of securities	(27,810)	(37,414)
Proceeds from sale and redemption of securities	24,137	18,208
Purchase of property, plant and equipment	(86,350)	(81,411)
Proceeds from sale of investment property	8,002	7,583
Purchase of intangible assets	(16,568)	(17,997)
Payments into time deposits	(1,427)	(350)
Proceeds from withdrawal of time deposits	1,222	1,602
Proceeds from sale of investments in subsidiaries	—	2,963
Proceeds from sale of investments in associates	2,562	63
Other	(1,268)	4,930
Net cash flows from investing activities	(97,499)	(101,822)

(Millions of yen)

	2021	**2022**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(251,935)	(266,175)
Dividends paid to non-controlling interests	(1,958)	(1,536)
Capital contribution from non-controlling interests	42	27
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	22,887	(27,610)
Proceeds from long-term borrowings (Note 31)	3,295	1,522
Repayments of long-term borrowings (Note 31)	(12,442)	(42,849)
Proceeds from issuance of bonds (Notes 19, 31)	55,334	69,175
Redemption of bonds (Notes 19, 31)	(147,911)	(30,000)
Repayments of lease liabilities (Note 31)	(20,449)	(21,009)
Acquisition of treasury shares	(1)	(1)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	(1)
Proceeds from settlement of derivatives (Note 31)	—	12,281
Other	0	0
Net cash flows from financing activities	(353,138)	(306,176)
Net increase (decrease) in cash and cash equivalents	148,271	75,801
Cash and cash equivalents at the beginning of the period	538,844	721,731
Effect of exchange rate changes on cash and cash equivalents	34,616	69,353
Cash and cash equivalents at the end of the period (Note 7)	721,731	866,885

F. Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2022

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, 2022 were approved on March 24, 2023 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 the equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as profit in the consolidated statement of income. If the amount of initial accounting for a business combination is not determined by the end of the reporting period in which the combination occurs, the provisional amounts for the items for which the accounting is incomplete are reported and are adjusted during the measurement period, which is one year from the acquisition date. Acquisition-related costs incurred are recognized as expenses. The additional acquisition of non-controlling interests after obtaining control is accounted for as a capital transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in retained earnings and no goodwill is recognized with respect to such transaction.

(3) Foreign Currency Translation

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

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

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

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

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ii) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

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

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

(i) Fair Value Hedge

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

(ii) Cash Flow Hedge

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately as profit or loss in the consolidated statement of income.

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

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

(iii) Hedge of Net Investment in Foreign Operations

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

F. Fair Value of Financial Instruments

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

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

• Buildings and structures: 38 to 50 years

• Machinery and vehicles: 10 to 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 types of businesses and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

B. Intangible Assets

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

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

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

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

• Trademarks: 10 to 20 years

• Software: 5 years

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

(9) Leases

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

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

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

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

(10) Investment Property

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

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

(11) Impairment of Non-financial Assets

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

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

(12) Assets Held for Sale

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

(13) Post-employment Benefits

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

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

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

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

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

(14) Share-based Payments

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

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

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

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably. 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. The Group evaluates that the performance obligation is satisfied when the customer obtains control of the products upon delivery and recognizes revenue upon delivery of the products. Revenue is measured at the consideration promised in a contract with a customer, less discounts, rebates and taxes, including consumption tax.

The tobacco excise taxes and other transactions in which the Group is involved as an 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 and will transition from the consolidated taxation system to the group tax sharing system at the beginning of the next fiscal year.

(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, 2022.

IFRS		Description of new standards and amendments
IFRS 3	Business Combinations	Amendments to update references to the conceptual framework
IFRS 9	Financial Instruments	Clarifying fees and costs to be included in the 10 percent test for derecognition of financial liabilities

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 estimates the timing and amount of future taxable income based on the business plan.

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

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

E. Contingencies

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

The content of contingencies is described in “38. Contingencies.”

F. Other information

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

5. New Accounting Standards Not Yet Adopted by the Group

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

The implications from adoption of these standards and interpretations are assessed by the Group; however, the Group has evaluated that none of them will have a material impact on our operating results and financial condition.

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 16	Leases	January 1, 2024	Year ending December 2024	Clarifying the accounting for subsequent measurement of the lease liability arising from sale and leaseback transactions
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	Amendments to require companies to disclose their material accounting policy information rather than their significant accounting policies
		January 1, 2024	Year ending December 2024	Clarifying classification of liabilities into current liabilities or non-current liabilities
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
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined	Not yet determined	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture

6. Operating Segments

(1) Outline of Reportable Segments

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

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

The Group has changed the previous 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 this fiscal year.

Due to the change in the segment classification, the segment information for the year ended December 31, 2021 has been reclassified to conform with the presentation for the year ended December 31, 2022.

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

(2) Revenues and Performances of Reportable Segments

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

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,095,122	80,392	147,245	2,322,759	2,078	–	2,324,838
Intersegment revenue	411	–	1	412	5,123	(5,535)	–
Total revenue	2,095,533	80,392	147,246	2,323,172	7,201	(5,535)	2,324,838
Segment profit (loss)							
Adjusted operating profit (Note 1)	639,244	11,093	3,956	654,294	(43,739)	(120)	610,434
Other items							
Depreciation and amortization (Note 3)	171,934	5,442	6,712	184,089	2,976	(7)	187,057
Impairment losses on other than financial assets	21,431	–	1,240	22,671	97	–	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	3,847	–	49	3,897	101	–	3,997
Capital expenditures (Note 4)	80,993	5,983	10,739	97,715	3,175	(7)	100,882

¥2,001,981 million of the external revenue from the tobacco business is core revenue.

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

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue	792,221	503,129	706,631	2,001,981
Adjusted operating profit	269,264	208,006	161,975	639,244

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,417,409	82,908	155,539	2,655,856	1,976	－	2,657,832
Intersegment revenue	332	－	3	335	7,518	(7,853)	－
Total revenue	2,417,741	82,908	155,542	2,656,191	9,495	(7,853)	2,657,832
Segment profit (loss)							
Adjusted operating profit (Note 1)	753,996	11,146	3,509	768,651	(40,821)	(52)	727,779
Other items							
Depreciation and amortization (Note 3)	183,828	5,438	7,221	196,486	3,173	(7)	199,651
Impairment losses on other than financial assets	23,020	－	1,229	24,249	3,290	－	27,539
Reversal of impairment losses on other than financial assets	282	－	－	282	－	－	282
Share of profit (loss) in investments accounted for using the equity method	8,193	－	(4)	8,189	(181)	－	8,009
Capital expenditures (Note 4)	83,839	2,420	8,158	94,418	6,626	(0)	101,044

¥2,315,242 million of the external revenue from the tobacco business is core revenue.
Breakdown of core revenue from tobacco business and adjusted operating profit by cluster is as follows.

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue	804,874	538,828	971,539	2,315,242
Adjusted operating profit	267,517	219,332	267,147	753,996

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

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

Reconciliation from "Adjusted operating profit" to "Profit before income taxes"

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	639,244	11,093	3,956	654,294	(43,739)	(120)	610,434
Amortization cost of acquired intangibles arising from business acquisitions	(68,876)	−	−	(68,876)	−	−	(68,876)
Adjustment items (income) (Note 5)	4,399	200	129	4,728	6,742	−	11,469
Adjustment items (costs) (Note 6)	(52,328)	0	(1,157)	(53,485)	(521)	−	(54,006)
Operating profit (loss)	522,439	11,293	2,928	536,661	(37,519)	(120)	499,021
Financial income							19,013
Financial costs							(45,645)
Profit before income taxes							472,390

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	753,996	11,146	3,509	768,651	(40,821)	(52)	727,779
Amortization cost of acquired intangibles arising from business acquisitions	(71,392)	−	−	(71,392)	−	−	(71,392)
Adjustment items (income) (Note 5)	6,366	−	2,392	8,758	7,106	−	15,865
Adjustment items (costs) (Note 6)	(9,594)	−	(1,730)	(11,324)	(7,352)	−	(18,677)
Operating profit (loss)	679,375	11,146	4,171	694,693	(41,067)	(52)	653,575
Financial income							31,147
Financial costs							(91,272)
Profit before income taxes							593,450

(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)

	2021	**2022**
Tobacco	17,682	20,070
Pharmaceuticals	582	681
Processed Food	494	602
Other	1,201	1,411
Depreciation of right-of-use assets	19,959	22,763

(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)

	2021	**2022**
Restructuring incomes	5,088	2,776
Other	6,381	13,089
Adjustment items (income)	11,469	15,865

Restructuring incomes for the years ended December 31, 2021 and 2022 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, 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. Other (income) for the year ended December 31, 2022 mainly related to gains on sale of real estate, reversal of liabilities recognized at the time of acquisition and gains on sale of shares of subsidiaries.

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

(Millions of yen)

	2021	**2022**
Restructuring costs	40,032	11,302
Cooperation fee for terminating leaf tobacco farming	6,560	—
Other	7,414	7,375
Adjustment items (costs)	54,006	18,677

Restructuring costs for the year ended December 31, 2021 mainly related to costs of measures to strengthen the operations in the “Tobacco Business” and rationalization in a market in the “Tobacco Business.” Restructuring costs for the year ended December 31, 2022 mainly related to loss on disposal of real estate and costs of measures to strengthen the operations in the “Tobacco Business.” Restructuring costs included in "Cost of sales" were ¥222 million and ¥203 million for the year ended December 31, 2021 and 2022, respectively. Restructuring costs included in "Selling, general and administrative expenses" were ¥39,810 million and ¥11,099 million for the year ended December 31, 2021 and 2022, 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 to impairment losses of trademarks in the “Tobacco Business.” Other (costs) for the year ended December 31, 2022 mainly related to impairment losses of trademarks in the “Tobacco Business” and loss on sale of shares of a subsidiary.

(3) Geographic Information

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

Non-current Assets

(Millions of yen)

	2021	**2022**
Japan	709,588	659,541
Overseas	2,419,357	2,818,416
Consolidated	3,128,945	3,477,957

(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)

	2021	**2022**
Japan	731,334	705,366
Overseas	1,593,504	1,952,466
Consolidated	2,324,838	2,657,832

(Note) Revenue is segmented by the sales destination.

(4) Major customers Information

The “Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥258,362 million (11.1% of consolidated revenue) for the year ended December 31, 2021 and ¥387,542 million (14.6% of consolidated revenue) for the year ended December 31, 2022.

7. Cash and Cash Equivalents

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

(Millions of yen)

	2021	**2022**
Cash and deposits	665,731	818,885
Short-term investments	56,000	48,000
Total	721,731	866,885

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 ¥70,927 million as of December 31, 2021 and ¥79,010 million as of December 31, 2022 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 ¥74,098 million as of December 31, 2021 and ¥99,441 million as of December 31, 2022 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)

	2021	**2022**
Note and account receivables	446,018	470,511
Financial assets measured at amortized cost	446,018	468,808
Financial assets measured at fair value through profit or loss	—	1,703
Other	11,875	9,261
Allowance for doubtful accounts	(1,306)	(2,533)
Total	456,587	477,239

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

Although trade and other receivables are classified as financial assets measured at amortized cost in principle, the Group began securitization of a portion of its trade receivables in the year ended December 31, 2022 and, as the Group's business model is achieved through the sale of these trade receivables, some of trade receivables which were measured at amortized cost until the year ended December 31, 2021 were reclassified as financial assets measured at fair value through profit or loss in the year ended December 31, 2022. The transferred assets are derecognized when these assets are transferred because the transfer by liquidation meets the criteria for derecognition of financial assets.

9. Inventories

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

(Millions of yen)

	2021	**2022**
Merchandise and finished goods	135,479	145,721
Leaf tobacco (Note)	348,648	439,918
Other	79,056	106,267
Total	563,182	691,906

(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)

	2021	**2022**
Derivative assets	7,362	24,285
Equity securities	27,792	31,337
Debt securities	21,605	38,185
Time deposits	1,252	—
Other	74,275	90,479
Allowance for doubtful accounts	(6,374)	(6,243)
Total	125,912	178,043
Current assets	17,254	37,677
Non-current assets	108,658	140,366
Total	125,912	178,043

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)

Company name	2021	**2022**
Seven & i Holdings Co., Ltd.	4,324	4,841
Japan Airport Terminal Co., Ltd.	1,920	2,612
DOUTOR•NICHIRES Holdings Co., Ltd.	2,139	2,295
KATO SANGYO CO., LTD.	1,886	1,976
Mitsubishi Shokuhin Co., Ltd.	1,663	1,875
Central Japan Railway Company	1,535	1,621
NIPPON EXPRESS HOLDINGS, INC. (Note)	1,196	1,305
Daicel Corporation	676	812
Yoshimura Food Holdings K.K.	660	682
Kanemi Co., Ltd.	581	583

(Note) NIPPON EXPRESS CO., LTD. established NIPPON EXPRESS HOLDINGS, INC. (a wholly-owning parent company) via share transfer as of January 4, 2022.

In accordance with this share transfer, one share of NIPPON EXPRESS HOLDINGS, INC common stock was allotted for each share of NIPPON EXPRESS CO., LTD. common stock.

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)

	2021	**2022**
Fair value	12	521
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	1	(75)

(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)

	2021	**2022**
Prepaid tobacco excise taxes	400,687	455,958
Prepaid expenses	18,335	18,730
Consumption tax receivables	19,028	21,900
Other	123,984	152,594
Total	562,034	649,181

12. Assets Held for Sale

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

Breakdown of Major Assets

(Millions of yen)

	2021	**2022**
Assets held for sale		
Property, plant and equipment	14	275
Investment property	486	389
Other	—	38
Total	500	702

"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 ¥41 million and ¥238 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the year ended December 31, 2021 and 2022, 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, 2021	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 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
Individual acquisition	24,618	31,959	10,067	37,048	103,692
Transfer to investment property	(10,609)	−	−	−	(10,609)
Transfer to assets held for sale	(3,554)	(139)	(99)	−	(3,792)
Depreciation	(34,095)	(65,378)	(13,532)	−	(113,005)
Impairment losses	(2,074)	(15,669)	(355)	(474)	(18,572)
Reversal of impairment losses	1	281	−	−	282
Sale or disposal	(3,152)	(2,084)	(655)	(52)	(5,943)
Exchange differences on translation of foreign operations	28,719	32,903	2,867	6,756	71,245
Other	5,832	22,761	1,333	(33,110)	(3,184)
As of December 31, 2022	390,428	296,342	37,960	51,226	775,957

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2021	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
As of December 31, 2022	733,029	961,601	162,161	51,226	1,908,018

(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, 2021	304,783	538,261	112,417	—	955,461
As of December 31, 2021	331,617	592,844	119,092	—	1,043,554
As of December 31, 2022	342,600	665,259	124,202	—	1,132,061

(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 ¥16,428 million in the year ended December 31, 2021, and ¥18,572 million in the year ended December 31, 2022 in “Selling, general and administrative expenses” in the consolidated statement of income.

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.

Impairment losses recognized in the year ended December 31, 2022 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items, etc.

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

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, 2021	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 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
Individual acquisition	—	—	7,248	10,395	17,644
Amortization (Note)	—	(65,266)	(12,250)	(8,852)	(86,367)
Transfer to assets held for sale	—	—	(43)	(3)	(46)
Impairment losses	—	(5,016)	(464)	(198)	(5,677)
Reversal of impairment losses	—	—	—	—	—
Sale or disposal	—	(2)	(282)	(513)	(796)
Exchange differences on translation of foreign operations	386,443	14,115	1,348	1,224	403,130
Other	(1,345)	19	1,898	(4,071)	(3,500)
As of December 31, 2022	2,446,063	179,145	24,906	42,391	2,692,505

(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, 2021	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
As of December 31, 2022	2,446,063	1,141,901	164,192	120,541	3,872,697

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2021	—	769,891	117,987	65,889	953,767
As of December 31, 2021	—	853,918	130,216	76,227	1,060,360
As of December 31, 2022	—	962,756	139,286	78,150	1,180,192

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the "Tobacco Business". The carrying amounts of goodwill from the business as of December 31, 2021 and 2022 were ¥2,035,597 million and ¥2,420,695 million, respectively. The carrying amounts of trademarks from the business as of December 31, 2021 and 2022 were ¥235,292 million and ¥179,143 million, respectively.

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

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly from 3 to 4 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2022, the carrying amount of the majority of goodwill is allocated to the tobacco cash-generating unit of ¥2,420,695 million (¥2,035,597 million for the year ended December 31, 2021) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2021). Details of the result of impairment tests are as follows:

The Group has integrated the previous cash-generating units of "Domestic Tobacco cash-generating unit" and "International Tobacco cash-generating unit" into "Tobacco cash-generating unit" as a result of unifying the business management structure of the tobacco business from this fiscal year.

A. Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 5.8% in the fourth year to 2.5% in the ninth year, 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 7.1%. The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. Processed Food Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 2.6% in the fourth year (2021: 2.5%) to 0.8% in the ninth year (2021: 0.7%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 5.2% (2021: 4.1%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

(4) Impairment Losses

Goodwill is allocated to cash-generating units that are identified according to types of businesses. The grouping of intangible assets for impairment test is the smallest cash-generating unit that independently generates cash inflow.
The Group recognized impairment losses of ¥6,256 million for the year ended December 31, 2021, and ¥5,677 million for the year ended December 31, 2022 in “Selling, general and administrative expenses” in the consolidated statement of income.

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.

Impairment losses recognized in the year ended December 31, 2022 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.
The recoverable amounts of these assets are calculated mainly by the value in use.

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, 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

Year ended December 31, 2022

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	14,674	5,540	81	20,296
Depreciation	16,517	6,195	52	22,763

As of December 31, 2022

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	51,635	10,825	156	62,617

(2) Expense Items Related to Lease

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

(Millions of yen)

	2021	2022
Financial cost on lease liabilities	1,350	1,344
Expense relating to short-term lease or leases of low-value assets	7,784	8,431
Expense relating to variable lease payments	1,693	2,053
Total cash outflow for leases	21,798	22,540
Gains arising from sale and leaseback transactions	―	1,059

16. Investment Property

(1) Schedule of Investment Property

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

(Millions of yen)

	2021	**2022**
As of January 1	4,744	4,985
Expenditure after acquisition	120	4
Transfer from property, plant and equipment	1,643	10,609
Transfer to assets held for sale	(1,043)	(2,307)
Transfer to property, plant and equipment	(161)	(50)
Depreciation	(58)	(279)
Impairment losses	(43)	(3,051)
Sale or disposal	(219)	(234)
Exchange differences on translation of foreign operations	19	286
Other	(16)	(468)
As of December 31	4,985	9,495
Acquisition cost as of January 1	14,074	9,290
Accumulated depreciation and accumulated impairment losses as of January 1	9,331	4,306
Acquisition cost as of December 31	9,290	30,811
Accumulated depreciation and accumulated impairment losses as of December 31	4,306	21,316

(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, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	10,196	1,178	11,374

As of December 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	26,023	1,076	27,098

(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 ¥43 million for the year ended December 31, 2021, and ¥3,051 million for the year ended December 31, 2022 in "Selling, general and administrative expenses" in the consolidated statement of income.

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."

Impairment losses recognized for the year ended December 31, 2022 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at "zero."

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, 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)

Year ended December 31, 2022

(Millions of yen)

Deferred Tax Assets	As of January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2022
Fixed assets (Note 2)	88,654	(15,341)	—	3,802	77,115
Retirement benefits	78,830	(4,181)	(14,720)	1,169	61,098
Carryforward of unused tax losses	57,678	19,084	—	6,609	83,371
Other	108,565	8,206	(359)	3,243	119,656
Subtotal	333,728	7,767	(15,079)	14,822	341,239
Valuation allowance	(78,660)	(24,788)	305	(8,025)	(111,167)
Total	255,068	(17,021)	(14,774)	6,798	230,071

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2022
Fixed assets (Note 2)	(71,309)	12,156	—	(15,207)	(74,360)
Retirement benefits	(18,425)	429	(990)	(471)	(19,458)
Other	(114,874)	31,704	4,763	(6,477)	(84,884)
Total	(204,608)	44,289	3,773	(22,155)	(178,702)

(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 ¥51,998 million (including ¥29,578 million, for which the carryforward expires after five years) as of December 31, 2021, and ¥77,633 million (including ¥49,058 million, for which the carryforward expires after five years) as of December 31, 2022. Tax credits, for which the deferred tax assets are not recognized, were ¥5,857 million (including ¥5,383 million, for which the carryforward expires after five years) as of December 31, 2021, and ¥6,330 million (including ¥5,474 million, for which the carryforward expires after five years) as of December 31, 2022.

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, and ¥187,192 million as of December 31,2022.

(2) Income Taxes

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

(Millions of yen)

	2021	**2022**
Current income taxes	127,999	176,545
Deferred income taxes	4,209	(27,268)
Total income taxes	132,208	149,277

Deferred income taxes increased by ¥7,507 million and decreased by ¥2,861 million for the years ended December 31, 2021 and 2022, 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.

(%)

	2021	**2022**
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(10.67)	(11.37)
Non-deductible expenses	1.70	2.72
Non-taxable Incomes	(0.21)	(1.12)
Valuation allowance	3.30	1.47
Tax credits	(1.27)	(1.44)
Retained earnings	0.95	1.35
Withholding tax in foreign countries	1.73	1.16
Other	2.03	1.95
Average actual tax rate	27.99	25.15

18. Trade and Other Payables

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

(Millions of yen)

	2021	**2022**
Accounts payable	272,327	273,028
Other payables	132,206	89,868
Other	151,245	177,193
Total	555,777	540,089

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)

	2021	**2022**	Due
Derivative liabilities	10,926	20,990	－
Short-term borrowings	70,636	63,733	－
Current portion of long-term borrowings	42,265	13,575	－
Current portion of bonds (Note 2)	30,000	60,000	－
Long-term borrowings (Note 1)	154,705	143,674	2024 - 2080
Bonds (Note 2)	621,016	677,329	－
Lease liabilities	60,536	60,328	－
Other	765	481	－
Total	990,849	1,040,110	
Current liabilities	171,243	177,373	
Non-current liabilities	819,606	862,737	
Total	990,849	1,040,110	

(Note 1) ¥99,304 million and ¥99,525 million of the long-term borrowings are subordinated loans due in 2080 as of December 31, 2021 and 2022 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, 2021 (Millions of yen)	As of December 31, 2022 (Millions of yen)	Interest rate (%)	Collateral	Date of maturity
Japan Tobacco Inc.	10th domestic straight bond	July 15, 2015	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 (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
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	56,997 [USD 500 mil.]	65,835 [USD 500 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	71,394 [EUR 550 mil.]	77,486 [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR	November 26, 2019	64,770 [EUR 500 mil.]	70,259 [EUR 500 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	60,969 [GBP 400 mil.]	62,946 [GBP 400 mil.]	2.750	No	September 28, 2033
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	64,883 [EUR 500 mil.]	70,408 [EUR 500 mil.]	2.375	No	April 7, 2081 (Note 3)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	64,820 [EUR 500 mil.]	70,308 [EUR 500 mil.]	2.875	No	October 7, 2083 (Note 4)
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	66,563 [USD 625 mil.]	77,509 [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.]	52,640 [USD 400 mil.]	3.300	No	September 14, 2051
JT International Financial Services B.V.	Straight bond in USD	October 24, 2022	－ [－]	64,936 [USD 500 mil.]	6.875	No	October 24, 2032
		Total	651,016 (30,000)	737,329 (60,000)			

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

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

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, 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

Year ended December 31, 2022

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2022	6,505	11,157	3,692	26,371	47,725
Provisions	227	1,596	4,073	24,032	29,929
Interest cost associated with passage of time	43	—	—	—	43
Provisions used	(347)	(4,905)	(3,820)	(1,747)	(10,818)
Provisions reversed	(925)	(2,695)	—	(12,217)	(15,837)
Exchange differences on translation of foreign operations	23	885	—	1,151	2,059
As of December 31, 2022	5,527	6,038	3,946	37,590	53,100
Current liabilities	118	5,445	3,946	17,101	26,610
Non-current liabilities	5,409	593	—	20,488	26,490
Total	5,527	6,038	3,946	37,590	53,100

A. Asset Retirement Provisions

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

B. Restructuring Provisions

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

C. Provisions for Sales Rebates

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

21. Other Liabilities

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

(Millions of yen)

	2021	**2022**
Tobacco excise tax payables	295,229	339,780
Tobacco special excise tax payables	8,298	8,791
Tobacco local excise tax payables	174,445	184,621
Consumption tax payables	134,159	137,552
Bonus to employees	69,489	74,826
Employees' unused paid vacations liabilities	21,062	19,866
Other	194,166	210,904
Total	896,848	976,341
Current liabilities	717,653	781,093
Non-current liabilities	179,195	195,248
Total	896,848	976,341

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, 2021 (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
Current service cost	8,471	11,673	20,144
Past service cost and settlement	44	(1,684)	(1,640)
Interest expense	1,075	9,307	10,382
Contributions by plan participants	—	2,798	2,798
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(511)	(5,222)	(5,733)
Actuarial gains and losses arising from changes in financial assumptions	(10,129)	(165,622)	(175,751)
Actuarial gains and losses arising from experience adjustments	2,006	25,813	27,819
Benefits paid	(14,788)	(27,579)	(42,367)
Exchange differences on translation of foreign operations	—	36,301	36,301
Other	248	3	250
As of December 31, 2022 (Notes 1, 2)	142,743	475,661	618,405

(Note 1) The Group’s weighted-average duration of the defined benefit obligations is 7.1 years for Japan and 12.0 years for overseas (2021 : 7.4 years for Japan and 15.1 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, 2021			**As of December 31, 2022**		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	109,151	205,496	314,647	105,042	180,775	285,817
Deferred members	5,912	86,748	92,660	4,216	48,596	52,812
Pensioners	41,264	297,629	338,893	33,486	246,290	279,776
Total	156,327	589,874	746,201	142,743	475,661	618,405

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

(Millions of yen)

	2021	**2022**
As of January 1	26,054	21,862
Interest expense	156	109
Remeasurement gains and losses	(1,283)	(1,970)
Benefits paid	(3,065)	(2,655)
As of December 31	21,862	17,346

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2021	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
Interest income	349	6,816	7,166
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(547)	(87,969)	(88,516)
Contributions by the employer (Notes 2, 3)	738	6,480	7,218
Contributions by plan participants	—	2,798	2,798
Benefits paid	(4,785)	(21,781)	(26,566)
Exchange differences on translation of foreign operations	—	26,139	26,139
Other	640	—	640
As of December 31, 2022	46,588	385,493	432,081

(Note 1) "Return on plan assets" for the year ended December 31, 2021 includes a ¥39,230 million decrease due to the remeasurement of the 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 ¥7,473 million in the year ending December 31, 2023.

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, 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

As of December 31, 2022

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	41,841	334,822	376,663
Fair value of the plan assets	(46,588)	(385,493)	(432,081)
Subtotal	(4,747)	(50,671)	(55,417)
Present value of the unfunded defined benefit obligations	100,902	140,839	241,742
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	96,156	90,168	186,324
Retirement benefit liabilities	102,060	142,056	244,116
Retirement benefit assets	(5,904)	(51,888)	(57,792)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	96,156	90,168	186,324

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, 2021			As of December 31, 2022		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	7,776	–	7,776	8,902	–	8,902
Equity instruments	2,453	–	2,453	1,575	–	1,575
Japan	838	–	838	811	–	811
Overseas	1,615	–	1,615	764	–	764
Debt instruments	8,055	–	8,055	6,410	–	6,410
Japan	6,695	–	6,695	5,208	–	5,208
Overseas	1,360	–	1,360	1,202	–	1,202
General account of life insurance companies (Note 1)	–	29,807	29,807	–	26,631	26,631
Other	1,070	1,033	2,103	1,983	1,086	3,069
Total	19,353	30,840	50,193	18,871	27,717	46,588

(Millions of yen)

Overseas

	As of December 31, 2021			As of December 31, 2022		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	54,026	–	54,026	55,956	–	55,956
Equity instruments	49,027	0	49,027	48,367	–	48,367
United Kingdom	2,781	–	2,781	2,392	–	2,392
North America	14,562	–	14,562	14,729	–	14,729
Other	31,684	0	31,684	31,245	–	31,245
Debt instruments	80,927	6,425	87,353	71,436	6,131	77,567
United Kingdom	686	–	686	456	–	456
North America	34,866	–	34,866	25,658	–	25,658
Other	45,376	6,425	51,801	45,322	6,131	51,453
Real estate	20,963	88	21,051	26,667	38	26,705
Other (Note 2)	11,190	230,363	241,553	12,060	164,838	176,898
Total	216,133	236,876	453,009	214,486	171,007	385,493

(Millions of yen)

	Total					
	As of December 31, 2021			As of December 31, 2022		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	61,802	—	61,802	64,858	—	64,858
Equity instruments	51,479	0	51,480	49,942	—	49,942
Debt instruments	88,982	6,425	95,407	77,846	6,131	83,977
Real estate	20,963	88	21,051	26,667	38	26,705
General account of life insurance companies (Note 1)	—	29,807	29,807	—	26,631	26,631
Other (Note 2)	12,260	231,396	243,656	14,043	165,923	179,966
Total	235,486	267,716	503,203	233,357	198,724	432,081

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

(Note 2) Insurance agreement concluded in the U.K. pension buy in transactions included in “Other” amounted to ¥220,408 million and ¥156,001 million as of the ended December 31,2021 and 2022, respectively.

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

(Japan)

The Company’s pension fund is managed in accordance with the internal policy for securing stable profits in the middle- and long-term in order to ensure the redemption of the plan liability. Concretely, 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, 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)

As of December 31, 2022

(%)

	Japan	Overseas
Discount rate	1.8	3.9
Inflation rate	—	2.5

(years)

	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			23.0 (Note 4)	25.2 (Note 4)

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

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

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

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

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

As of December 31, 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)

As of December 31, 2022

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(4,390)	(27,402)
	Decrease by 0.5%	4,711	29,503
Inflation rate	Increase by 0.5%	―	19,787
	Decrease by 0.5%	―	(18,240)
Mortality rate	Extended 1 year	2,315	15,722
	Shortened 1 year	(2,222)	(15,705)

F. Breakdown of Defined Benefit Cost

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

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

Year ended December 31, 2022

(Millions of yen)

	Japan	Overseas	Total
Current service cost	8,471	11,673	20,144
Past service cost and gains and losses on settlement	44	(1,684)	(1,640)
Interest expense (income)	726	2,490	3,216
Defined benefit cost through profit or loss	9,241	12,480	21,721
Actuarial gains and losses arising from changes in demographic assumptions	(511)	(5,222)	(5,733)
Actuarial gains and losses arising from changes in financial assumptions	(10,129)	(165,622)	(175,751)
Actuarial gains and losses arising from experience adjustments	2,006	25,813	27,819
Return on plan assets (excluding amounts included in interest income)	547	87,969	88,516
Defined benefit cost through other comprehensive income	(8,087)	(57,063)	(65,149)
Total of defined benefit cost	1,154	(44,583)	(43,428)

(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 ¥10,175 million for the year ended December 31, 2021 and ¥11,737 million for the year ended December 31, 2022 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)

	2021	**2022**
Remuneration and salary	257,388	269,996
Bonus to employees	99,033	104,293
Legal welfare expenses	48,513	50,053
Welfare expenses	42,097	46,845
Termination benefits	29,552	(149)

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2021 and 2022 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, 2021	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2021	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2022	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, 2021	225,755	491,507
Increase (decrease) (Note 2)	(279)	(608)
As of December 31, 2021	225,475	490,899
Increase (decrease) (Note 2)	(329)	(716)
As of December 31, 2022	225,146	490,183

(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, 2021 and 1 thousand shares for the year ended December 31, 2022. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2021 and 0 thousand shares for the year ended December 31, 2022. The number of shares delivered upon exercise of share options are 41 thousand shares for the year ended December 31, 2021 and 119 thousand shares for the year ended December 31, 2022. The number of shares disposed for restricted stock remuneration are 238 thousand shares for the year ended December 31, 2021 and 210 thousand shares for the year ended December 31, 2022.

(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, 2021

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) 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

Year ended December 31, 2022

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Annual Shareholders' Meeting (March 23, 2022)	Ordinary shares	133,089	75	December 31, 2021	March 24, 2022
Board of Directors (July 29, 2022)	Ordinary shares	133,114	75	June 30, 2022	September 1, 2022

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

Year ended December 31, 2021

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Annual Shareholders' Meeting (March 23, 2022)	Ordinary shares	133,089	75	December 31, 2021	March 24, 2022

Year ended December 31, 2022

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution) Annual Shareholders' Meeting (March 24, 2023)	Ordinary shares	200,558	113	December 31, 2022	March 27, 2023

25. Revenue

(1) Disaggregation of Revenue

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

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note 2)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	2,001,981	-	-	-	2,001,981
Other	93,141	80,392	147,245	2,078	322,857
Total	2,095,122	80,392	147,245	2,078	2,324,838

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments			Other	Consolidated
	Tobacco (Note 2)	Pharma-ceuticals	Processed Food		
Core revenue from tobacco business (Note 1)	2,315,242	-	-	-	2,315,242
Other	102,167	82,908	155,539	1,976	342,590
Total	2,417,409	82,908	155,539	1,976	2,657,832

(Note 1) Core revenue from tobacco business does not include revenue related to the distribution business and contract manufacturing.

(Note 2) Revenues from RRP in core revenue from the “Tobacco Business” were ¥72,222 million and ¥75,414 million for the year ended December 31, 2021 and 2022, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

A. Tobacco Businesses

Tobacco businesses engage in the sale of tobacco products.

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

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

The tobacco excise taxes and other transactions in which the Group is involved as an 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.

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

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

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

C. Processed Foods Business

Processed Foods business engages in the sale of frozen and ambient processed foods, bakery products and seasonings.

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

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

Transactions in which the Group is involved as an 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.

26. Other Operating Income

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

(Millions of yen)

	2021	**2022**
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	8,219	8,905
Other (Note)	7,403	11,357
Total	15,622	20,262

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

(Millions of yen)

	2021	**2022**
Gain on sale of property, plant and equipment, intangible assets and investment property	5,061	2,737
Other	27	39
Total	5,088	2,776

27. Selling, General and Administrative Expenses

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

(Millions of yen)

	2021	**2022**
Advertising expenses	29,286	28,905
Promotion expenses	108,656	125,220
Commission (Note 2)	66,895	79,248
Employee benefit expenses (Note 2)	354,979	338,673
Research and development expenses (Note 1)	65,016	70,808
Depreciation and amortization (Note 2)	108,963	114,258
Impairment losses on other than financial assets (Note 2)	22,768	27,539
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	5,835	7,362
Cooperation fee for terminating leaf tobacco farming	6,560	-
Other (Note 2)	119,616	149,526
Total	888,574	941,538

(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)

	2021	**2022**
Employee benefit expenses	30,600	(465)
Impairment losses on other than financial assets	6,299	4,808
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	784	4,914
Other	2,126	1,843
Total	39,810	11,099

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	2021	**2022**
Dividend income		
Financial assets measured at fair value through other comprehensive income	936	1,519
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	12,435	25,016
Gain on net monetary position	5,087	—
Other	555	4,612
Total	19,013	31,147

(Millions of yen)

Financial Costs	2021	**2022**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	21,668	25,630
Other	1,382	1,390
Foreign exchange losses (Note 1)	15,565	35,079
Employee benefit expenses (Note 2)	2,341	3,216
Loss on net monetary position	—	16,626
Other	4,688	9,331
Total	45,645	91,272

(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, 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

Year ended December 31, 2022

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	2,502	―	2,502	(761)	1,741
Remeasurements of defined benefit plans	65,149	―	65,149	(15,405)	49,744
Total of items that will not be reclassified to profit or loss	67,651	―	67,651	(16,166)	51,485
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	492,213	(112)	492,101	1,885	493,986
Net gain (loss) on derivatives designated as cash flow hedges	8,909	2,172	11,081	(2,496)	8,584
Total of items that may be reclassified subsequently to profit or loss	501,122	2,060	503,182	(612)	502,570
Total	568,773	2,060	570,833	(16,778)	554,055

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)

	2021	**2022**
Profit for the period attributable to owners of the parent company	338,490	442,716
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	338,490	442,716

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

(Thousands of shares)

	2021	**2022**
Weighted-average number of shares during the period	1,774,419	1,774,749

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2021	**2022**
Profit for the period used for calculation of basic earnings per share	338,490	442,716
Adjustment	—	—
Profit for the period used for calculation of diluted earnings per share	338,490	442,716

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

(Thousands of shares)

	2021	**2022**
Weighted-average number of ordinary shares during the period	1,774,419	1,774,749
Increased number of ordinary shares under subscription rights to shares	741	633
Weighted-average number of diluted ordinary shares during the period	1,775,161	1,775,383

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, 2021

(Millions of yen)

	As of January 1, 2021	Cash flows	Non-cash changes			As of December 31, 2021
			Foreign exchange movement	Fair value changes	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

Year ended December 31, 2022

(Millions of yen)

	As of January 1, 2022	Cash flows	Non-cash changes			As of December 31, 2022
			Foreign exchange movement	Fair value changes	Other	
Short-term borrowings and commercial paper	70,636	(27,610)	20,707	―	―	63,733
Long-term borrowings (Note 1)	196,970	(41,327)	1,487	―	119	157,249
Bonds (Note 1)	651,016	39,175	46,043	―	1,095	737,329
Lease liabilities	60,536	(21,009)	2,865	―	17,936	60,328
Derivatives	―	12,281	(589)	(11,692)	―	―
Total	979,158	(38,490)	70,513	(11,692)	19,150	1,018,639

(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 statement of cash flows.

32. Share-based Payments

(1) Share Option

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

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

A. Share Option Contract Conditions of the Company

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

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

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

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

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

(Shares)

	2021			**2022**		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	361,000	410,600	771,600	361,000	369,400	730,400
Exercised	—	(41,200)	(41,200)	—	(119,000)	(119,000)
Balance as of December 31	361,000	369,400	730,400	361,000	250,400	611,400
Exercisable balance as of December 31	—	44,000	44,000	—	31,600	31,600

(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 ¥2,089 and ¥2,202 for the years ended December 31, 2021 and 2022, respectively.

(Note 4) The weighted-average remaining contract years of unexercised share options at the end of each period were 24.9 years and 23.8 years for the years ended December 31, 2021 and 2022, 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

	2021		**2022**	
Grant date		May 25, 2021		May 24, 2022
Number of allotted shares	Directors：	92,500	Directors：	88,600
	Executive Officers：	145,900	Executive Officers：	121,600
Fair value at the grant date		¥2,061		¥2,187
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, 2021 is ¥2,322 and for the year ended December 31, 2022 is ¥2,661.

(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)

	2021	**2022**
Restricted stock remuneration (equity-settled)	491	460
Performance share unit remuneration (cash-settled)	451	385

(5) Liabilities Arising from Share-based Payment

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

(Millions of yen)

	2021	**2022**
Carrying amounts of liability	535	932

33. Financial Instruments

(1) Capital Management

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

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

(Millions of yen)

	2021	**2022**
Interest-bearing debt (Note)	918,622	958,311
Cash and cash equivalents	(721,731)	(866,885)
Net interest-bearing debt	196,891	91,425
Capital (equity attributable to owners of the parent company)	2,809,258	3,540,435

(Note) Lease liabilities are excluded.

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

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

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

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

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

(2) Financial Risk Management

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

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

(3) Credit Risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk.

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

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

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

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

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

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

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

(Millions of yen)

	Trade receivables	Other financial assets			Total
		Measured at an amount equal to the 12-month expected credit losses	Measured at an amount equal to the full lifetime expected credit losses		
			Non-credit-impaired financial assets	Credit-impaired financial assets	
As of January 1, 2021	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
Addition	1,887	—	9	13	1,909
Decrease (intended use)	(286)	—	—	(346)	(632)
Decrease (reversal)	(382)	—	(9)	(29)	(420)
Other	8	—	—	231	239
As of December 31, 2022	2,533	—	90	6,153	8,776

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

(4) Liquidity Risk

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

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

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

As of December 31, 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

As of December 31, 2022

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	540,089	540,089	540,089	—	—	—	—	—
Short-term borrowings	63,733	63,733	63,733	—	—	—	—	—
Current portion of long-term borrowings	13,575	13,575	13,575	—	—	—	—	—
Long-term borrowings	143,674	144,173	—	23,948	58	60	20,063	100,043
Current portion of bonds	60,000	60,000	60,000	—	—	—	—	—
Bonds	677,329	687,737	—	—	102,813	—	—	584,924
Lease liabilities	60,328	71,007	20,321	14,646	7,630	4,286	3,164	20,959
Subtotal	1,558,728	1,580,314	697,718	38,594	110,501	4,347	23,227	705,926
Derivative financial liabilities								
Foreign exchange forward contract	20,990	20,990	19,812	973	204	—	—	—
Subtotal	20,990	20,990	19,812	973	204	—	—	—
Total	1,579,719	1,601,304	717,531	39,568	110,705	4,347	23,227	705,926

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

(Millions of yen)

	2021	**2022**
Total committed line of credit	477,985	529,964
Withdrawing	—	—
Unused balance	477,985	529,964

(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)

	2021	**2022**
Profit before income taxes	(6,808)	(8,715)

(6) Interest Rate Risk

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

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

Although the Group implements interest rate hedges with high effectiveness, as stated in "3. Significant Accounting Policies," with respect to the interest rate hedges against the reference yield of the bonds issued this fiscal year, hedge ineffectiveness occurred as a result of a change in the originally assumed maturity of the bonds after taking the market conditions into consideration at the actual issuance.

Interest Rate Sensitivity Analysis

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

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

(Millions of yen)

	2021	**2022**
Profit before income taxes	3,923	4,875

(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, 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

As of December 31, 2022

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Foreign exchange risk								
Foreign exchange forward contract								
JPY / USD	USD	132 mil.		―	356	672	¥	125.96
EUR / USD	USD	837 mil.		―	1,335	2,948	€	0.95
GBP / USD	USD	379 mil.		―	1,463	594	£	0.81
USD / CHF	CHF	528 mil.	CHF	97 mil.	2,630	117	$	1.07
USD / PLN	PLN	1,798 mil.		―	2,736	179	$	0.21
EUR / PLN	PLN	682 mil.		―	―	675	€	0.20

(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 (Note)	Interest rate risk	Total
As of January 1, 2021	122	―	122
Other comprehensive income			
Amount arising (Note)	(704)	―	(704)
Reclassification adjustments (Note)	606	―	606
Tax effects	30	―	30
Other	(327)	―	(327)
As of December 31, 2021	(274)	―	(274)
Other comprehensive income			
Amount arising (Note)	1,528	7,381	8,909
Reclassification adjustments (Note)	2,301	(129)	2,172
Tax effects	(560)	(1,936)	(2,496)
Other	236	―	236
As of December 31, 2022	3,231	5,316	8,546

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

The effect of hedging instruments on consolidated statements of profit or loss and comprehensive income is as follows:

Year ended December 31, 2021

(Millions of yen)

	Gains or losses on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in the consolidated statement of income that includes hedge ineffectiveness recognized in profit or loss	Amount reclassified from cash flow hedge reserve to profit or loss	Line item in the consolidated statement of income that includes profit or loss due to reclassification adjustment
Interest rate risk	—	—	—	—	—

Year ended December 31, 2022

(Millions of yen)

	Gains or losses on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in the consolidated statement of income that includes hedge ineffectiveness recognized in profit or loss	Amount reclassified from cash flow hedge reserve to profit or loss	Line item in the consolidated statement of income that includes profit or loss due to reclassification adjustment
Interest rate risk	7,381	4,553	Financial income	(129)	Financial costs

The changes in fair value of the hedging instrument and in value of the hedged item used as the basis for recognizing hedge ineffectiveness are as follows:

Year ended December 31, 2021

(Millions of yen)

	The change in fair value of the hedging instrument	The change in value of the hedged item
Interest rate risk	—	—

Year ended December 31, 2022

(Millions of yen)

	The change in fair value of the hedging instrument	The change in value of the hedged item
Interest rate risk	11,934	(7,381)

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, 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

As of December 31, 2022

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	1,327 mil.	EUR	1,327 mil.	－	186,408	$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	－	62,624	$	1.32
Foreign exchange forward contract								
EUR / USD	USD	306 mil.		－	－	824	€	0.95

(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)

	2021	**2022**
As of January 1	11,480	7,481
Other comprehensive income		
Amount arising (Note 1)	(6,389)	(2,557)
Tax effects	2,391	1,885
As of December 31 (Note 2)	7,481	6,809

(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 or loss arising from the hedging instruments for which hedge accounting is discontinued were gain of ¥9,985 million and loss of ¥7,396 million as of December 31, 2021 and 2022, 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, 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

As of December 31, 2022

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	157,249	—	156,294	—	156,294
Bonds (Note)	737,329	645,061	—	—	645,061

(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, 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

As of December 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	24,285	—	24,285
Equity securities	21,551	—	9,786	31,337
Other	579	6,721	12,522	19,822
Total	22,130	31,006	22,308	75,444
Derivative liabilities	—	20,990	—	20,990
Total	—	20,990	—	20,990

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

(Millions of yen)

	2021	**2022**
As of January 1	12,457	15,529
Total gain (loss)		
Profit or loss (Note 1)	(116)	146
Other comprehensive income (Note 2)	274	887
Purchases	3,042	4,945
Sales	(12)	(50)
Other	(116)	851
As of December 31	15,529	22,308

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2021 and 2022 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, 2021 and 2022 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, 2022, 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 ¥219,135 million and ¥347,288 million for the years ended December 31, 2021 and 2022, respectively. The Group held trade receivables of ¥51,685 million and ¥61,442 million from CJSC TK Megapolis as of December 31, 2021 and 2022, 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)

	2021	**2022**
Remuneration and bonuses	1,335	1,232
Share-based payments	374	374
Total	1,709	1,606

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:

Reportable Segments	2021		**2022**	
	Number of subsidiaries	Number of entities accounted for using the equity method (Note)	Number of subsidiaries	Number of entities accounted for using the equity method (Note)
Tobacco	182	9	177	10
Pharmaceuticals	2	—	2	—
Processed Food	28	2	23	2
Other	23	2	21	2
Total	235	13	223	14

(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, 2022.

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)

	2021	**2022**
Acquisition of property, plant and equipment	28,817	36,933
Acquisition of intangible assets	3,173	3,530
Total	31,990	40,463

(2) Procurement of Domestic Leaf Tobacco

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

37. Hyperinflationary Accounting Adjustments

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

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

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2011	182	37,196
(omission)		
31 December 2018	1,490	4,543
31 December 2019	2,339	2,893
31 December 2020	8,639	783
31 December 2021	36,131	187
31 December 2022	67,674	100

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

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2015	93	603
(omission)		
31 December 2018	152	371
31 December 2019	194	291
31 December 2020	281	201
31 December 2021	379	148
31 December 2022	563	100

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

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2010	182	621
(omission)		
31 December 2018	394	286
31 December 2019	441	256
31 December 2020	505	224
31 December 2021	687	164
31 December 2022	1,128	100

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

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2017	117	282
31 December 2018	129	255
31 December 2019	154	214
31 December 2020	182	181
31 December 2021	246	134
31 December 2022	329	100

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

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

38. Contingencies

Contingent Liabilities

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

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

(1) Smoking/Vaping and Health Related Litigation

Some of the Company's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or E-Vapor products, or exposure to tobacco smoke. As of December 31, 2022, there were a total of 21 smoking/vaping and health related cases pending in which some of the Company's subsidiaries were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement such as for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

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

On March 8, 2019, JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary, filed for protection from its creditors under the Companies' Creditors Arrangement Act (CCAA). The Ontario Superior Court has granted the CCAA application and extended protection in favor of JTI-Mac (hereinafter referred to as "CCAA Proceedings"). All of the below Canadian matters against JTI-Mac have been stayed by the CCAA Proceedings, under which JTI-Mac carries on business in the ordinary course.

A. Individual Claim

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

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

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

In addition, there is one individual case (which is currently dormant) brought against the Company's subsidiary in Ireland and one ongoing individual case (which has been stayed by the court order) brought against the Company's subsidiaries in the United States.

B. Class Actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees.

<u>Canada Quebec Class Action (Cecilia Letourneau):</u>

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥449.4 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 ¥449.4 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 ¥15.8 billion (approximately CAD 161 million), in which the share of the total damage award against JTI-Mac is approximately ¥1.5 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 ¥1,217.5 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 ¥79.4 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 ¥1,324.3 billion (approximately CAD 13.5 billion), in which the share of the total damage award against JTI-Mac is approximately ¥172.2 billion (approximately CAD 1.8 billion), and a punitive damage award of approximately ¥4 million (approximately CAD 0.04 million) per defendants. The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

The Quebec Court of Appeal rendered one judgment for both class actions against the defendants and ordered them to make an initial deposit of approximately ¥113.7 billion (approximately CAD 1.2 billion), in which the share of JTI-Mac is approximately ¥14.2 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 ¥32,303.7 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 ¥5,937.8 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 ¥978.9 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, 2022.

39. Subsequent Events

No items to report.

(2) Others

A. Quarterly Information for the Year ended December 31, 2022

(Millions of yen)

	Q1 January 1, 2022 to March 31, 2022	Q2 January 1, 2022 to June 30, 2022	Q3 January 1, 2022 to September 30, 2022	2022 January 1, 2022 to December 31, 2022
Revenue	581,505	1,266,828	2,008,548	2,657,832
Profit before income taxes for the period (year)	174,699	360,985	535,596	593,450
Profit attributable to owners of the parent company for the period (year)	124,110	264,063	403,807	442,716
Basic earnings per share for the period (year) (yen)	69.94	148.80	227.53	249.45

	Q1 January 1, 2022 to March 31, 2022	Q2 April 1, 2022 to June 30, 2022	Q3 July 1, 2022 to September 30, 2022	Q4 October 1, 2022 to December 31, 2022
Basic earnings per share for the quarter(losses) (yen)	69.94	78.86	78.74	21.92

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in “38. Contingencies” in the notes to consolidated financial statements.

2. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2021 and 2022

(Millions of yen)

		2021		**2022**
Assets				
Current assets				
Cash and deposits		238,127		193,376
Accounts receivable-trade	*2	37,614	*2	31,739
Securities		20,000		18,000
Merchandise and finished goods		26,768		25,424
Semi-finished goods		83,612		84,534
Work in process		1,725		1,815
Raw materials and supplies		29,364		32,017
Advance payments-trade		1,714		2,440
Prepaid expenses		5,669		5,040
Short-term loans receivable from subsidiaries and affiliates		4,967		38,649
Other	*2,*3	18,579	*2,*3	26,255
Allowance for doubtful accounts		(24)		(29)
Total current assets		468,113		459,260
Noncurrent assets				
Property, plant and equipment				
Buildings		77,170		69,893
Structures		2,404		2,066
Machinery and equipment		41,889		34,722
Vehicles		832		536
Tools, furniture and fixtures		11,898		9,996
Land		48,113		47,298
Construction in progress		384		533
Total property, plant and equipment		182,690		165,044
Intangible assets				
Patent right		91		194
Right of trademark		65,629		49,196
Software		14,818		11,652
Goodwill		143,084		107,313
Other		2,834		7,337
Total intangible assets		226,457		175,692
Investments and other assets				
Investment securities		19,136		22,358
Shares of subsidiaries and affiliates		1,492,833		1,495,647
Long-term loans receivable from subsidiaries and affiliates		51,299		6,069
Long-term prepaid expenses		7,881		7,335
Deferred tax assets		28,751		16,987
Other		14,998		15,030
Allowance for doubtful accounts		(4,179)		(154)
Total investments and other assets		1,610,719		1,563,271
Total noncurrent assets		2,019,866		1,904,007
Total assets		2,487,979		2,363,267

(Millions of yen)

		2021		**2022**
Liabilities				
Current liabilities				
Accounts payable-trade	*2	5,675	*2	10,445
Current portion of bonds	*1	30,000	*1	60,000
Current portion of long-term borrowings		30,000		—
Lease obligations	*2	2,050	*2	230
Accounts payable-other	*2	124,329	*2	72,620
National tobacco excise taxes payable		69,066		72,925
National tobacco special excise taxes payable		8,298		8,791
Local tobacco excise taxes payable		78,114		82,013
Income taxes payable		10,910		1,863
Accrued consumption taxes		30,596		28,711
Cash management system deposits received	*4	360,786	*4	318,412
Provision for bonuses		5,898		5,675
Other		11,584		20,565
Total current liabilities		767,305		682,250
Noncurrent liabilities				
Bonds payable	*1	125,000	*1	65,000
Long-term borrowings		140,000		140,000
Lease obligations	*2	3,061	*2	152
Provision for retirement benefits		102,960		101,421
Other	*2	4,957	*2	5,800
Total noncurrent liabilities		375,978		312,374
Total liabilities		1,143,283		994,623

(Millions of yen)

	2021	**2022**
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	356	331
Reserve for reduction entry	37,715	34,780
Special account for reduction entry	425	574
Retained earnings brought forward	935,204	956,333
Total retained earnings	992,476	1,010,794
Treasury shares	(490,899)	(490,183)
Total shareholders’ equity	1,337,977	1,357,011
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5,833	6,903
Deferred gains or losses on hedges	(316)	3,728
Total valuation and translation adjustments	5,517	10,631
Subscription rights to shares	1,202	1,001
Total net assets	1,344,696	1,368,643
Total liabilities and net assets	2,487,979	2,363,267

B. Nonconsolidated Statement of Income

Years Ended December 31, 2021 and 2022

(Millions of yen)

		2021		**2022**
Net sales	*5	592,220	*5	542,181
Cost of sales	*5	154,227	*5	173,609
Gross profit		437,993		368,572
Selling, general and administrative expenses	*1,*5	344,154	*1,*5	303,998
Operating income		93,839		64,574
Non-operating income				
Interest income	*5	91	*5	78
Dividends income	*5	182,091	*5	204,825
Other	*5	8,660	*5	8,205
Total non-operating income		190,842		213,108
Non-operating expenses				
Interest expenses	*5	1,697	*5	1,686
Interest on bonds		2,188		456
Other	*5	1,986	*5	1,806
Total non-operating expenses		5,871		3,948
Ordinary income		278,809		273,734
Extraordinary income				
Gain on sales of noncurrent assets	*2	6,688	*2	6,459
Gain on sale of businesses		—	*7	39,005
Other		101		5,504
Total extraordinary income		6,789		50,968
Extraordinary losses				
Loss on sales of noncurrent assets	*3	103	*3	478
Loss on retirement of noncurrent assets	*4,*5	3,263	*4,*5	3,857
Impairment loss		1,402		4,381
Business restructuring costs	*5,*6	31,592	*5,*6	1,642
Cooperation fee for terminating leaf tobacco farming		6,560		—
Loss on redemption of bonds		4,105		—
Other		2,371		4,290
Total extraordinary losses		49,397		14,647
Income before income taxes		236,202		310,055
Income taxes-current		30,996		17,701
Income taxes-deferred		(11,690)		8,893
Total income taxes		19,306		26,594
Net income		216,896		283,461

C. Nonconsolidated Statement of Changes in Net Assets
Years Ended December 31, 2021 and 2022

(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

(Millions of yen)

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

(Millions of yen)

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

D. Notes to Nonconsolidated Financial Statements
Years Ended December 31, 2021 and 2022

(Preparation Policy)

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

(Significant Accounting Policies)

1. Basis and Method of Valuation for Securities

(1) Shares of Subsidiaries and Affiliates:

Stated at cost determined by the moving-average method.

(2) Available-for-sale Securities:

A. Securities with a market price:

Stated at fair value based on market prices 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 market price:

Stated at cost determined by the moving-average method.

2. Basis and Method of Valuation for Derivatives

Stated based on the fair value method.

3. Basis and Method of Valuation for Inventories

Stated at cost as determined by the average cost method.

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

4. Depreciation Methods for Depreciable Assets

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

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

The main useful lives are as follows:

Buildings (excluding accompanying facilities):	38 to 50 years
Machinery and equipment:	10 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 end of this fiscal year.

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

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

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

7. Policy on accounting of revenue and expense

Revenue from contracts with customers

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

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

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

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

8. Method of Hedge Accounting

Deferral hedge accounting is applied.

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

9. Other Significant Accounting Policies

(1) Accounting Treatment relating to Retirement Benefits

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

(2) Adoption of Consolidated Taxation System

The Company adopted the consolidated taxation system.

(3) 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 and those for which the non-consolidated tax payment system was reviewed in line with the transition to the group tax sharing system, which has been established under the “Act for Partial Amendment of the Income Tax Act and Relevant Acts.” (Act No. 8 of 2020), the Company will not apply the provisions of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (Statement No.28 issued by the Accounting Standards Board of Japan (ASBJ) on 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 of 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.

From the beginning of the next fiscal year, the Company plans to apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021), which provides the pronouncement on the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in the case where the group tax sharing system is adopted.

(Changes in accounting policies)

1. Application of the Accounting Standard for Revenue Recognition

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, the "Accounting Standard for Revenue Recognition"), etc. has been applied from the current fiscal year. The Company recognizes revenue at the amount expected to be received in exchange for a promised good or service when control of the good or service is transferred to a customer.

Based on the five-step approach described in "7. Policy on accounting of revenue and expense," the Company has identified the performance obligations under contracts with customers. Therefore, a portion of promotion and other expenses paid to customers by the Company, which were previously recognized in "Selling, general and administrative expenses," has been deducted from "Net sales" from the current fiscal year.

Also, transportation and storage expenses required to meet performance obligations, which were previously recognized in "Selling, general and administrative expenses," have been accounted for as "Cost of sales" from the current fiscal year.

In some transactions, the Company has changed the point of recognition of revenue by reviewing the point at which control of a good is transferred to a customer.

The application of the Accounting Standard for Revenue Recognition is pursuant to the transitional treatment prescribed in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactive application of the new accounting policy prior to the beginning of the current fiscal year has been added to or subtracted from retained earnings at the beginning of the current fiscal year, and the new accounting policy has been applied from the said beginning balance of the current fiscal year.

As a result, compared with the previous accounting standard, Net sales decreased by ¥7,493 million, Cost of sales increased by ¥28,482 million, Selling, general and administrative expenses decreased by ¥35,717 million, and operating income, ordinary income, and income before income taxes decreased by ¥258 million, respectively, in the current fiscal year.

The beginning balance of retained earnings increased by ¥1,117 million since the cumulative effect was reflected in net assets at the beginning of the current fiscal year.

2. Application of the Accounting Standard for Fair Value Measurement

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, the "Fair Value Measurement Accounting Standard"), etc. has been applied from the beginning of the current fiscal year. In accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard for and Section 44-2 of the Fair Value Measurement Accounting Standard, these accounting standards have been prospectively applied from the beginning of the current fiscal year.

There is no impact on the financial statements.

(Significant accounting estimates)

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

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

Evaluation of shares of subsidiaries and affiliates

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

Shares of subsidiaries and affiliates ¥1,495,647 million (Previous fiscal year: ¥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 ¥1,356,191 million (Previous fiscal year: ¥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 by referring to the result of the impairment test of goodwill allocated to the tobacco cash-generating unit in the consolidated financial statements in accordance with IFRS. (For details of the impairment test, please refer to “14. Goodwill and Intangible Assets (3) Impairment Test for Goodwill” in “Consolidated Financial Statements”.)

The assumptions used in the impairment test are based on management’s best estimates and judgment. However, they may be affected by the results of changes in uncertain future economic conditions, and if a review is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(Accounting Standards Not Yet Adopted)

No items to report.

(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)

	2021	**2022**
Short-term receivables	17,166	13,356
Short-term payables	37,348	33,363
Long-term payables	2,677	27

*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

2021				**2022**			
	(Millions of yen)				(Millions of yen)		
JT International Company Netherlands B.V.	31,530	(EUR	242 million)	JT International Company Netherlands B.V.	61,759	(EUR	437 million)
JT International Hellas A.E.B.E.	27,807	(EUR	213 million)	JT International spol. s r.o.	36,323	(CZK	6,188 million) others
JT International Holding B.V.	26,232	(EUR	180 million) others				
JT International spol. s r.o.	13,612	(CZK	2,595 million)	JT International Hellas A.E.B.E.	27,730	(EUR	196 million)
JT International S.A.	12,212	(CHF (EUR	57 million) 21 million) others	JT International S.A.	23,671	(USD (CHF	94 million) 57 million) others
PT. Karyadibya Mahardhika	10,595	(IDR	1,311,940 million)	JT International Group Holding B.V.	15,884	(EUR	90 million) others
				JT International Germany GmbH	12,773	(EUR	90 million)
				JT International Korea Inc.	10,464	(KRW	99,452 million)
Other (58 companies)	120,787			Other (56 companies)	116,592		
Total	242,775			Total	305,195		

Bonds

2021				2022			
	(Millions of yen)				(Millions of yen)		
JT International Financial Services B.V.	505,083	(EUR (USD (GBP	2,050 million) 1,525 million) 400 million)	JT International Financial Services B.V.	622,737	(EUR (USD (GBP	2,050 million) 2,025 million) 400 million)
Total	505,083			Total	622,737		

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

(Notes to Nonconsolidated Statement of Income)

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

(Millions of yen)

	2021	**2022**
Promotion expenses	47,173	30,422
Compensations, salaries and allowances	30,205	26,552
Provision for bonus	4,019	3,976
Employee benefit expenses	7,852	6,379
Commission	43,522	46,557
Depreciation and amortization	63,170	61,687
Research and development expenses	53,902	53,528
Selling expenses ratio	51%	42%
General and administrative expenses ratio	49%	58%

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

(Millions of yen)

	2021	**2022**
Land	6,684	6,254

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

(Millions of yen)

	2021	**2022**
Buildings	32	288
Structures	4	51
Tools, furniture and fixtures	12	28

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

(Millions of yen)

	2021	**2022**
Buildings	710	2,545
Machinery and equipment	1,501	438

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

(Millions of yen)

	2021	**2022**
Net sales	49,410	40,164
Purchase of goods	51,013	45,908
Selling, general and administrative expenses	62,312	65,286
Dividends income	182,578	204,586
Amount of non-operating transactions	12,910	51,963

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

*7. Gain on sale of businesses is related to sale of China business.

(Securities)

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

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

2022

(Millions of yen)

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

(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	2021
Investments in subsidiaries	1,451,114
Investments in affiliates	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.

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

(Millions of yen)

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

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

(Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause
As of December 31, 2021 and 2022

(Millions of yen)

	2021	**2022**
Deferred tax assets		
Provision for retirement benefits	22,916	23,526
Obligations pertaining to mutual assistance pension benefits	7,800	6,561
Investments in subsidiaries	12,232	6,919
Accounts payable to employees who have agreed to early retirement	15,670	4,098
Other	36,791	36,863
Subtotal	95,409	77,966
Less valuation allowance	(24,447)	(18,596)
Total	70,962	59,370
Deferred tax liabilities		
Reserve for reduction entry	(16,496)	(15,213)
Deferred gains or losses on hedges	(11,157)	(11,656)
Valuation difference on available-for-sale securities	(1,933)	(3,019)
Other	(12,625)	(12,494)
Total	(42,211)	(42,383)
Net deferred tax assets/liabilities	28,751	16,987

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, 2021 and 2022

(%)

	2021	**2022**
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.41	0.38
Permanent difference arising from non-taxable items including dividends income	(22.26)	(19.11)
Tax credit of items including research and development expenses	(1.04)	(0.86)
Changes in valuation allowance	0.15	(1.89)
Other	0.48	(0.37)
Actual effective tax rate after applying tax effect accounting	8.17	8.58

(Business combination)

(Common Control Transaction)

The Company transferred China business to JT International S.A., a wholly owned subsidiary, on January 1, 2022.

(1) Overview of business divestiture

A. Name of the successor company

JT International S.A.

B. Details of the divested business

Sale of tobacco products in the China market

C. Major reason for the business divestiture

In order to strengthen competitiveness by utilizing global resources, the Company sold its China business to JT International S.A., a wholly owned subsidiary, as a part of the unification of the business management structure of the tobacco business

D. Date of the business divestiture

January 1, 2022

E. Outline of the transaction including the legal form

Business transfer with only assets such as cash etc. as consideration received

(2) Accounting overview

Based on the Accounting Standard for Business Divestitures (ASBJ Statement No. 7 September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 January 16, 2019), it was recognized as common control transaction. As a result of this transaction, "Gain on sale of businesses" of ¥39,005 million was recorded as “Extraordinary income” in the nonconsolidated statement of income.

(Significant Subsequent Events)

No items to report.

E. Supplementary Statements

Detailed Schedule of Property, Plant and Equipment and Others

(Millions of yen)

	Type of assets	As of January 1, 2022	Increase in the year ended December 31, 2022	Decrease in the year ended December 31, 2022	Depreciation during the year ended December 31, 2022	As of December 31, 2022	Accumulated depreciation or accumulated amortization as of December 31, 2022
Property, plant and equipment	Buildings	77,170	2,150	3,795 (3,206)	5,631	69,893	176,886
	Structures	2,404	96	180 (128)	254	2,066	10,339
	Machinery and equipment	41,889	4,239	2,073 (1,145)	9,332	34,722	177,603
	Vehicles	832	105	78	324	536	1,875
	Tools, furniture and fixtures	11,898	3,215	155	4,963	9,996	65,116
	Land	48,113	5	820 (129)	—	47,298	—
	Construction in progress	384	423	273	—	533	—
	Total property, plant and equipment	182,690	10,232	7,374 (4,609)	20,504	165,044	431,819
Intangible assets	Patent right	91	142	—	40	194	—
	Right of trademark	65,629	19	2	16,451	49,196	—
	Software	14,818	3,568	242 (1)	6,493	11,652	—
	Goodwill	143,084	—	—	35,771	107,313	—
	Other	2,834	5,471	893	75	7,337	—
	Total intangible assets	226,457	9,200	1,136 (1)	58,828	175,692	—

(Note 1) The figures in parentheses in the "Decrease in the year ended December 31, 2022" 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, 2022	Increase in the year ended December 31, 2022	Decrease in the year ended December 31, 2022	As of December 31, 2022
Allowance for doubtful accounts	4,203	5	4,025	183
Provision for bonuses	5,898	5,675	5,898	5,675

(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.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Contingencies of Smoking and Health Litigation in Canada</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>
As described in Note 38 to the consolidated financial statements "Contingencies," JTI-Macdonald Corp., Japan Tobacco Inc. (the "Company")'s Canadian subsidiary and/or indemnitees are defendants in eight class actions and 10 health-care cost recovery litigation in Canada (collectively, the "Canadian cases"). In two class actions in Quebec (Cecilia Letourneau and Conseil Quebecois sur le tabac et la sante), the Quebec Court of Appeal rendered a judgment ordering JTI-Macdonald Corp. to pay compensation of approximately CAD 1.8 billion (approximately ¥173.7 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.
</td><td>
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 examination and approval process to ensure that the judgments on recognizing provisions are appropriately made;
✓ Inquiring of component management and inspecting the underlying documents that component management prepared to assess the appropriateness of the component management's judgments on the recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
✓ Sending letters to component legal counsel to confirm the appropriateness of the component management's judgment on whether JTI-Macdonald Corp. has a present obligation (legal or constructive) as a result of a past event and whether the outflow of resources embodying economic benefits is probable to settle the obligation among the recognition requirements for provisions.

We obtained a third-party opinion from an external legal firm to gain assurance that there are no logical contradictions or significant divergences in reasoning to the position adopted by the component's legal counsel.

</td></tr>
</table>

<table>
<tr><th colspan="2">Evaluation of goodwill allocated to tobacco cash-generating unit</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in Note 14 to the consolidated financial statements "Goodwill and Intangible Assets," the Group allocates goodwill generated by business combinations to the tobacco cash-generating unit and the processed food cash-generating unit.

The Group has a goodwill balance of ¥2,420,695 million allocated to the 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 tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Group sets a growth rate from 5.8% in the fourth year to 2.5% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the impairment test, the value in use sufficiently exceeds the carrying amount of the tobacco cash-generating unit, and management believes that the value in use will not fall below the carrying amount even if the growth rate used in calculating the value in use fluctuates within a reasonable range.

The balance of goodwill allocated to the tobacco cash-generating unit is material to the consolidated financial statements, and the three-year business plan used in the impairment test, and the underlying assumptions for the growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards.

Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of the goodwill allocated to the tobacco cash-generating unit to be a key audit matter.</td>
<td>In response to this key audit matter, we developed an audit plan for the impairment test of goodwill allocated to the 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 performed the following audit procedures:

✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared;

✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and

✓ Inquiring of 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 tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.</td></tr>
</table>

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 24, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

Opinion

We have audited the nonconsolidated financial statements of Japan Tobacco Inc. (the "Company"), which comprise the nonconsolidated balance sheet as of December 31, 2022, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 38th fiscal year from January 1, 2022 to December 31, 2022, 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, 2022, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matter

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

<table>
<tr><th colspan="2">Evaluation of Shares of Subsidiaries</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in "Significant accounting estimates" in notes to the nonconsolidated financial statements, on the Company's balance sheet as of the end of this fiscal year, Shares of subsidiaries and affiliates was ¥1,495,647 million (approximately 63.3% of Total assets), including shares of JT International Group Holding B.V., one of the subsidiaries, of ¥1,355,146 million.

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

The Company considers whether to recognize impairment of shares of JT International 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 referring to the results of the impairment test of goodwill allocated to the tobacco cash-generating unit.

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

The recoverable amount of the tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Company sets a growth rate from 5.8% in the fourth year to 2.5% 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.</td><td>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 tobacco cash-generating unit:

• In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we performed the following audit procedures:

✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared;

✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and

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

Other Information

Other information comprises the information included in the Company's disclosure documents accompanying the audited nonconsolidated financial statements, but does not include the nonconsolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

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

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

In preparing the nonconsolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 24, 2023