

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

Year Ended December 31, 2025



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1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2024 and 2025

	2024	(Millions of yen) 2025
Assets		
Current assets		
Cash and cash equivalents (Note 7)	1,084,567	831,135
Trade and other receivables (Note 8)	568,982	640,681
Inventories (Note 9)	957,281	1,060,136
Other financial assets (Note 10)	120,211	195,816
Other current assets (Note 11)	826,766	977,640
Subtotal	3,557,807	3,705,408
Assets held for sale (Note 12)	19,765	5,689
Total current assets	3,577,572	3,711,097
Non-current assets		
Property, plant and equipment (Notes 13, 15)	907,700	979,800
Goodwill (Note 14)	2,914,254	2,923,096
Intangible assets (Note 14)	486,463	395,658
Investment property (Note 16)	3,716	3,068
Retirement benefit assets (Note 22)	89,573	29,946
Investments accounted for using the equity method	50,423	82,205
Other financial assets (Note 10)	151,940	131,600
Other non-current assets (Note 11)	5,500	4,240
Deferred tax assets (Note 17)	183,591	158,528
Total non-current assets	4,793,160	4,708,143
Total assets	8,370,732	8,419,240

	2024	(Millions of yen) 2025
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	659,510	711,721
Bonds and borrowings (Note 19)	178,668	79,627
Income tax payables	24,621	36,546
Other financial liabilities (Note 19)	59,965	62,068
Provisions (Note 20)	195,918	32,783
Other current liabilities (Note 21)	1,029,925	1,004,331
Subtotal	2,148,607	1,927,076
Liabilities directly associated with assets held for sale	—	177
Total current liabilities	2,148,607	1,927,252
Non-current liabilities		
Bonds and borrowings (Note 19)	1,548,120	1,599,061
Other financial liabilities (Note 19)	49,210	205,628
Retirement benefit liabilities (Note 22)	277,236	253,225
Provisions (Note 20)	253,949	54,355
Other non-current liabilities (Note 21)	120,427	134,724
Deferred tax liabilities (Note 17)	124,455	129,606
Total non-current liabilities	2,373,398	2,376,599
 Total liabilities	 4,522,005	 4,303,851
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,697	737,064
Treasury shares (Note 23)	(488,579)	(489,744)
Other components of equity (Note 23)	381,599	526,058
Retained earnings	3,036,905	3,213,555
Equity attributable to owners of the parent company	3,766,623	4,086,933
Non-controlling interests	82,104	28,456
Total equity	3,848,727	4,115,389
 Total liabilities and equity	 8,370,732	 8,419,240

B. Consolidated Statement of Income
Years Ended December 31, 2024 and 2025

(Millions of yen)

	2024	2025
Continuing operations		
Revenue (Notes 6, 25)	3,056,709	3,467,675
Cost of sales (Notes 14, 22)	(1,379,284)	(1,519,091)
Gross profit	1,677,425	1,948,585
Other operating income (Note 26)	31,136	83,284
Share of profit in investments accounted for using the equity method	12,885	13,332
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(1,407,224)	(1,178,162)
Operating profit (Note 6)	314,223	867,038
Financial income (Notes 28, 33)	69,004	67,942
Financial costs (Notes 22, 28, 33)	(158,895)	(195,194)
Profit before income taxes	224,333	739,786
Income taxes (Note 17)	(50,406)	(238,711)
Profit for the period from continuing operations	173,927	501,075
Discontinued operations		
Profit for the period from discontinued operations (Note 38)	8,669	12,139
Profit for the period	182,596	513,214
Attributable to		
Owners of the parent company	179,240	510,175
Non-controlling interests	3,356	3,039
Profit for the period	182,596	513,214
Earnings per share		
Basic (Yen)		
Continuing operations (Note 30)	97.29	281.11
Discontinued operations (Note 30)	3.66	6.25
Total basic earnings per share for the interim period (Note 30)	100.95	287.36
Diluted (Yen)		
Continuing operations (Note 30)	97.28	281.08
Discontinued operations (Note 30)	3.66	6.25
Total diluted earnings per share for the interim period (Note 30)	100.94	287.33

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

(Millions of yen)

	2024	2025
Continuing operations		
Operating profit	314,223	867,038
Amortization cost of acquired intangibles arising from business acquisitions	55,683	70,525
Adjustment items (income)	(15,621)	(68,115)
Adjustment items (costs)	388,345	32,759
Adjusted operating profit (Note 6)	<u>742,629</u>	<u>902,207</u>

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2024 and 2025

(Millions of yen)

	2024	2025
Profit for the period	182,596	513,214
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 29, 33)	2,339	937
Remeasurements of defined benefit plans (Notes 22, 29)	13,998	22,171
Total of items that will not be reclassified to profit or loss	16,337	23,109
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	93,852	150,168
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	(4,201)	(78)
Hedge costs	29	5
Total of items that may be reclassified subsequently to profit or loss	89,680	150,095
Other comprehensive income (loss), net of taxes	106,017	173,204
Comprehensive income (loss) for the period	288,612	686,418
Attributable to		
Owners of the parent company	285,454	682,473
Non-controlling interests	3,159	3,945
Comprehensive income (loss) for the period	288,612	686,418

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2024 and 2025

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Hedge costs
As of January 1, 2024	100,000	736,478	(489,194)	557	270,810	9,145	(17)
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	93,999	(4,201)	29
Comprehensive income (loss) for the period	—	—	—	—	93,999	(4,201)	29
Acquisition of treasury shares (Note 23)	—	—	(2)	—	—	—	—
Disposal of treasury shares (Note 23)	—	220	617	(193)	—	—	—
Share-based payments (Note 32)	—	—	—	—	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	(918)	—
Total transactions with the owners	—	220	615	(193)	—	(918)	—
As of December 31, 2024	100,000	736,697	(488,579)	364	364,809	4,026	12
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	149,286	(78)	5
Comprehensive income (loss) for the period	—	—	—	—	149,286	(78)	5
Acquisition of treasury shares (Note 23)	—	—	(1,622)	—	—	—	—
Disposal of treasury shares (Note 23)	—	367	457	(74)	—	—	—
Share-based payments (Note 32)	—	—	—	—	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	—
Other increase (decrease)	—	—	—	—	—	(3,233)	—
Total transactions with the owners	—	367	(1,165)	(74)	—	(3,233)	—
As of December 31, 2025	100,000	737,064	(489,744)	291	514,095	715	17

(Millions of yen)

	Equity attributable to owners of the parent company						
	Other components of equity			Retained earnings	Total	Non-controlling interests	Total equity
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
As of January 1, 2024	10,054	—	290,550	3,192,323	3,830,156	82,336	3,912,491
Profit for the period	—	—	—	179,240	179,240	3,356	182,596
Other comprehensive income (loss)	2,333	14,054	106,214	—	106,214	(197)	106,017
Comprehensive income (loss) for the period	2,333	14,054	106,214	179,240	285,454	3,159	288,612
Acquisition of treasury shares (Note 23)	—	—	—	—	(2)	—	(2)
Disposal of treasury shares (Note 23)	—	—	(193)	(493)	151	—	151
Share-based payments (Note 32)	—	—	—	664	664	24	688
Dividends (Note 24)	—	—	—	(349,759)	(349,759)	(2,810)	(352,569)
Changes in the scope of consolidation	—	—	—	627	627	(66)	561
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	251	251	(539)	(287)
Transfer from other components of equity to retained earnings	1	(14,054)	(14,053)	14,053	—	—	—
Other increase (decrease)	—	—	(918)	—	(918)	—	(918)
Total transactions with the owners	1	(14,054)	(15,164)	(334,657)	(348,987)	(3,390)	(352,377)
As of December 31, 2024	12,388	—	381,599	3,036,905	3,766,623	82,104	3,848,727
Profit for the period	—	—	—	510,175	510,175	3,039	513,214
Other comprehensive income (loss)	938	22,147	172,298	—	172,298	906	173,204
Comprehensive income (loss) for the period	938	22,147	172,298	510,175	682,473	3,945	686,418
Acquisition of treasury shares (Note 23)	—	—	—	—	(1,622)	—	(1,622)
Disposal of treasury shares (Note 23)	—	—	(74)	(616)	134	—	134
Share-based payments (Note 32)	—	—	—	1,043	1,043	22	1,065
Dividends (Note 24)	—	—	—	(356,873)	(356,873)	(2,671)	(359,544)
Changes in the scope of consolidation	—	—	—	—	—	(56,129)	(56,129)
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	(1,561)	(1,561)	1,184	(377)
Transfer from other components of equity to retained earnings	(2,386)	(22,147)	(24,533)	24,533	—	—	—
Other increase (decrease)	—	—	(3,233)	(49)	(3,283)	—	(3,283)
Total transactions with the owners	(2,386)	(22,147)	(27,840)	(333,525)	(362,162)	(57,593)	(419,756)
As of December 31, 2025	10,940	—	526,058	3,213,555	4,086,933	28,456	4,115,389

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2024 and 2025

(Millions of yen)

	2024	2025
Cash flows from operating activities		
Profit before income taxes	224,333	739,786
Profit (loss) before income taxes from discontinued operations (Note 38)	9,434	(4,962)
Depreciation and amortization	179,837	195,899
Losses (gains) on liquidation of subsidiary	—	27,128
Impairment losses	17,370	34,892
Interest and dividend income	(67,562)	(67,271)
Interest expense	42,485	76,157
Share of profit in investments accounted for using the equity method	(12,885)	(13,332)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(7,374)	(13,570)
(Gains) losses on sale of investments in subsidiaries	(1,722)	—
(Gains) losses on transfer of business (Note 38)	—	(4,725)
(Increase) decrease in trade and other receivables	45,770	(33,364)
(Increase) decrease in inventories	(96,566)	(121,938)
Increase (decrease) in trade and other payables	(46,221)	42,139
Increase (decrease) in retirement benefit liabilities	(7,175)	(12,335)
(Increase) decrease in retirement benefit assets	39	69,804
(Increase) decrease in prepaid tobacco excise taxes	13,802	(78,877)
Increase (decrease) in tobacco excise tax payables	4,973	(21,495)
Increase (decrease) in consumption tax payables	4,126	21,208
Increase (decrease) in provisions	381,670	(177,164)
Increase (decrease) in settlement liabilities on litigation in Canada	—	(49,645)
Other	75,259	66,554
Subtotal	759,591	674,889
Interest and dividends received	65,353	111,202
Interest paid	(33,980)	(64,041)
Income taxes paid	(160,953)	(207,993)
Net cash flows from operating activities	630,011	514,056
Cash flows from investing activities		
Purchase of securities	(65,514)	(12,585)
Proceeds from sale and redemption of securities	81,318	52,073
Purchase of property, plant and equipment	(127,769)	(143,204)
Proceeds from sale of investment property	9,753	18,604
Purchase of intangible assets	(22,598)	(19,182)
Payments into time deposits	(48,262)	(321,591)
Proceeds from withdrawal of time deposits	—	207,252
Payments for business combinations	(265,667)	—
Subsequent payments for past fiscal years' business combinations	—	(68,271)
Proceeds from transfer of business (Note 39)	—	42,811
Purchase of investments in associates	—	(24,752)
Proceeds from sale of investments in associates	414	2,272
Other	(1,441)	1,586
Net cash flows from investing activities	(439,766)	(264,986)

	2024	(Millions of yen) 2025
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(349,645)	(356,853)
Dividends paid to non-controlling interests	(2,701)	(2,691)
Capital contribution from non-controlling interests	130	—
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	(150,105)	20,365
Proceeds from long-term borrowings (Note 31)	581,380	99,437
Repayments of long-term borrowings (Note 31)	(236,538)	(666,626)
Proceeds from issuance of bonds (Notes 19, 31)	97,616	577,483
Redemption of bonds (Notes 19, 31)	(8,722)	(120,165)
Repayments of lease liabilities (Note 31)	(26,218)	(24,787)
Acquisition of treasury shares	(2)	(1,622)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(100)	(12)
Other	0	0
Net cash flows from financing activities	(94,906)	(475,471)
Net increase (decrease) in cash and cash equivalents	95,339	(226,400)
Cash and cash equivalents at the beginning of the period	1,040,206	1,084,567
Effect of exchange rate changes on cash and cash equivalents	(50,978)	(27,015)
Changes in cash and cash equivalents resulting from transfer to assets held for sale	—	(17)
Cash and cash equivalents at the end of the period (Note 7)	1,084,567	831,135

F. Notes to Consolidated Financial Statements

Years Ended December 31, 2024 and 2025

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, 2025 were approved on March 23, 2026 by Takehiko Tsutsui, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS Accounting Standards

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Changes in Method of Presentation

For the year ended December 31, 2025, continuing operations and discontinued operations have been presented separately, as a result of the classification of the pharmaceutical business as discontinued operations. To reflect the changes in method of presentation, the consolidated statement of income and the consolidated statement of cash flows and relevant notes to the consolidated financial statements for the year ended December 31, 2024 have been accordingly changed.

For discontinued operations, please refer to “38. Discontinued Operations”.

3. Material Accounting Policy Information

(1) Basis of Consolidation

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

A. Subsidiaries

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

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

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

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

B. Associates

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

C. Joint Arrangements

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

(2) Business Combination

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

(3) Foreign Currency Translation

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

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

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income, and amortized cost. The Group determines the classification at initial recognition. Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

The 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, the 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.

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

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

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

(i) Fair Value Hedge

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

(ii) Cash Flow Hedge

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

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

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

(iii) Hedge of Net Investment in Foreign Operations

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

F. Fair Value of Financial Instruments

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

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

- Buildings and structures: 20 to 50 years
- Machinery and vehicles: 10 to 18 years

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

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

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

B. Intangible Assets

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

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

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

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

- Trademarks: 10 to 20 years
- Software: 5 years

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

(9) Leases

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

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

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

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

(10) Investment Property

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

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

(11) Impairment of Non-financial Assets

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

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

(12) Assets Held for Sale and Discontinued Operations

A. 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.

B. Discontinued Operations

The Group has classified a business segment that has been disposed of, or is classified as held for sale, into discontinued operations.

(13) Post-employment Benefits

The Group sponsors defined benefit plans and defined contribution plans as employee retirement benefit plans. The Company is obligated to bear pension expenses for a mutual assistance association incurred with respect to services in or before June 1956 (prior to the enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are calculated and included in liabilities related to retirement benefits. For each plan, the Group calculates the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the year on high quality corporate bonds or government bonds. Liabilities or assets for defined benefit plans are calculated by the present value of the defined benefit obligation, deducting the fair value of any plan assets (including adjustments for the asset ceiling for defined benefit plans and minimum funding requirements, if necessary). Expected interest costs and interest income are recognized as financial costs.

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

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

(14) Share-based Payments

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

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

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

(15) Provisions

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

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

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

(16) Revenue

A. Revenue from Contracts with Customers

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

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

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

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

B. Interest Income

Interest income is recognized using the effective interest rate method.

C. Dividend Income

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

(17) Government Grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.

In the case that the government grants are related to expense items, they are recognized in profit or loss on a systematic basis over the period in which the related costs for which the grants are intended to compensate are recognized. With regard to government grants for assets, the amount of the grants is deducted from the acquisition cost of the assets.

(18) Borrowing Costs

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

(19) Income Taxes

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

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

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

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

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

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

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

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

(20) Treasury Shares

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

(21) Earnings per Share

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

(22) Dividends

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

(23) Contingencies

A. Contingent Liabilities

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

B. Contingent Assets

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

(24) Adjusted Financial Measures

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

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

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

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the year ended December 31, 2025.

	IFRS Accounting Standards	Description of new standards and amendments
IAS 21	The Effects of Changes in Foreign Exchange Rates	Providing requirements for accounting treatment and disclosure relating to currencies that lack exchangeability

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. Settlement Liabilities on Litigation in Canada

The Company’s local subsidiary, JTI-Macdonald Corp. (hereinafter referred to as “JTI-Mac”), has agreed to pay settlement amounts in connection with a comprehensive settlement of lawsuits related to smoking and health against JTI-Mac and JT’s indemnitees. Payments commenced in 2025.

JTI-Mac was a party to ten health care cost recovery cases brought by the Canadian provinces and eight class actions where plaintiffs were seeking damages for harm allegedly caused by smoking of cigarettes. Following a decision of the Quebec Court of Appeal related to two class actions, JTI-Mac and its competitors and co-defendants, Rothmans, Benson & Hedges Inc. (hereinafter referred to as “RBH”) and Imperial Tobacco Canada Limited (hereinafter referred to as “ITC”, and collectively with JTI-Mac and RBH referred to as the “Tobacco Companies”), had been operating under the protection of the Companies’ Creditors Arrangement Act (“CCAA”) and participating in a Court-ordered mediation process with representatives of all claimant groups, including the Quebec class action plaintiffs.

Ultimately, CCAA Plans of Compromise and Arrangement (hereinafter referred to as the “Plans”), under which the Tobacco Companies would pay a total of CAD 32.5 billion (approximately ¥3.56 trillion) in aggregate to settle the litigation were approved by the Ontario Superior Court on March 6, 2025, and implemented on August 29, 2025.

Under the terms of its Plan, JTI-Mac made its upfront contribution of CAD 1.7 billion (approximately ¥180 billion). For the future annual payments under JTI-Mac’s Plan (hereinafter referred to as the “payable portion”) a certain percentage of JTI-Mac’s annual net income after tax (85% for years 1-5, 80% for years 6-10, 75% for years 11-15, and 70% from year 16 onwards) will be paid. These annual payments will continue until the total settlement amount (CAD 32.5 billion) is paid in aggregate by the Tobacco Companies, which the Company expects will take 30-40 years based on the Company’s estimates of each company’s future earnings under certain assumptions.

The payable portion recorded in liabilities is calculated based on the annual net income after tax for each year incorporating future trends in the market size of the tobacco business in Canada and JTI-Mac’s expected market share in the Canadian tobacco market. Additionally, the discount rate used in calculating the liability is a pre-tax discount rate of 6.13%, which reflects current market assessments of the time value of money and the risks specific to the liability.

Expenditures of the payable portion are recognized based on best estimates of the expenditures 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 rationally and 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.

Detail on the amount of the payable portion is described in “19. Bonds and Borrowings (Including Other Financial Liabilities)”

E. 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.”

F. 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 “40. Contingencies.”

G. 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 the adoption of IFRS 18 are currently under consideration. However, the Group has evaluated that the adoption of other standards and interpretations will not have material impact on our operating results and financial condition.

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

6. Operating Segments

(1) Outline of Reportable Segments

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

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

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

The “Pharmaceutical Business” has been classified as discontinued operations in the current fiscal year. The content is described in “38. Discontinued Operations.”

(2) Revenues and Performances of Reportable Segments

Revenues and performances of reportable segments from continuing operations 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, 2024

(Millions of yen)

	Reportable Segments			Other (Note 2)	Elimination	Consolidated
	Tobacco	Processed Food	Total			
Revenue						
External revenue	2,896,984	157,183	3,054,168	2,541	—	3,056,709
Intersegment revenue	1	28	29	2,052	(2,081)	—
Total revenue	<u>2,896,986</u>	<u>157,211</u>	<u>3,054,197</u>	<u>4,593</u>	<u>(2,081)</u>	<u>3,056,709</u>
Segment profit (loss)						
Adjusted operating profit (Note 1)	<u>791,773</u>	<u>8,071</u>	<u>799,844</u>	<u>(57,214)</u>	<u>0</u>	<u>742,629</u>
Other items						
Depreciation and amortization (Note 3)	162,129	7,312	169,441	5,452	—	174,893
Impairment losses on other than financial assets	16,549	12	16,561	810	—	17,370
Reversal of impairment losses on other than financial assets	825	—	825	—	—	825
Share of profit (loss) in investments accounted for using the equity method	12,793	26	12,819	66	—	12,885
Capital expenditures (Note 4)	134,963	6,116	141,080	2,610	—	143,690

¥2,778,610 million of the external revenue from the tobacco business is core revenue.

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

(Millions of yen)

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

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

Year ended December 31, 2025

(Millions of yen)

	Reportable Segments			Other (Note 2)	Elimination	Consolidated
	Tobacco	Processed Food	Total			
Revenue						
External revenue	3,305,407	159,513	3,464,920	2,756	—	3,467,675
Intersegment revenue	1	35	35	2,652	(2,687)	—
Total revenue	<u>3,305,408</u>	<u>159,547</u>	<u>3,464,955</u>	<u>5,408</u>	<u>(2,687)</u>	<u>3,467,675</u>
Segment profit (loss)						
Adjusted operating profit (Note 1)	<u>952,161</u>	<u>8,589</u>	<u>960,750</u>	<u>(58,569)</u>	<u>27</u>	<u>902,207</u>
Other items						
Depreciation and amortization (Note 3)	179,712	7,389	187,101	5,170	—	192,270
Impairment losses on other than financial assets	8,977	712	9,690	856	—	10,546
Reversal of impairment losses on other than financial assets	537	—	537	—	—	537
Share of profit (loss) in investments accounted for using the equity method	13,212	(8)	13,204	127	—	13,332
Capital expenditures (Note 4)	143,181	7,392	150,573	4,565	—	155,138

¥3,184,384 million of the external revenue from the tobacco business is core revenue.

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

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	864,223	735,554	1,584,608	3,184,384
Adjusted operating profit	224,554	277,562	450,045	952,161

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, 2024

(Millions of yen)

	Reportable Segments			Other (Note 2)	Elimination	Consolidated
	Tobacco	Processed Food	Total			
Adjusted operating profit (Note 1)	791,773	8,071	799,844	(57,214)	0	742,629
Amortization cost of acquired intangibles arising from business acquisitions	(55,683)	—	(55,683)	—	—	(55,683)
Adjustment items (income) (Note 6)	5,568	446	6,013	9,607	—	15,621
Adjustment items (costs) (Note 7)	(387,074)	(511)	(387,585)	(760)	—	(388,345)
Operating profit (loss)	354,584	8,005	362,589	(48,367)	0	314,223
Financial income						69,004
Financial costs						(158,895)
Profit before income taxes						224,333

Year ended December 31, 2025

(Millions of yen)

	Reportable Segments			Other (Note 2)	Elimination	Consolidated
	Tobacco	Processed Food	Total			
Adjusted operating profit (Note 1)	952,161	8,589	960,750	(58,569)	27	902,207
Amortization cost of acquired intangibles arising from business acquisitions	(70,525)	—	(70,525)	—	—	(70,525)
Adjustment items (income) (Note 6)	53,232	1,134	54,365	13,750	—	68,115
Adjustment items (costs) (Note 7)	(29,515)	(1,826)	(31,341)	(1,418)	—	(32,759)
Operating profit (loss)	905,353	7,896	913,249	(46,237)	27	867,038
Financial income						67,942
Financial costs						(195,194)
Profit before income taxes						739,786

(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 associated with the utilization of idle properties 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)

	2024	2025
Tobacco	22,794	23,574
Processed Food	503	475
Other	3,174	2,930
Depreciation of right-of-use assets	26,471	26,979

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

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

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

	(Millions of yen)	
	2024	2025
Restructuring incomes	7,885	13,982
Gain on remeasurement of liability related to litigation in Canada	—	52,883
Other	7,736	1,250
Adjustment items (income)	<u>15,621</u>	<u>68,115</u>

Restructuring incomes for the years ended December 31, 2024 and 2025 mainly related to gains on sale of real estate. The breakdown of restructuring incomes is described in “26. Other Operating Income.” Other (income) for the year ended December 31, 2024 mainly related to gains on deconsolidation of subsidiaries.

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

	(Millions of yen)	
	2024	2025
Restructuring costs	6,077	4,068
Loss on liquidation of subsidiary	—	27,128
Loss on litigation in Canada	375,636	—
Other	6,631	1,563
Adjustment items (costs)	<u>388,345</u>	<u>32,759</u>

Restructuring costs for the year ended December 31, 2024 were mainly related to rationalization in a market in the “Tobacco Business.” Restructuring costs included in “Cost of sales” were ¥3 million for the year ended December 31, 2025. Restructuring costs included in “Selling, general and administrative expenses” were ¥6,077 million and ¥4,065 million for the years ended December 31, 2024 and 2025, respectively. The breakdown of restructuring costs is described in “27. Selling, General and Administrative Expenses.” Other (costs) for the year ended December 31, 2024 were mainly related to impairment loss on trademark and transaction costs of the business combination in the “Tobacco Business.”

(3) Geographic Information

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

Non-current Assets

(Millions of yen)

	2024	2025
Japan	575,799	566,564
Overseas	3,736,334	3,739,299
Consolidated	4,312,132	4,305,864

(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 from continuing operations for each year is as follows:

External Revenue from continuing operations

(Millions of yen)

	2024	2025
Japan	609,129	627,099
Overseas	2,447,580	2,840,577
Consolidated	3,056,709	3,467,675

(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 ¥416,186 million (13.6% of consolidated revenue) for the year ended December 31, 2024 and ¥497,488 million (14.3% of consolidated revenue) for the year ended December 31, 2025.

7. Cash and Cash Equivalents

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

	2024	2025
Cash and deposits	913,681	795,411
Short-term investments	170,886	35,725
Total	<u>1,084,567</u>	<u>831,135</u>

(Millions of yen)

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 ¥123,169 million as of December 31, 2024 and ¥122,205 million as of December 31, 2025 held by the Group’s Iranian subsidiaries.

8. Trade and Other Receivables

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

	2024	2025
Notes and accounts receivable	545,898	559,040
Financial assets measured at amortized cost	523,014	534,360
Financial assets measured at fair value through profit or loss	22,884	24,680
Other	30,893	93,093
Allowance for doubtful accounts	(7,810)	(11,451)
Total	<u>568,982</u>	<u>640,681</u>

(Millions of yen)

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

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

9. Inventories

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

	2024	2025
Merchandise and finished goods	211,762	222,183
Leaf tobacco (Note)	599,921	674,615
Other	145,598	163,338
Total	<u>957,281</u>	<u>1,060,136</u>

(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)

	2024	2025
Derivative assets	18,900	13,758
Equity securities	42,492	35,188
Debt securities	76,551	10,459
Time deposits	46,568	181,105
Other	94,420	93,798
Allowance for doubtful accounts	(6,780)	(6,892)
Total	272,151	327,416
Current assets	120,211	195,816
Non-current assets	151,940	131,600
Total	272,151	327,416

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

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, amounting to ¥36,630 million as of December 31, 2024 and ¥34,460 million as of December 31, 2025, and as financial assets measured at fair value through profit or loss, amounting to ¥5,862 million as of December 31, 2024, and ¥728 million as of December 31, 2025, and debt securities and time deposit 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	2024	2025
Seven & i Holdings Co., Ltd.	6,381	5,774
KATO SANGYO CO., LTD.	2,542	3,609
DOUTOR·NICHIRETS Holdings Co., Ltd.	3,087	3,429
Japan Airport Terminal Co., Ltd.	2,000	1,754
NIPPON EXPRESS HOLDINGS, INC.	1,242	1,740
Daicel Corporation	1,195	1,189
AEON CO., LTD.	547	1,116
OHSO FOOD SERVICE CORP.	458	482
Satoh & Co., Ltd.	333	417
OIE SANGYO CO., LTD.	218	262

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

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

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

	(Millions of yen)	
	<u>2024</u>	<u>2025</u>
Fair value	2,824	5,434
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	1	(2,386)

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

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

11. Other Assets

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

(Millions of yen)

	2024	2025
Prepaid tobacco excise taxes	597,589	723,291
Prepaid expenses	22,564	31,335
Consumption tax receivables	20,017	23,649
Other	192,096	203,605
Total	832,266	981,880
Current assets	826,766	977,640
Non-current assets	5,500	4,240
Total	832,266	981,880

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)

	2024	2025
Assets held for sale		
Property, plant and equipment	5,037	5,541
Investment property	3,520	4
Other	11,208	144
Total	19,765	5,689

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

“Other” in the table above for the year ended December 31, 2024, which mainly consists of investments accounted for using the equity method, is assets decided to be sold in non-core business operated by a subsidiary.

With regard to such assets and assets sold, impairment losses from continuing operations of ¥808 million were recognized in “Selling, general and administrative expenses” in the consolidated statement of income for the year ended December 31, 2025.

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:

Carrying Amount	(Millions of yen)				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2024	398,479	323,761	41,209	58,050	821,499
Individual acquisition	32,802	55,446	16,668	53,845	158,762
Acquisition through business combination	4,170	11,040	656	665	16,531
Transfer to investment property	(210)	—	—	—	(210)
Transfer to assets held for sale	—	(2,315)	—	—	(2,315)
Depreciation	(38,545)	(56,942)	(14,086)	—	(109,573)
Impairment losses	(1,319)	(5,182)	(419)	(223)	(7,143)
Reversal of impairment losses	—	750	—	75	825
Sale or disposal	(2,319)	(2,082)	(610)	(6)	(5,017)
Exchange differences on translation of foreign operations	12,980	17,017	1,530	4,052	35,579
Other	4,542	35,730	2,368	(43,878)	(1,238)
As of December 31, 2024	410,581	377,224	47,316	72,579	907,700
Individual acquisition	46,993	57,109	15,916	62,828	182,847
Transfer to investment property	(443)	—	—	—	(443)
Transfer to assets held for sale	(8,773)	(1,130)	(1,930)	(1,435)	(13,268)
Depreciation	(36,661)	(60,386)	(14,246)	—	(111,293)
Impairment losses	(16,622)	(2,856)	(2,690)	(1,345)	(23,514)
Reversal of impairment losses	24	79	106	—	209
Sale or disposal	(2,101)	(2,191)	(454)	(115)	(4,861)
Exchange differences on translation of foreign operations	12,751	25,172	3,716	2,621	44,260
Other	9,746	33,847	4,871	(50,299)	(1,836)
As of December 31, 2025	415,494	426,868	52,605	84,834	979,800

Acquisition Cost	(Millions of yen)				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2024	776,746	1,040,905	173,636	58,050	2,049,337
As of December 31, 2024	823,087	1,137,391	184,385	72,579	2,217,443
As of December 31, 2025	802,895	1,244,878	185,578	85,149	2,318,501

Accumulated Depreciation and Accumulated Impairment Losses	(Millions of yen)				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2024	378,266	717,144	132,427	—	1,227,838
As of December 31, 2024	412,507	760,167	137,070	—	1,309,743
As of December 31, 2025	387,402	818,010	132,973	315	1,338,701

(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 from continuing operations of ¥7,143 million in the year ended December 31, 2024, and ¥8,382 million in the year ended December 31, 2025 in “Selling, general and administrative expenses” in the consolidated statement of income.

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

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

Impairment losses recognized in the year ended December 31, 2025 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items and the decrease in profitability, etc.

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

14. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

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

	(Millions of yen)				
Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2024	2,616,440	131,754	23,015	46,049	2,817,258
Individual acquisition	—	—	6,375	16,547	22,922
Acquisition through business combination	248,076	51,210	—	266,089	565,375
Amortization (Note)	—	(50,095)	(11,703)	(8,377)	(70,175)
Impairment losses	—	(2,940)	(5,812)	(63)	(8,814)
Sale or disposal	—	—	(270)	(184)	(454)
Exchange differences on translation of foreign operations	50,223	7,682	882	16,290	75,077
Other	(485)	—	14,845	(14,832)	(472)
As of December 31, 2024	2,914,254	137,611	27,333	321,519	3,400,717
Individual acquisition	—	—	8,369	10,683	19,052
Amortization (Note)	—	(53,361)	(11,274)	(19,883)	(84,518)
Transfer to assets held for sale	—	—	(553)	(13,199)	(13,752)
Impairment losses	—	—	(231)	(9,317)	(9,548)
Sale or disposal	—	(0)	(598)	(2)	(600)
Decrease resulting from liquidation of subsidiaries	(317,463)	(1)	(0)	(0)	(317,465)
Exchange differences on translation of foreign operations	325,195	203	739	(3,576)	322,562
Other	1,111	—	12,306	(11,110)	2,307
As of December 31, 2025	2,923,096	84,452	36,091	275,115	3,318,755

(Note) The amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income. The Amortization of intangible assets from discontinued operations is included in “Profit for the period from discontinued operations”.

	(Millions of yen)				
Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2024	2,616,440	1,192,456	175,811	114,342	4,099,049
As of December 31, 2024	2,914,254	1,278,413	172,332	398,094	4,763,093
As of December 31, 2025	2,923,096	1,319,990	177,522	335,140	4,755,748

	(Millions of yen)				
Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2024	—	1,060,703	152,796	68,292	1,281,790
As of December 31, 2024	—	1,140,802	145,000	76,575	1,362,377
As of December 31, 2025	—	1,235,537	141,431	60,025	1,436,993

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill, trademarks and other intangible assets in the “Tobacco Business.” The carrying amounts of goodwill from the business as of December 31, 2024 and 2025 were ¥2,888,885 million and ¥2,897,728 million, respectively. The carrying amounts of trademarks from the business as of December 31, 2024 and 2025 were ¥137,610 million and ¥84,451 million, respectively. The carrying amounts of other intangible assets from the business as of December 31, 2024 and 2025 were ¥297,352 million and ¥270,289 million, respectively.

The majority of goodwill in the business was recognized as a result of the acquisitions of RJR Nabisco’s non-U.S. tobacco operations in 1999, Gallaher in 2007, Natural American Spirit’s in 2016 and Vector Group Ltd. in 2024. The majority of other intangible assets was those related to contracts and licenses to operate tobacco businesses, which were recognized as a result of the acquisitions of Vector Group Ltd. in 2024.

The other intangible assets are amortized using the straight-line method and the remaining amortization period is mainly 19 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2025, the carrying amount of the majority of goodwill is allocated to the tobacco cash-generating unit of ¥2,897,728 million (¥2,888,885 million for the year ended December 31, 2024) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2024). Details of the result of impairment tests are as follows:

A. Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 4.7% in the fourth year (2024: 5.5%) to 3.8% in the ninth year (2024: 3.7%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 11.2% (2024: 10.6%). 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 2.2% in the fourth year (2024: 2.1%) to 2.0% in the ninth year (2024: 1.9%), 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 5.6% (2024: 5.0%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

(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 from continuing operations of ¥8,814 million for the year ended December 31, 2024, and ¥335 million for the year ended December 31, 2025 in “Selling, general and administrative expenses” in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2024 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.

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

Impairment losses recognized in the year ended December 31, 2025 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of 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 from continuing operations is as follows:

Year ended December 31, 2024

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	20,776	9,391	26	30,192
Depreciation	19,293	7,146	32	26,471

As of December 31, 2024

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

Year ended December 31, 2025

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	31,260	11,565	87	42,911
Depreciation	18,367	8,560	52	26,979

As of December 31, 2025

	(Millions of yen)			
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	56,704	17,323	124	74,151

(2) Expense Items Related to Lease

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

	(Millions of yen)	
	2024	2025
Financial cost on lease liabilities (Note)	2,439	3,682
Expense relating to short-term lease or leases of low-value assets (Note)	7,175	6,683
Expense relating to variable lease payments (Note)	1,321	2,580
Total cash outflow for leases	28,680	28,627

(Note)The amounts recognized as expenses from continuing operations are stated.

16. Investment Property

(1) Schedule of Investment Property

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

	2024	2025
As of January 1	9,338	3,716
Transfer from property, plant and equipment	210	443
Transfer to assets held for sale	(4,974)	(412)
Transfer to property, plant and equipment	(3)	(700)
Depreciation	(89)	(88)
Impairment losses	(750)	(242)
Sale or disposal	(25)	(0)
Exchange differences on translation of foreign operations	9	352
As of December 31	3,716	3,068
Acquisition cost as of January 1	27,031	8,880
Accumulated depreciation and accumulated impairment losses as of January 1	17,693	5,164
Acquisition cost as of December 31	8,880	8,594
Accumulated depreciation and accumulated impairment losses as of December 31	5,164	5,525

(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, 2024

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

As of December 31, 2025

	Level 1	Level 2	Level 3	Total
Investment property	—	11,832	785	12,617

(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 from continuing operations of ¥750 million for the year ended December 31, 2024, and ¥242 million for the year ended December 31, 2025 in “Selling, general and administrative expenses” in the consolidated statement of income.

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

Impairment losses recognized for the year ended December 31, 2025 represent losses incurred to reduce the carrying amounts to the recoverable amounts for idle properties such as buildings, due to the decision to demolish individual items, etc. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at “zero.”

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, 2024

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

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

Year ended December 31, 2025

(Millions of yen)

Deferred Tax Assets	As of January 1, 2025	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2025
Fixed assets (Note 2)	60,662	(13,218)	—	(1,021)	46,422
Retirement benefits	59,439	(4,919)	(4,681)	(13,602)	36,237
Carryforward of unused tax losses	142,917	38,889	—	(1,075)	180,731
Other (Note 3)	271,057	(50,249)	18,568	14,902	254,278
Subtotal	534,076	(29,498)	13,887	(796)	517,668
Valuation allowance	(172,826)	(16,882)	(13,736)	1,022	(202,423)
Total	361,250	(46,380)	150	225	315,246

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2025	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2025
Fixed assets (Note 2)	(156,804)	12,225	—	(2,786)	(147,365)
Retirement benefits	(21,646)	14,482	(1,402)	6,757	(1,810)
Other	(123,662)	(12,731)	(154)	(601)	(137,148)
Total	(302,113)	13,976	(1,556)	3,370	(286,324)

(Note 1) “Other” includes exchange differences on translation of foreign operations and acquisition through business combinations.

(Note 2) “Fixed assets” include property, plant and equipment, goodwill, intangible assets and investment property.

(Note 3) “Other” for the years ended December 31, 2024 and 2025 includes a provision for loss on litigation in Canada and settlement liabilities on litigation in Canada, respectively.

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 ¥118,040 million (including ¥50,463 million, for which the carryforward expires after five years) as of December 31, 2024, and ¥142,912 million (including ¥89,075 million, for which the carryforward expires after five years) as of December 31, 2025. Tax credits, for which the deferred tax assets are not recognized, were ¥11,236 million (including ¥7,081 million, for which the carryforward expires after five years) as of December 31, 2024, and ¥10,719 million (including ¥7,037 million, for which the carryforward expires after five years) as of December 31, 2025.

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax liabilities were not recognized, was ¥506,712 million as of December 31, 2024 and 2025.

(2) Income Taxes

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

(Millions of yen)

	2024	2025
Current income taxes	146,426	212,048
Deferred income taxes	(96,020)	26,663
Total income taxes	50,406	238,711

Deferred income taxes decreased by ¥6,004 million and increased by ¥250 million for the years ended December 31, 2024, and 2025, respectively, due to the effect of changes in tax rates in Japan and 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 from continuing operations 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.

(%)

	2024	2025
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(13.66)	(11.50)
Non-deductible expenses	1.85	5.09
Non-taxable incomes	(1.57)	(1.51)
Changes in tax rates	(1.00)	0.03
Valuation allowance	3.66	2.04
Tax credits	(1.19)	(0.56)
Retained earnings	1.52	(0.34)
Withholding tax in foreign countries	3.45	5.63
Tax contingencies	0.46	1.56
Other	(1.46)	1.41
Average actual tax rate	22.47	32.27

(4) Impact of Application of Pillar Two Model Rules

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

Since the Income Inclusion Rule (IIR) under the Pillar Two Model Rules became applicable in Japan from the current fiscal year (2025), the Company, as the ultimate parent company under Japanese regulations, files returns and pays taxes under the IIR, and files related information returns, on behalf of all entities within the Group.

In the countries where a Qualified Domestic Minimum Top-up Tax (QDMTT) has been introduced, each entity within the Group will file and pay taxes, as well as submit related information returns, in accordance with the respective local regulations.

Regarding the Undertaxed Payment Rule (UTPR), no filings or tax payments are expected since the Company files tax returns and pays taxes for all subsidiaries under the Income Inclusion Rule (IIR).

Income taxes related to the Pillar Two Model Rules were ¥894 million for the year ended December 31, 2024, and ¥1,431 million for the year ended December 31, 2025.

18. Trade and Other Payables

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

(Millions of yen)

	2024	2025
Accounts payable and other payables	259,974	282,194
Other	399,537	429,527
Total	<u>659,510</u>	<u>711,721</u>

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)

	2024	2025	Due
Derivative liabilities	45,103	35,792	—
Short-term borrowings	60,317	79,444	—
Current portion of long-term borrowings	2,935	184	—
Current portion of bonds (Note 2)	115,416	—	—
Long-term borrowings (Note 1)	735,400	120,699	2027 - 2055
Bonds (Note 2)	812,721	1,478,362	—
Lease liabilities	63,595	74,540	—
Settlement liabilities on litigation in Canada	—	156,511	—
Other	477	851	—
Total	<u>1,835,964</u>	<u>1,946,383</u>	
Current liabilities	238,633	141,695	
Non-current liabilities	1,597,331	1,804,688	
Total	<u>1,835,964</u>	<u>1,946,383</u>	

(Note 1) ¥99,980 million as of December 31, 2024 and ¥99,463 million as of December 31, 2025 of the long-term borrowings are subordinated loans due in 2055. The Company may, at its option, repay all or part of the principal early on any interest payment date on or after January 31, 2030.

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

Company	Name of bond	Date of issuance	(Millions of yen)		(%)	Collateral	Date of maturity
			As of December 31, 2024	As of December 31, 2025	Interest rate		
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	25,000 (25,000)	—	0.599	Yes	July 15, 2025
Japan Tobacco Inc.	13th domestic straight bond	September 10, 2018	30,000	30,000	0.355	Yes	September 8, 2028
Japan Tobacco Inc.	14th domestic straight bond	September 10, 2018	10,000	10,000	0.758	Yes	September 10, 2038
Japan Tobacco Inc.	15th domestic straight bond	April 20, 2023	10,000	10,000	0.713	Yes	April 19, 2030
Japan Tobacco Inc.	16th domestic straight bond	April 20, 2023	30,000	30,000	0.920	Yes	April 20, 2033
Japan Tobacco Inc.	17th domestic straight bond	April 20, 2023	20,000	20,000	1.630	Yes	April 20, 2043
Japan Tobacco Inc.	18th domestic straight bond	April 10, 2025	—	49,922	1.293	Yes	April 10, 2030
Japan Tobacco Inc.	19th domestic straight bond	April 10, 2025	—	19,957	1.781	Yes	April 10, 2035
Japan Tobacco Inc.	Straight bond in USD	April 15, 2025	— [—]	124,234 [USD 800 mil.]	4.850	Yes	May 15, 2028
Japan Tobacco Inc.	Straight bond in USD	April 15, 2025	— [—]	139,584 [USD 900 mil.]	5.250	Yes	June 15, 2030
Japan Tobacco Inc.	Straight bond in USD	April 15, 2025	— [—]	123,737 [USD 800 mil.]	5.850	Yes	June 15, 2035
JT International Financial Services B.V.	Straight bond in USD (Note 6)	September 28, 2018	75,680 [USD 484 mil.]	74,927 [USD 484 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	90,416 (90,416) [EUR 550 mil.]	— [—]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	78,345 [GBP 400 mil.]	83,315 [GBP 400 mil.]	2.750	No	September 28, 2033
JT International Financial Services B.V.	Straight bond in EUR (Note 6)	November 26, 2019	73,748 [EUR 450 mil.]	82,399 [EUR 450 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Subordinated bond in EUR (Note 7)	October 7, 2020	82,138 [EUR 500 mil.]	67,494 [EUR 368 mil.]	2.375	No	April 7, 2081 (Note 3)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	81,948 [EUR 500 mil.]	91,560 [EUR 500 mil.]	2.875	No	October 7, 2083 (Note 4)
JT International Financial Services B.V.	Straight bond in USD (Note 6)	September 14, 2021	84,295 [USD 562 mil.]	83,616 [USD 562 mil.]	2.250	No	September 14, 2031
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	62,634 [USD 400 mil.]	61,941 [USD 400 mil.]	3.300	No	September 14, 2051
JT International Financial Services B.V.	Straight bond in USD	October 24, 2022	77,487 [USD 500 mil.]	76,753 [USD 500 mil.]	6.875	No	October 24, 2032
JT International Financial Services B.V.	Straight bond in EUR	April 11, 2024	96,446 [EUR 600 mil.]	107,887 [EUR 600 mil.]	3.625	No	April 11, 2034
JT International Financial Services B.V.	Straight bond in EUR	April 17, 2025	— [—]	100,007 [EUR 550 mil.]	4.125	No	June 17, 2035
JT International Financial Services B.V.	Subordinated bond in EUR	September 4, 2025	— [—]	91,029 [EUR 500 mil.]	3.870	No	September 4, 2055 (Note 5)
		Total	928,136 (115,416)	1,478,362 (—)			

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

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

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

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

payment date thereafter.

(Note 5) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on March 4, 2031 and on each interest payment date thereafter.

(Note 6) The Issuer purchased a portion of the bonds during the previous fiscal year.

(Note 7) The Issuer purchased a portion of the bonds during the current fiscal year.

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

A. 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).

B. JTI-Mac has agreed to pay for a settlement under a comprehensive settlement of lawsuits related to smoking and health brought against multiple parties including JTI-Mac and JT's indemnitees. Assets of JTI-Mac and its subsidiary are pledged as collateral for the performance of obligations under the Plan, which is ¥56,725 million for the year ended December 31, 2025.

20. Provisions

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

Year ended December 31, 2024

(Millions of yen)

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

Year ended December 31, 2025

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Provision for loss on litigation in Canada	Other provisions	Total
As of January 1, 2025	11,502	895	3,736	375,636	58,097	449,867
Provisions	318	1,040	4,025	—	37,189	42,573
Interest cost associated with passage of time	1	—	—	8,363	—	8,364
Provisions used	(294)	(421)	(3,736)	(374,305)	(15,504)	(394,260)
Provisions reversed	(208)	(205)	—	—	(14,460)	(14,874)
Exchange differences on translation of foreign operations	48	(93)	—	(9,695)	5,208	(4,531)
As of December 31, 2025	<u>11,367</u>	<u>1,216</u>	<u>4,025</u>	<u>—</u>	<u>70,530</u>	<u>87,139</u>
Current liabilities	230	1,089	4,025	—	27,439	32,783
Non-current liabilities	11,137	127	—	—	43,091	54,355
Total	<u>11,367</u>	<u>1,216</u>	<u>4,025</u>	<u>—</u>	<u>70,530</u>	<u>87,139</u>

A. Asset Retirement Provisions

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

B. Restructuring Provisions

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

C. Provisions for Sales Rebates

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

D. Provision for Loss on Litigation in Canada

In connection with lawsuits related to smoking and health against Tobacco Companies including JTI-Mac, following the approval by the Ontario Superior Court of a proposed Plan aimed at reaching a comprehensive settlement with all claimants, including class action plaintiffs, the Company recorded a provision for loss on litigation in Canada of ¥375,636 million in the previous fiscal year.

Subsequently, Tobacco Companies deposited a total of approximately ¥1,360,795 million as an upfront payment in accordance with the court-approved Plan. Of this amount, JTI-Mac contributed approximately ¥179,952 million. The Plan came into effect on August 29, 2025. Therefore, the Company utilized an amount equal to JTI-Mac’s deposit payment from the provision for loss on litigation in Canada recorded in the previous fiscal year and reclassified the remaining balance to “Other financial liabilities” in the consolidated statement of financial position.

21. Other Liabilities

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

(Millions of yen)

	2024	2025
Tobacco excise tax payables	466,836	484,672
Tobacco special excise tax payables	7,982	8,052
Tobacco local excise tax payables	178,253	174,436
Consumption tax payables	172,211	192,945
Bonus to employees	97,109	106,741
Employees' unused paid vacations liabilities	22,475	22,833
Other	205,488	149,376
Total	<u>1,150,352</u>	<u>1,139,054</u>
Current liabilities	1,029,925	1,004,331
Non-current liabilities	120,427	134,724
Total	<u>1,150,352</u>	<u>1,139,054</u>

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-out was implemented for the U.K. pension plan of the Group in November 2025. In conjunction with this, an insurance company has accepted plan assets and obligations at the amount of defined benefit obligations of the plan plus fees, etc., and this insurance company will pay benefits to plan participants in the future.

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, 2024 (Notes 1, 2)	139,597	569,376	708,974
Current service cost	7,759	11,515	19,274
Past service cost and settlement	—	384	384
Interest expense	2,429	19,402	21,831
Contributions by plan participants	—	3,626	3,626
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	(1,609)	(516)	(2,125)
Actuarial gains and losses arising from changes in financial assumptions	(1,649)	(11,664)	(13,313)
Actuarial gains and losses arising from experience adjustments	(7,457)	3,591	(3,866)
Benefits paid	(14,010)	(40,490)	(54,500)
Effect of business combination	—	10,877	10,877
Exchange differences on translation of foreign operations	—	35,606	35,606
Other	(309)	(0)	(309)
As of December 31, 2024 (Notes 1, 2)	124,752	601,708	726,460
Current service cost	7,692	12,126	19,818
Past service cost and settlement	—	87	87
Interest expense	2,241	19,060	21,301
Contributions by plan participants	—	3,977	3,977
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	299	1,431	1,730
Actuarial gains and losses arising from changes in financial assumptions	(6,407)	(27,379)	(33,786)
Actuarial gains and losses arising from experience adjustments	449	9,109	9,558
Benefits paid	(13,897)	(35,354)	(49,251)
Decrease due to transfer of business	(16,239)	—	(16,239)
Settlement of the defined benefit plan (Note 4)	—	(165,428)	(165,428)
Exchange differences on translation of foreign operations	—	42,559	42,559
Other	(18)	470	452
As of December 31, 2025 (Notes 1, 2)	98,872	462,365	561,237

(Note 1) The Group's weighted-average duration of the defined benefit obligations is 6.5 years for Japan and 11.7 years for overseas (2024 : 6.9 years for Japan and 11.7 years for overseas).

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

	As of December 31, 2024			As of December 31, 2025		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	98,999	255,731	354,730	78,931	281,995	360,926
Deferred members	2,070	43,498	45,568	1,165	11,708	12,873
Pensioners	23,683	302,479	326,162	18,776	168,662	187,438
Total	124,752	601,708	726,460	98,872	462,365	561,237

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

(Millions of yen)

	2024	2025
As of January 1	14,390	11,802
Interest expense	187	189
Remeasurement gains and losses	(700)	(613)
Benefits paid	(2,075)	(1,802)
As of December 31	11,802	9,576

(Note 4) This represents a decrease in defined benefit obligations due to the implementation of the pension buy-out transaction.

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2024	43,968	451,419	495,387
Interest income	736	15,680	16,416
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(495)	974	479
Contributions by the employer (Notes 1, 2)	743	7,943	8,686
Contributions by plan participants	—	3,626	3,626
Benefits paid	(3,515)	(27,787)	(31,302)
Effect of business combination	—	13,631	13,631
Exchange differences on translation of foreign operations	—	31,873	31,873
As of December 31, 2024	41,436	497,360	538,796
Interest income	718	16,309	17,027
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	(386)	6,191	5,806
Contributions by the employer (Notes 1, 2)	453	13,258	13,711
Contributions by plan participants	—	3,977	3,977
Benefits paid	(3,077)	(25,681)	(28,758)
Decrease due to transfer of business	(6,674)	—	(6,674)
Settlement of the defined benefit plan (Note 3)	—	(237,298)	(237,298)
Effect of business combination	—	—	—
Exchange differences on translation of foreign operations	—	31,371	31,371
As of December 31, 2025	32,470	305,487	337,958

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

(Note 2) The Group plans to pay contributions of ¥7,826 million in the year ending December 31, 2026.

(Note 3) This represents a decrease in plan assets due to the implementation of the pension buy-out transaction.

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, 2024

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

As of December 31, 2025

	(Millions of yen)		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	18,871	292,021	310,892
Fair value of the plan assets	(32,470)	(305,487)	(337,958)
Subtotal	(13,599)	(13,467)	(27,066)
Present value of the unfunded defined benefit obligations	80,001	170,344	250,345
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	66,401	156,877	223,279
Retirement benefit liabilities	81,069	172,156	253,225
Retirement benefit assets	(14,668)	(15,278)	(29,946)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	66,401	156,877	223,279

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, 2024				As of December 31, 2025		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	8,642	—	8,642	9,015	—	9,015
Equity instruments	3,311	—	3,311	1,935	—	1,935
Japan	1,730	—	1,730	1,244	—	1,244
Overseas	1,580	—	1,580	691	—	691
Debt instruments	5,829	—	5,829	1,687	—	1,687
Japan	4,565	—	4,565	1,006	—	1,006
Overseas	1,264	—	1,264	681	—	681
General account of life insurance companies (Note 1)	—	21,492	21,492	—	18,969	18,969
Other	1,009	1,154	2,163	122	743	865
Total	<u>18,791</u>	<u>22,645</u>	<u>41,436</u>	<u>12,758</u>	<u>19,713</u>	<u>32,470</u>

(Millions of yen)

Overseas						
As of December 31, 2024				As of December 31, 2025		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	75,865	—	75,865	10,096	—	10,096
Equity instruments	74,636	—	74,636	94,247	—	94,247
North America	27,484	—	27,484	43,035	—	43,035
Other	47,152	—	47,152	51,212	—	51,212
Debt instruments	100,107	7,653	107,760	112,435	—	112,435
North America	39,158	—	39,158	38,221	—	38,221
Other	60,948	7,653	68,601	74,213	—	74,213
Real estate	39,138	32	39,170	51,947	36	51,984
Other (Note 2)	16,241	183,688	199,929	27,261	9,464	36,726
Total	<u>305,987</u>	<u>191,373</u>	<u>497,360</u>	<u>295,987</u>	<u>9,501</u>	<u>305,487</u>

(Millions of yen)

	Total					
	As of December 31, 2024			As of December 31, 2025		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	84,508	—	84,508	19,111	—	19,111
Equity instruments	77,947	—	77,947	96,182	—	96,182
Debt instruments	105,936	7,653	113,589	114,121	—	114,121
Real estate	39,138	32	39,170	51,947	36	51,984
General account of life insurance companies (Note 1)	—	21,492	21,492	—	18,969	18,969
Other (Note 2)	17,250	184,842	202,092	27,383	10,208	37,591
Total	324,777	214,019	538,796	308,744	29,213	337,958

(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 ¥174,212 million for the year ended December 31, 2024, and, following the U.K pension buy-out transaction, the Company no longer held any such insurance contracts for the year ended December 31, 2025.

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

(Japan)

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

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

(Overseas)

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

E. Matters Related to Actuarial Assumptions

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

As of December 31, 2024

	(%)		(years)	
	Japan	Overseas	Overseas	
	Japan	Overseas	Males	Females
Discount rate	2.0	3.4		
Inflation rate	—	2.3		
			Overseas	
	Japan		Males	Females
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.5 (Note 2)	29.7 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			22.9 (Note 4)	25.2 (Note 4)

As of December 31, 2025

	(%)		(years)	
	Japan	Overseas	Overseas	
	Japan	Overseas	Males	Females
Discount rate	2.9	3.1		
Inflation rate	—	1.6		
			Overseas	
	Japan		Males	Females
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	24.8 (Note 2)	30.1 (Note 2)	21.7 (Note 3)	24.0 (Note 3)
Future pensioners			23.2 (Note 4)	25.3 (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, 2024

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

As of December 31, 2025

			(Millions of yen)
	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(2,951)	(25,364)
	Decrease by 0.5%	3,168	27,902
Inflation rate	Increase by 0.5%	—	12,755
	Decrease by 0.5%	—	(11,910)
Mortality rate	Extended 1 year	1,140	10,200
	Shortened 1 year	(1,079)	(10,322)

F. Breakdown of Defined Benefit Cost

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

Year ended December 31, 2024

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

Year ended December 31, 2025

	(Millions of yen)		
	Japan	Overseas	Total
Current service cost	7,692	12,126	19,818
Past service cost and gains and losses on settlement	—	87	87
Interest expense (income)	1,523	2,751	4,274
Defined benefit cost through profit or loss	9,216	14,963	24,179
Actuarial gains and losses arising from changes in demographic assumptions	299	1,431	1,730
Actuarial gains and losses arising from changes in financial assumptions	(6,407)	(27,379)	(33,786)
Actuarial gains and losses arising from experience adjustments	449	9,109	9,558
Return on plan assets (excluding amounts included in interest income)	386	(6,191)	(5,806)
Defined benefit cost through other comprehensive income	(5,273)	(23,031)	(28,304)
Total of defined benefit cost	3,943	(8,067)	(4,124)

(Note 1) The net amount of interest expense and interest income is included in “Financial costs.” Other expenses are included in “Cost of sales” and “Selling, general and administrative expenses.” The defined benefit cost through profit or loss from discontinued operations is included in “Profit for the period from discontinued operations.”

(Note 2) Contributions to the defined contribution plans were ¥14,635 million for the year ended December 31, 2024 and ¥16,719 million for the year ended December 31, 2025 and were not included in the table above. The contributions to the defined contribution plans from discontinued operations is included in “Profit for the period from discontinued operations.”

(2) Other Employee Benefit Expenses

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

	2024	2025
Remuneration and salary	330,938	365,401
Bonus to employees	128,591	139,472
Legal welfare expenses	59,211	68,513
Welfare expenses	54,579	62,576
Termination benefits	5,525	540

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2024 and 2025 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, 2024	2,000,000	100,000	736,478
Increase (decrease)	—	—	220
As of December 31, 2024	2,000,000	100,000	736,697
Increase (decrease)	—	—	367
As of December 31, 2025	2,000,000	100,000	737,064

(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, 2024	224,692	489,194
Increase (decrease) (Note 2)	(283)	(615)
As of December 31, 2024	224,409	488,579
Increase (decrease) (Note 2)	203	1,165
As of December 31, 2025 (Note 3)	224,612	489,744

(Note 1) The Company adopts share option plans, restricted stock remuneration plans, restricted stock unit plans and performance share unit plans and utilizes treasury shares for delivery of shares due to their exercises. Based on restricted stock unit plan, the Company’s ordinary shares are purchased through the board benefit trust. 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, 2024 and 0 thousand shares for the year ended December 31, 2025. Purchase of shares for restricted stock unit plan through the board benefit trust are 412 thousand shares for the year ended December 31, 2025. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2024 and 0 thousand shares for the year ended December 31, 2025. The number of shares delivered upon exercise of share options are 121 thousand shares for the year ended December 31, 2024 and 40 thousand shares for the

year ended December 31, 2025. The number of shares disposed for restricted stock remuneration are 125 thousand shares for the year ended December 31, 2024 and 140 thousand shares for the year ended December 31, 2025. The number of shares disposed for performance share unit remuneration are 38 thousand shares for the year ended December 31, 2024 and 30 thousand shares for the year ended December 31, 2025.

(Note 3) The balance of Treasury shares at the end of the fiscal year includes 412 thousand shares of the Company's ordinary shares held by the board benefit trust.

(3) Other Components of Equity

A. Subscription Rights to Shares

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

B. Exchange Differences on Translation of Foreign Operations

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

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

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

D. Hedge Costs

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

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

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

F. Remeasurements of Defined Benefit Plans

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

24. Dividends

Dividends paid for each year are as follows:

Year ended December 31, 2024

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

Year ended December 31, 2025

	Class of shares	(Millions of yen)	(Yen)	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders' Meeting (March 26, 2025)	Ordinary shares	172,232	97	December 31, 2024	March 27, 2025
Board of Directors (July 31, 2025)	Ordinary shares	184,683	104	June 30, 2025	September 1, 2025

The total amount of dividends declared at the Board of Directors meeting held on July 31, 2025 includes ¥42 million in dividends on the Company's ordinary shares held by the board benefit trust.

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

Year ended December 31, 2024

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

The following proposals are planned to be submitted at the Annual Shareholders' Meeting to be held on March 25, 2026.

Year ended December 31, 2025

	Class of shares	(Millions of yen)	(Yen)	Basis date	Effective date
		Total dividends	Dividends per share		
(Resolution)					
Annual Shareholders' Meeting (March 25, 2026)	Ordinary shares	230,854	130	December 31, 2025	March 26, 2026

The total amount of dividends declared at the Annual Shareholders' Meeting held on March 25, 2026 includes ¥54 million in dividends on the Company's ordinary shares held by the board benefit trust.

25. Revenue

(1) Disaggregation of Revenue

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

Year ended December 31, 2024

(Millions of yen)

	Reportable Segments		Other	Consolidated
	Tobacco (Note)	Processed Food		
Core revenue from tobacco business	2,778,610	—	—	2,778,610
Other	118,375	157,183	2,541	278,099
Total	<u>2,896,984</u>	<u>157,183</u>	<u>2,541</u>	<u>3,056,709</u>

Year ended December 31, 2025

(Millions of yen)

	Reportable Segments		Other	Consolidated
	Tobacco (Note)	Processed Food		
Core revenue from tobacco business	3,184,384	—	—	3,184,384
Other	121,023	159,513	2,756	283,291
Total	<u>3,305,407</u>	<u>159,513</u>	<u>2,756</u>	<u>3,467,675</u>

(Note) Revenues from RRP in core revenue from the “Tobacco Business” were ¥98,873 million and ¥122,511 million for the years ended December 31, 2024 and 2025, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

A. Tobacco Business

Tobacco business engages in the sale of tobacco products.

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

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

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

B. Processed Food Business

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

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

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

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

(2) Transaction Price Allocated to the Remaining Performance Obligations

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

26. Other Operating Income

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

	2024	2025
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	8,852	15,769
Gain on remeasurement of liability related to litigation in Canada	-	52,883
Other (Note)	22,284	14,632
Total	<u>31,136</u>	<u>83,284</u>

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

	2024	2025
Gain on sale of property, plant and equipment, intangible assets and investment property	7,865	13,744
Other	20	239
Total	<u>7,885</u>	<u>13,982</u>

27. Selling, General and Administrative Expenses

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

(Millions of yen)

	2024	2025
Advertising expenses	52,638	62,416
Promotion expenses	165,531	198,240
Commission (Note 2)	79,490	88,825
Employee benefit expenses (Note 2)	401,209	439,099
Research and development expenses (Note 1)	44,709	52,402
Depreciation and amortization	102,597	116,874
Impairment losses on other than financial assets (Note 2)	17,370	10,546
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	2,221	3,331
Loss on liquidation of subsidiary	-	27,128
Loss on litigation in Canada	375,636	-
Other (Note 2)	165,822	179,298
Total	<u>1,407,224</u>	<u>1,178,162</u>

(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)

	2024	2025
Employee benefit expenses	5,529	551
Impairment losses on other than financial assets	768	1,566
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	218	858
Other	(437)	1,091
Total	<u>6,077</u>	<u>4,065</u>

28. Financial Income and Financial Costs

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

(Millions of yen)

Financial Income	2024	2025
Dividend income		
Financial assets measured at fair value through other comprehensive income	2,392	845
Financial assets measured at fair value through profit or loss	96	0
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	64,586	66,091
Other	1,930	1,006
Total	<u>69,004</u>	<u>67,942</u>

(Millions of yen)

Financial Costs	2024	2025
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings (Note 2)	39,893	60,176
Other	2,587	15,995
Foreign exchange losses (Note 1)	81,783	97,520
Employee benefit expenses (Note 3)	5,410	4,293
Loss on net monetary position	18,435	6,453
Other	10,787	10,757
Total	<u>158,895</u>	<u>195,194</u>

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

(Note 2) Valuation gain (loss) of interest rate derivatives is included in interest expenses.

(Note 3) 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, 2024

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

Year ended December 31, 2025

	(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	1,839	—	1,839	(901)	937
Remeasurements of defined benefit plans	28,304	—	28,304	(6,132)	22,171
Total of items that will not be reclassified to profit or loss	30,142	—	30,142	(7,034)	23,109
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	438,619	(292,895)	145,724	4,445	150,168
Net gain (loss) on derivatives designated as cash flow hedges	(3,501)	3,382	(120)	41	(78)
Hedge costs	8	—	8	(3)	5
Total of items that may be reclassified subsequently to profit or loss	435,126	(289,514)	145,612	4,483	150,095
Total	465,268	(289,514)	175,755	(2,551)	173,204

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)

	2024	2025
Profit for the period attributable to owners of the parent company	179,240	510,175
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	179,240	510,175
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	6,495	11,094
Profit for the period from continuing operations used for calculation of basic earnings per share	172,745	499,081

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

(Thousands of shares)

	2024	2025
Weighted-average number of shares during the period	1,775,509	1,775,404

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2024	2025
Profit for the period used for calculation of basic earnings per share	179,240	510,175
Adjustment	—	—
Profit for the period used for calculation of diluted earnings per share	179,240	510,175
Profit for the period from discontinued operations attributable to ordinary shareholders of the parent company	6,495	11,094
Profit for the period from continuing operations used for calculation of diluted earnings per share	172,745	499,081

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

(Thousands of shares)

	2024	2025
Weighted-average number of ordinary shares during the period	1,775,509	1,775,404
Increased number of ordinary shares under subscription rights to shares	264	193
Weighted-average number of diluted ordinary shares during the period	1,775,773	1,775,597

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, 2024

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

Year ended December 31, 2025

	As of January 1, 2025	Cash flows	Non-cash changes			As of December 31, 2025
			Acquisition through business combinations	Foreign exchange movement	Other	
Short-term borrowings and commercial paper	60,317	20,365	—	(1,299)	60	79,444
Long-term borrowings (Note 1)	738,335	(567,190)	—	(51,436)	1,173	120,883
Bonds (Note 1)	928,136	457,318	—	91,164	1,744	1,478,362
Lease liabilities	63,595	(24,787)	(679)	3,595	32,816	74,540
Total	1,790,384	(114,294)	(679)	42,024	35,792	1,753,228

(Note 1) Current portion is included.

(Note 2) Of the bonds issued and redeemed for the year ended December 31, 2025, the portion corresponding to the modification is offset on the consolidated statement of cash flows.

32. Share-based Payments

(1) Share Option

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

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

A. Share Option Contract Conditions of the Company

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

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

- (i) The subscription rights to shares become exercisable when a holder of a subscription right to shares no longer holds a position as a director, an audit & supervisory board member or an executive officer. In the subscription rights to shares allocation contract with holders of such rights, it is provided for the rights that become exercisable from the date following the date on which they no longer hold their positions.
- (ii) In the case where any holders of subscription rights to shares waive such rights, they cannot exercise them.

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

(Shares)

	2024			2025		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	211,800	139,600	351,400	164,200	66,400	230,600
Exercised	—	(120,800)	(120,800)	—	(39,800)	(39,800)
Transferred	(47,600)	47,600	—	—	—	—
Balance as of December 31	164,200	66,400	230,600	164,200	26,600	190,800
Exercisable balance as of December 31	—	13,200	13,200	—	9,400	9,400

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

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

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

(Note 4) The weighted-average share prices of share options at the time of exercise during the period were ¥4,097 and ¥4,006 for the years ended December 31, 2024 and 2025, respectively.

(Note 5) The weighted-average remaining contract years of unexercised share options at the end of each period were 22.0 years and 21.1 years for the years ended December 31, 2024 and 2025, 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 Director and Executive Officer 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

	2024	2025
Grant date	April 19, 2024	June 27, 2025
Number of allotted shares	Directors: 70,200	Directors: 82,000
	Executive Officers: 54,300	Executive Officers: 57,700
Fair value at the grant date	¥3,958	¥4,410
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(3) Restricted Stock Unit

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

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

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

Details of Restricted Stock Unit Plan

	2024	2025
Grant date	March 1, 2024	March 1, 2025
Number of allotted share units	159,259	236,117
Fair value at the grant date	¥3,879	¥3,811
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange on the grant date	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange on the grant date

(4) Performance Share Unit Remuneration

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

The Eligible Directors and Executive Officers shall be paid monetary compensation claims and monies for the delivery of the Company’s ordinary shares in accordance with the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period as determined through deliberations by the Advisory Panel on Nomination and Compensation of the Company after the performance evaluation period of 3 consecutive fiscal years on the condition that they continue to serve as Directors, etc. of the Company for a stipulated period. They shall receive the delivery of the Company’s ordinary shares by paying all of such monetary compensation claims by the method of contribution in kind. The number of allotted shares and the amount of cash to be paid are calculated by multiplying basic number of share units determined in accordance with duties of each Eligible Director and Executive Officer 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, 2024 is ¥4,080 and for the year ended December 31, 2025 is ¥5,640.

Details of Performance Share Unit Remuneration

	2024	2025
Grant date	April 19, 2024	June 27, 2025
Number of allotted shares	Directors: 20,237	Directors: 18,244
	Executive Officers: 17,777	Executive Officers: 12,100
Fair value at the grant date	¥3,958	¥4,410
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(5) Share-based Payment Expenses

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

	2024	2025
Restricted stock remuneration (equity-settled)	435	559
Restricted stock unit (equity-settled)	172	455
Performance share unit remuneration (cash-settled)	172	704

(Millions of yen)

(6) Liabilities Arising from Share-based Payment

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

	(Millions of yen)	
	2024	2025
Carrying amounts of liability	846	905

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:

	2024	2025
Interest-bearing debt (Note)	1,726,789	1,678,688
Cash and cash equivalents	(1,084,567)	(831,135)
Net interest-bearing debt	642,222	847,553
Capital (equity attributable to owners of the parent company)	3,766,623	4,086,933

(Note) Lease liabilities are excluded.

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

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

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

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

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

(2) Financial Risk Management

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

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

(3) Credit Risk

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

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

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

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

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

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

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

(Millions of yen)

	Trade receivables	Other financial assets			Total
		Measured at an amount equal to the 12-month expected credit losses	Measured at an amount equal to the full lifetime expected credit losses		
			Non-credit-impaired financial assets	Credit-impaired financial assets	
As of January 1, 2024	3,905	—	91	6,339	10,335
Addition	6,111	—	43	28	6,182
Decrease (intended use)	(324)	—	—	—	(324)
Decrease (reversal)	(2,335)	—	(36)	(81)	(2,452)
Other	453	—	—	396	849
As of December 31, 2024	7,810	—	98	6,682	14,590
Addition	5,043	—	—	—	5,043
Decrease (intended use)	(420)	—	(0)	(26)	(447)
Decrease (reversal)	(1,065)	—	(4)	—	(1,070)
Other	85	—	—	143	227
As of December 31, 2025	11,451	—	93	6,798	18,343

(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, 2024

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

As of December 31, 2025

	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
(Millions of yen)								
Non-derivative financial liabilities								
Trade and other payables	711,721	711,721	711,721	—	—	—	—	—
Short-term borrowings	79,444	79,444	79,444	—	—	—	—	—
Current portion of long-term borrowings	184	184	184	—	—	—	—	—
Long-term borrowings	120,699	121,236	—	20,204	201	79	97	100,654
Current portion of bonds	—	—	—	—	—	—	—	—
Bonds	1,478,362	1,493,215	—	—	230,077	82,723	200,454	979,962
Lease liabilities	74,540	91,166	25,587	18,774	14,028	9,516	4,201	19,059
Settlement liabilities on litigation in Canada	156,511	424,907	4,551	8,759	7,783	7,354	31,712	364,748
Subtotal	2,621,460	2,921,872	821,486	47,737	252,090	99,671	236,464	1,464,423
Derivative financial liabilities								
Foreign exchange forward contract	35,792	35,792	35,111	682	—	—	—	—
Interest rate swap	—	—	—	—	—	—	—	—
Subtotal	35,792	35,792	35,111	682	—	—	—	—
Total	2,657,252	2,957,664	856,597	48,419	252,090	99,671	236,464	1,464,423

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

	2024	2025
Total committed line of credit	601,301	683,898
Withdrawing	912	—
Unused balance	600,389	683,898

(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)	
	2024	2025
Profit before income taxes	(6,899)	(6,349)

(6) Interest Rate Risk

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

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

Interest Rate Sensitivity Analysis

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

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

	(Millions of yen)	
	2024	2025
Profit before income taxes	(2,170)	3,462

(7) Hedging Transactions

The Group's policy for hedging transactions is stated in "3. Material Accounting Policy Information."

A. Cash Flow Hedges

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

As of December 31, 2024

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

As of December 31, 2025

	Contract amount		Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.
				Assets	Liabilities	
Foreign exchange risk						
Foreign exchange forward contract						
EUR / USD	USD	1,563 mil.	USD 2 mil.	136	4,655	€ 0.86
GBP / USD	USD	478 mil.	USD 1 mil.	133	1,289	£ 0.75
USD / CHF	CHF	687 mil.	—	2,541	273	\$ 1.26
USD / PLN	PLN	1,979 mil.	—	2,327	170	\$ 0.27
EUR / PLN	PLN	842 mil.	—	60	572	€ 0.23
USD / BRL	BRL	889 mil.	BRL 1 mil.	1,489	20	\$ 0.86
Interest rate risk						
Interest rate swap						
Variable rate receipt and fixed rate payment	JPY	50,000 mil.	50,000 mil.	52	—	1.04%

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

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

(Millions of yen)

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign exchange risk	Interest rate risk (Note)	Total
As of January 1, 2024	4,039	5,106	9,145
Other comprehensive income			
Amount arising (Note)	(3,558)	—	(3,558)
Reclassification adjustments (Note)	(398)	(828)	(1,226)
Tax effects	577	7	584
Basis adjustments	(918)	—	(918)
As of December 31, 2024	(259)	4,285	4,026
Other comprehensive income			
Amount arising (Note)	(1,937)	(1,564)	(3,501)
Reclassification adjustments (Note)	3,997	(615)	3,382
Tax effects	(568)	610	41
Basis adjustments	(3,233)	—	(3,233)
As of December 31, 2025	(2,001)	2,716	715

(Note) Regarding interest rate 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, 2025

	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	(Millions of yen)
					Line item in the consolidated statement of income that includes profit or loss due to reclassification adjustment
Foreign exchange risk	(1,937)	132	Financial income	3,997	Financial income

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, 2025

	(Millions of yen)	
	The change in fair value of the hedging instrument	The change in value of the hedged item
Foreign exchange risk	(1,804)	1,937

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, 2024

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

As of December 31, 2025

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	2,980 mil.	EUR	2,932 mil.	—	538,754	\$	1.15
Bonds in GBP	GBP	391 mil.	GBP	391 mil.	—	82,549	\$	1.32
Foreign exchange forward contract								
JPY / USD	USD	2,246 mil.	—	—	27	19,967	¥	145.08
USD / RON	RON	650 mil.	—	—	6	396	\$	0.22

(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)	
	2024	2025
As of January 1	(16,442)	(32,293)
Other comprehensive income		
Amount arising (Note 1)	(29,491)	(64,985)
Tax effects	13,641	4,445
As of December 31 (Note 2)	(32,293)	(92,833)

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

(Note 2) Net loss arising from the hedging instruments for which hedge accounting is discontinued were ¥32,241 million as of December 31, 2024 and ¥56,867 million as of December 31, 2025, respectively, which are included in the exchange differences on translation of foreign operations.

(8) Market Price Fluctuation Risk

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

(9) Fair Value of Financial Instruments

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

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

A. Financial Instruments Measured at Amortized Cost

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

As of December 31, 2024

(Millions of yen)

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

As of December 31, 2025

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	120,883	—	117,812	—	117,812
Bonds	1,478,362	1,455,042	—	—	1,455,042
Settlement liabilities on litigation in Canada (Note)	156,511	—	—	154,897	154,897

(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.

The fair value of settlement liabilities on litigation in Canada is calculated based on the present value which is obtained by discounting each amount of expected annual payment by the discount rate at the end of the fiscal year.

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, 2024

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

As of December 31, 2025

	(Millions of yen)			
	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	13,758	—	13,758
Equity securities	20,742	—	14,446	35,188
Notes and accounts receivable	—	24,680	—	24,680
Other	—	—	13,695	13,695
Total	<u>20,742</u>	<u>38,438</u>	<u>28,141</u>	<u>87,321</u>
Derivative liabilities	—	35,792	—	35,792
Total	<u>—</u>	<u>35,792</u>	<u>—</u>	<u>35,792</u>

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

	(Millions of yen)	
	2024	2025
As of January 1	26,560	45,920
Total gain (loss)		
Profit or loss (Note 1)	(1,259)	(3,768)
Other comprehensive income (Note 2)	504	(1,217)
Purchases	6,977	8,036
Increase due to business combination	5,750	—
Sales	(2,902)	(3,825)
Other	10,289	(17,005)
As of December 31	<u>45,920</u>	<u>28,141</u>

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2024 and 2025 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, 2024 and 2025 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.”

(10) Lack of exchangeability

The functional currency (Iranian Rial: IRR) used by the Group's subsidiaries in Iran lacks exchangeability due to restrictions on cross-border remittances and the acquisition of foreign currencies, which result from the foreign exchange allocation system of the Central Bank of Iran and international sanctions. Accordingly, the spot exchange rate at the end of the current fiscal year (8,082.36 JPY/IRR) is calculated by multiplying the 2nd half Exporter's Rate (EUR/IRR) published by the Central Bank of Iran by an externally published rate (JPY/EUR). Major transactions affected include the repatriation of funds received by Group companies from the Iranian subsidiaries, exposing the Group to the risk that IRR cannot be exchanged into other currencies in a timely manner or may be exchanged at an unfavorable rate (the carrying amount of the related cash and cash equivalents is disclosed in "7. Cash and cash equivalents").

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, 2025, the Japanese government held 33.34% of all outstanding shares of the Company.

(1) Related-party Transactions

Related-party transactions are conducted under the same conditions as regular business transactions.

The Group's revenue from TC Megapolis JSC, the local Russian distribution affiliate, was ¥369,568 million and ¥444,326 million for the years ended December 31, 2024 and 2025, respectively. The Group held trade receivables of ¥74,959 million and ¥90,734 million from TC Megapolis JSC as of December 31, 2024 and 2025, 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)	
	2024	2025
Remuneration and bonuses	1,145	1,254
Share-based payments	385	811
Total	<u>1,530</u>	<u>2,064</u>

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	2024		2025	
	Number of subsidiaries	Number of entities accounted for using the equity method (Note 1)	Number of subsidiaries	Number of entities accounted for using the equity method (Note 1)
Tobacco	222	50	182	15
Processed Food	21	2	20	2
Other (Note 2)	25	1	23	3
Total	<u>268</u>	<u>53</u>	<u>225</u>	<u>20</u>

(Note 1) No associates or joint ventures are considered to be material to the Group.

(Note 2) As "Pharmaceuticals Business" has been classified as discontinued operations for the year ended December 31, 2025, subsidiaries classified in the discontinued operations are presented in "Other." The transfer of pharmaceutical subsidiaries was completed during the current fiscal year.

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:

	2024	2025
Acquisition of property, plant and equipment	61,747	41,778
Acquisition of intangible assets	6,136	4,557
Total	<u>67,883</u>	<u>46,335</u>

(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 Iran, Turkey and Myanmar, the Group applies the conversion coefficients derived 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 Myanmar published by the Central Bank of Myanmar. Major Consumer Price Indexes are described.

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

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2015 (omission)	93	1,695
31 December 2021	379	417
31 December 2022	563	281
31 December 2023	789	201
31 December 2024	1,037	153
31 December 2025	1,583	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 (omission)	182	1,932
31 December 2021	687	512
31 December 2022	1,128	311
31 December 2023	1,859	189
31 December 2024	2,685	131
31 December 2025	3,514	100

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

The Group applies the Consumer Price Index and conversion coefficients as of December 31 2025 reasonably calculated based on the Consumer Price Index for March 2025, along with the consideration of the economic situation of Myanmar.

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2013 (omission)	73	506
31 December 2021	126	295
31 December 2022	170	218
31 December 2023	216	172
31 December 2024	289	129
31 December 2025	372	100

Furthermore, as Ethiopia's economy is no longer classified as hyperinflationary economy, adjustments for hyperinflation to the financial statements of the relevant subsidiary have been discontinued. Additionally, following the deconsolidation of the Company's local subsidiary in Sudan, adjustments for hyperinflation to the financial statements of that subsidiary have been terminated.

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

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

38. Discontinued Operations

(1) General information of discontinued operations

The Group classifies continuing operations and discontinued operations based on operating segments. As a result, for a business not managed as an independent operating segment, it will not be classified as discontinued operations when sold or discontinued and its operating income (loss) and cash flows will be included in the operating income (loss) and cash flows of continuing operations.

The shares of Torii Pharmaceutical Co., Ltd., (Torii Pharmaceutical), a pharmaceutical subsidiary of the Group, held by the Company were transferred to Torii Pharmaceutical Co., Ltd. on September 1, 2025, and an absorption-type split contract regarding the transfer of the Company's pharmaceutical business to Shionogi & Co., Ltd. was concluded on September 25, 2025. Accordingly, the "Pharmaceutical Business" has been classified as discontinued operations in the current fiscal year and presented separately from continuing operations.

The transfer of pharmaceutical business was completed on December 1, 2025.

(2) Profit and loss of discontinued operations

	Year ended December 31, 2024	Year ended December 31, 2025
(Millions of yen)		
Profit and loss of discontinued operations		
Revenue	93,050	75,699
Cost of sales	(28,178)	(17,650)
Gross profit	64,871	58,049
Other operating income (Note 1)	66	4,419
Selling, general and administrative expenses (Note 2)	(55,700)	(67,738)
Operating profit (loss)	9,238	(5,270)
Financial income	498	412
Financial costs	(303)	(103)
Profit before income taxes (loss)	9,434	(4,962)
Income taxes (Note 3)	(765)	17,101
Profit for the period from discontinued operations	8,669	12,139
Attributable to:		
Owners of the parent company	6,495	11,094
Non-controlling interests	2,173	1,045
Profit for the period from discontinued operations	8,669	12,139

(Note 1) Gains on transfer of pharmaceutical business of ¥4,725 million are included in the year ended December 31, 2025.

(Note 2) Impairment losses of ¥24,346 million are included in the year ended December 31, 2025.

(Note 3) Tax expense of ¥-26,371 million related to transfer of pharmaceutical business is included in the year ended December 31, 2025.

(3) Cash flows of discontinued operations

(Millions of yen)

	Year ended December 31, 2024	Year ended December 31, 2025
Cash flows of discontinued operations		
Cash flows from operating activities	9,731	10,993
Cash flows from investing activities (Note)	(10,624)	42,825
Cash flows from financing activities	(2,340)	(1,193)
Total	<u>(3,233)</u>	<u>52,625</u>

(Note) Proceeds from transfer of pharmaceutical business are included in the year ended December 31, 2025.

39. Transfer of business

On December 1, 2025, the Company's pharmaceutical business was transferred to Shionogi & Co., Ltd. In connection with this transfer, the shares of Torii Pharmaceutical Co., Ltd. and other subsidiary, held by the Group were also transferred.

The consideration was received entirely in cash.

	(Millions of yen)
	Amount
Consideration received	79,297
Cash and cash equivalents in business transferred	(36,486)
Proceeds from transfer of business	<u>42,811</u>

The breakdown of assets and liabilities transferred is as follows:

	(Millions of yen)
	Book value
Current assets	104,892
Non-current assets	64,268
Total assets	<u>169,160</u>
Current liabilities	26,411
Non-current liabilities	11,691
Total liabilities	<u>38,102</u>

40. 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 its defenses asserted in these proceedings are based on substantial evidence and implement the system for the response to action with the assistance of external lawyers.

(1) Smoking and Health Related Litigation

Some of the Company's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco products, or exposure to tobacco smoke. As of December 31, 2025, there were a total of 142 smoking and health related cases pending including cases in which the Company's subsidiaries were named as defendants. All of the 18 cases in Canada have been forever discharged, released, enjoined and barred as a result of CCAA Plans of Compromise and Arrangement which were approved by the Ontario Superior Court on March 6, 2025 and implemented on August 29, 2025. Procedural steps for these claims to be formally dismissed with prejudice from each relevant court are currently progressing.

Of these, there were some lawsuits for which a provision for loss on litigation has been provided in connection with the acquisition of the U.S. tobacco company, Vector Group Ltd.

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

A. Individual Claims

There are 123 individual cases brought against the Company's subsidiaries in the United States of America.

B. Class Actions

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

The United States of America Louisiana Class Action (Young):

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

(2) Other Legal Proceedings

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

41. Subsequent Events

No items to report.

(2) Others

A. Semi-annual Information for the Year ended December 31, 2025

(Millions of yen)

	January 1, 2025 to June 30, 2025	January 1, 2025 to December 31, 2025
Revenue	1,734,543	3,467,675
Profit before income taxes for the period (year)	437,821	739,786
Profit attributable to owners of the parent company for the period (year)	319,905	510,175
Basic earnings per share for the period (year) (yen)	180.19	287.36

(Note) From the nine months ended September 30, 2025, the “Pharmaceutical Business” has been classified as discontinued operations. Therefore, revenue, and profit before income taxes for the period (year), represent the amounts for continuing operations.

B. Significant Lawsuits

The significant lawsuits of the Group are as stated in “40. Contingencies” in the notes to consolidated financial statements.

2. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2024 and 2025

(Millions of yen)

	2024	2025
Assets		
Current assets		
Cash and deposits	205,764	252,923
Securities	—	21,000
Accounts receivable-trade	*2 35,420	*2 39,953
Merchandise and finished goods	38,813	39,084
Semi-finished goods	76,050	44,220
Work in process	1,726	1,644
Raw materials and supplies	42,204	38,622
Advance payments-trade	1,641	2,626
Prepaid expenses	5,364	3,418
Short-term loans receivable from subsidiaries and affiliates	39,264	119,092
Other	*2 33,922	*2 31,224
Allowance for doubtful accounts	(31)	(31)
Total current assets	480,137	593,774
Noncurrent assets		
Property, plant and equipment		
Buildings	65,106	49,966
Structures	1,849	1,641
Machinery and equipment	28,822	37,322
Vehicles	961	1,277
Tools, furniture and fixtures	12,401	11,008
Land	43,669	37,449
Construction in progress	6,605	5,392
Total property, plant and equipment	159,412	144,054
Intangible assets		
Right of trademark	16,422	96
Software	16,481	14,699
Goodwill	35,771	—
Other	6,831	4,670
Total intangible assets	75,505	19,464
Investments and other assets		
Investment securities	21,707	22,521
Shares of subsidiaries and affiliates	1,508,834	1,652,493
Long-term loans receivable from subsidiaries and affiliates	5,488	269,132
Long-term prepaid expenses	9,714	6,794
Deferred tax assets	25,981	17,266
Other	17,102	16,933
Allowance for doubtful accounts	(90)	(64)
Total investments and other assets	1,588,735	1,985,074
Total noncurrent assets	1,823,652	2,148,593
Total assets	2,303,789	2,742,366

(Millions of yen)

		2024		2025
Liabilities				
Current liabilities				
Accounts payable-trade	*2	15,261	*2	17,001
Short-term borrowings	*2	100,000		—
Current portion of bonds	*1	25,000		—
Lease obligations		182		90
Accounts payable-other	*2	71,164	*2	82,268
National tobacco excise taxes payable		66,209		66,788
National tobacco special excise taxes payable		7,982		8,052
Local tobacco excise taxes payable		76,693		74,945
Income taxes payable		1,330		1,446
Accrued consumption taxes		26,994		25,705
Cash management system deposits received	*3	292,571	*3	275,181
Provision for bonuses		13,396		13,843
Other provisions		3,471		1,379
Other		53,561		58,338
Total current liabilities		753,816		625,035
Noncurrent liabilities				
Bonds payable	*1	100,000	*1	559,543
Long-term borrowings		120,000		120,000
Lease obligations		616		955
Provision for retirement benefits		98,521		86,089
Long-term income taxes payable		—		936
Other	*2	15,943		11,424
Total noncurrent liabilities		335,079		778,948
Total liabilities		1,088,895		1,403,983

(Millions of yen)

	2024	2025
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	636,400	636,400
Other capital surplus	100,297	100,664
Total capital surplus	736,697	737,064
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	243	223
Reserve for reduction entry	31,382	22,486
Special account for reduction entry	877	822
Retained earnings brought forward	831,979	975,733
Total retained earnings	883,256	1,018,039
Treasury shares	(488,579)	(488,124)
Total shareholders' equity	1,231,375	1,366,980
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,052	6,503
Deferred gains or losses on hedges	(23,896)	(35,389)
Total valuation and translation adjustments	(16,844)	(28,887)
Subscription rights to shares	364	291
Total net assets	1,214,895	1,338,384
Total liabilities and net assets	2,303,789	2,742,366

B. Nonconsolidated Statement of Income
Years Ended December 31, 2024 and 2025

(Millions of yen)

	2024		2025	
Net sales	*5	530,247	*5	566,521
Cost of sales	*5	195,050	*5	216,731
Gross profit		335,197		349,790
Selling, general and administrative expenses	*1,*5	341,273	*1,*5	355,879
Operating loss		(6,076)		(6,090)
Non-operating income				
Interest income	*5	141	*5	10,626
Dividends income	*5	423,513	*5	483,530
Other	*5	10,280	*5	11,485
Total non-operating income		433,934		505,641
Non-operating expenses				
Interest expenses	*5	2,341	*5	3,659
Interest on bonds		1,013		16,080
Foreign exchange losses		18,370		2,976
Other	*5	1,758	*5	4,274
Total non-operating expenses		23,482		26,990
Ordinary income		404,377		472,561
Extraordinary income				
Gain on sales of noncurrent assets	*2,*5	7,898	*2,*5	13,748
Gain on sales of shares of subsidiaries		—	*5	28,761
Other		1,324	*5	1,526
Total extraordinary income		9,223		44,035
Extraordinary losses				
Loss on sales of noncurrent assets	*3,*5	196	*3,*5	21
Loss on retirement of noncurrent assets	*4,*5	1,455	*4,*5	2,351
Impairment loss		4,504		2,534
Loss on liquidation of business		—	*6	15,494
Other		1,894		693
Total extraordinary losses		8,048		21,093
Income before income taxes		405,552		495,504
Income taxes-current		2,309	*7	(1,993)
Income taxes-deferred		(1,606)		5,798
Total income taxes		703		3,805
Net income		404,849		491,698

C. Nonconsolidated Statement of Changes in Net Assets
Years Ended December 31, 2024 and 2025

(Millions of yen)

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

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
As of January 1, 2024	(489,194)	1,175,451	6,545	(2,975)	3,569	557	1,179,577
Changes of items during the period							
Reversal of legal capital surplus		—					—
Provision of reserve for investment loss on developing new business		—					—
Reversal of reserve for investment loss on developing new business		—					—
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Provision of special account for reduction entry		—					—
Reversal of special account for reduction entry		—					—
Dividends from surplus		(349,759)					(349,759)
Net income		404,849					404,849
Purchase of treasury shares	(2)	(2)					(2)
Disposal of treasury shares	617	836					836
Net changes of items other than shareholders' equity			507	(20,921)	(20,414)	(193)	(20,607)
Total changes of items during the period	615	55,924	507	(20,921)	(20,414)	(193)	35,317
As of December 31, 2024	(488,579)	1,231,375	7,052	(23,896)	(16,844)	364	1,214,895

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings					Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other 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, 2025	100,000	636,400	100,297	736,697	18,776	243	31,382	877	831,979	883,256
Changes of items during the period										
Reversal of legal capital surplus		—	—	—						
Provision of reserve for investment loss on developing new business						223			(223)	—
Reversal of reserve for investment loss on developing new business						(243)			243	—
Provision of reserve for reduction entry								—	—	—
Reversal of reserve for reduction entry							(8,896)		8,896	—
Provision of special account for reduction entry								822	(822)	—
Reversal of special account for reduction entry								(877)	877	—
Dividends from surplus									(356,915)	(356,915)
Net income									491,698	491,698
Purchase of treasury shares										
Disposal of treasury shares				367	367					
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	367	367	—	(20)	(8,896)	(55)	143,754	134,783
As of December 31, 2025	100,000	636,400	100,664	737,064	18,776	223	22,486	822	975,733	1,018,039

(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, 2025	(488,579)	1,231,375	7,052	(23,896)	(16,844)	364	1,214,895
Changes of items during the period							
Reversal of legal capital surplus		—					—
Provision of reserve for investment loss on developing new business		—					—
Reversal of reserve for investment loss on developing new business		—					—
Provision of reserve for reduction entry		—					—
Reversal of reserve for reduction entry		—					—
Provision of special account for reduction entry		—					—
Reversal of special account for reduction entry		—					—
Dividends from surplus		(356,915)					(356,915)
Net income		491,698					491,698
Purchase of treasury shares	(1)	(1)					(1)
Disposal of treasury shares	457	824					824
Net changes of items other than shareholders' equity			(549)	(11,493)	(12,042)	(74)	(12,116)
Total changes of items during the period	456	135,605	(549)	(11,493)	(12,042)	(74)	123,489
As of December 31, 2025	(488,124)	1,366,980	6,503	(35,389)	(28,887)	291	1,338,384

D. Notes to Nonconsolidated Financial Statements
Years Ended December 31, 2024 and 2025

(Preparation Policy)

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

(Significant Accounting Policies)

1. Basis and Method of Valuation for Securities

(1) Shares of Subsidiaries and Affiliates:

Stated at cost determined by the moving-average method.

(2) Available-for-sale Securities:

A. Securities with a market price:

Stated at fair value based on market prices as of the closing date of the accounting period. (Valuation difference is stated as a component of net assets and the cost of securities sold is calculated by applying the moving-average method.)

B. Securities without a market price:

Stated at cost determined by the moving-average method.

2. Basis and Method of Valuation for Derivatives

Stated based on the fair value method.

3. Basis and Method of Valuation for Inventories

Stated at cost as determined by the average cost method.

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

4. Depreciation Methods for Depreciable Assets

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

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

The main useful lives are as follows:

Buildings (excluding accompanying facilities):	38 to 50 years
Machinery and equipment:	10 to 18 years

(2) Intangible Assets (Excluding Lease Assets)

The straight-line method is applied.

The main useful lives are as follows:

Right of trademark:	10 years
Software:	5 years
Goodwill:	10 years

(3) Lease Assets

For finance leases that do not transfer ownership of the leased property to the lessee, depreciation expense is mainly computed by the straight-line method over the lease period as the useful life assuming no residual value.

5. Policy on Translation of Assets and Liabilities Denominated in Foreign Currency into Japanese Yen

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rates prevailing as of the closing date of the accounting period with translation differences treated as gains or losses.

6. Policy on Accounting of Provisions

(1) Allowance for Doubtful Accounts

Provided for possible losses from bad debts at an amount based on the historical default rate for ordinary receivables and the individual recoverability of specific doubtful receivables from customers experiencing financial difficulties.

(2) Provision for Bonuses

Provided based on the estimated payable amount to provide for the payment of bonuses to employees and directors.

(3) Provision for Retirement Benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefit obligations and fair value of plan assets as of the end of this fiscal year. In calculating retirement benefit obligations, the benefit formula basis is used as the method of attributing expected benefit to periods up to the end of this fiscal year.

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

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

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

7. Policy on Accounting of Revenue and Expense

Revenue from contracts with customers

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

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

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

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

8. Method of Hedge Accounting

Deferral hedge accounting is applied.

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

9. Other Significant Accounting Policies

(1) Accounting Treatment relating to Retirement Benefits

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

(2) Adoption of Group Tax Sharing System

The Company adopted the group tax sharing system.

(Changes in accounting policies)

1. Application of the Accounting Standard for Current Income Taxes, etc.

The Accounting Standard for Current Income Taxes (ASBJ Statement No.27 October 28, 2022), etc. has been applied from the beginning of the current fiscal year. Revisions concerning categories in which current income taxes should be recorded are subject to the transitional treatment set forth in the proviso of paragraph 20-3 of the Revised Accounting Standard 2022. There is no impact on the nonconsolidated financial statements.

2. Application of the Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules

The Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules (ASBJ The Practical Solution No.46 March 22, 2024) has been applied from the beginning of the current fiscal year. As a result, Income taxes-current increased by ¥936 million, Net income decreased by the same amount, in the current fiscal year.

(Significant Accounting Estimates)

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

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

Evaluation of shares of subsidiaries and affiliates

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

Shares of subsidiaries and affiliates ¥1,652,493 million (Previous fiscal year: ¥1,508,834 million)

(2) Information that helps understanding of the content of accounting estimates

Of the shares of subsidiaries and affiliates recorded in the balance sheet at the end of the current fiscal year, the shares of JT International Holding B.V., a subsidiary, amounted to ¥ 1,527,785 million (Previous fiscal year: ¥1,356,191 million). Whether or not to recognize impairment of the shares of that company is determined by comparing the carrying amount of those shares to the actual value calculated based on net assets of that company. In addition, the Company determines whether the actual value of those shares has declined significantly by referring to the result of the impairment test of goodwill allocated to the tobacco cash-generating unit in the consolidated financial statements in accordance with IFRS Accounting Standards. (For details of the impairment test, please refer to “14. Goodwill and Intangible Assets (3) Impairment Test for Goodwill” in “Consolidated Financial Statements”.) The assumptions used in the impairment test are based on management’s best estimates and judgment. However, they may be affected by the results of changes in uncertain future economic conditions, and if a revision is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(Accounting Standards Not Yet Adopted)

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

(1) Overview

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

(2) Scheduled Date of Adoption

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

(3) Effects of Adoption

The impact of the adoption on the nonconsolidated financial statements is currently under evaluation.

- “Practical Guidelines on Accounting for Financial Instruments” (ASBJ Revised Transferred Guidance No.9, March 11, 2025)

(1) Overview

The guidelines provide the revision of the accounting treatment for equity interests in venture capital funds held by listed companies, etc. to provide useful information to investors by valuing non-marketable shares incorporated in venture capital funds, etc. at fair value.

(2) Scheduled Date of Adoption

These practical guidelines will be applied from the beginning of the fiscal year ending December 31, 2027.

(3) Effects of Adoption

The impact of the adoption on the nonconsolidated financial statements is currently under evaluation.

(Notes to Nonconsolidated Balance Sheet)

*1. Pursuant to Article 6 of the Japan Tobacco Inc. Act, the Company's assets are pledged as general collateral for corporate bonds issued by the Company. Bondholders have the right to receive payment of their own claims for assets of the Company in preference to other general creditors (with the exception of national taxes, local taxes and other obligations of a public nature).

*2. Inter-company receivables and payables excluding those separately presented as of December 31 are as follows:

	2024	2025
Short-term receivables	26,977	17,598
Short-term payables	160,736	69,618
Long-term payables	27	—

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

4. Contingent obligations

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

Bank loans and others							
2024				2025			
(Millions of yen)				(Millions of yen)			
JT International Holding B.V.	353,210	(USD)	2,236 million others	JT International Company Netherlands B.V.	91,019	(EUR)	495 million
JT International S.A.	281,963	(USD)	1,718 million others	JTI Ireland Ltd.	50,757	(EUR)	235 million others
JT International Company Netherlands B.V.	81,544	(EUR)	495 million	Gallaher Ltd.	49,337	(USD)	316 million others
Gallaher Ltd.	41,690	(USD)	264 million others	JT International Hellas A.E.B.E.	36,744	(EUR)	200 million
JT International Hellas A.E.B.E.	33,933	(EUR)	206 million	JT International spol. s r.o.	25,787	(CZK)	3,405 million others
JT International spol. s r.o.	22,193	(CZK)	3,405 million others	JT Canada LLC Inc.	20,575	(CAD)	180 million
JT International Germany GmbH	18,346	(EUR)	108 million others	JT International Luxembourg S.A.	19,291	(EUR)	105 million
JT Canada LLC Inc.	15,248	(CAD)	139 million	JT International Germany GmbH	18,448	(EUR)	96 million others
Tobaccoland Handels GmbH & Co KG	14,814	(EUR)	90 million	TOB GmbH & Co KG	16,535	(EUR)	90 million
JT International Luxembourg S.A.	12,345	(EUR)	75 million	JT International S.A.	13,726	(CHF) (USD)	43 million 21 million others
				JT International Italia S.r.l.	13,360	(USD)	84 million others
				JTI Investments GmbH	12,769	(EUR)	70 million
				PT Karyadibya Mahardhika	11,216	(IDR)	1,197,977 million others
				Greek Cooperative Cigarette Manufacturing Company S.A.	11,140	(EUR)	61 million

		JTI Hungary Dohanyertekesítő Zártkörűen Működő Reszvénytársaság	10,950	(HUF	23,000 million) others
		JTI Polska spółka z ograniczoną odpowiedzialnością	10,784	(PLN	210 million) others
		JT International Asia Manufacturing Corp.	10,715	(PHP	4,038 million)
Other (52 companies)	112,293	Other (36 companies)	77,216		
Total	987,578	Total	500,369		

(Note) Tobaccoland Handels GmbH & Co KG changed its name to TOB GmbH & Co KG on August 20, 2025.

Bonds

2024				2025			
(Millions of yen)				(Millions of yen)			
JT International	814,346	(EUR	2,600 million)	JT International	932,986	(EUR	2,968 million)
Financial		(USD	1,945 million)	Financial		(USD	1,945 million)
Services B.V.		(GBP	400 million)	Services B.V.		(GBP	400 million)
Total	814,346	Total	932,986				

(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)

	2024	2025
Promotion expenses	23,386	24,698
Compensations, salaries and allowances	33,235	34,581
Bonuses	20,533	15,592
Employee benefit expenses	6,233	5,938
Commission	64,090	77,459
Depreciation and amortization	61,429	61,871
Research and development expenses	64,712	63,424
Selling expenses ratio	36%	36%
General and administrative expenses ratio	64%	64%

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

(Millions of yen)

	2024	2025
Land	7,865	13,730

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

(Millions of yen)

	2024	2025
Tools, furniture and fixtures	188	14

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

(Millions of yen)

	2024	2025
Buildings	669	793
Machinery and equipment	321	614

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

(Millions of yen)

	2024	2025
Net sales	59,357	70,005
Purchase of goods	78,917	80,949
Selling, general and administrative expenses	84,596	98,959
Dividends income	423,188	483,138
Amount of non-operating transactions	22,658	99,820

*6. Loss on liquidation of business is related to transfer of Pharmaceutical Business, mainly impairment losses on noncurrent assets.

*7. The amount of income taxes imposed by the global minimum taxation, included in "Income taxes-current" , is ¥936 million in the current fiscal year.

(Securities)

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

2024

(Millions of yen)

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

2025

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	—	—	—
Total	—	—	—

(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	2024	2025
Investments in subsidiaries	1,467,140	1,652,123
Investments in affiliates	113	370

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, 2024 and 2025

(Millions of yen)

	2024	2025
Deferred tax assets		
Provision for retirement benefits	24,545	22,144
Obligations pertaining to mutual assistance pension benefits	4,284	3,490
Investments in subsidiaries	6,202	6,569
Other	57,552	59,836
Subtotal	92,584	92,038
Less valuation allowance	(25,535)	(36,513)
Total	67,049	55,525
Deferred tax liabilities		
Reserve for reduction entry	(13,726)	(10,500)
Deferred gains or losses on hedges	(11,398)	(12,140)
Valuation difference on available-for-sale securities	(3,085)	(2,968)
Other	(12,858)	(12,652)
Total	(41,068)	(38,260)
Net deferred tax assets/liabilities	25,981	17,266

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, 2024 and 2025

(%)

	2024	2025
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.19	0.13
Permanent difference arising from non-taxable items including dividends income	(30.21)	(32.13)
Tax credit of items including research and development expenses	(0.69)	(0.35)
Changes in valuation allowance	0.14	0.97
Global minimum tax	—	0.19
Other	0.32	1.52
Actual effective tax rate after applying tax effect accounting	0.17	0.77

3. Accounting for corporate tax and local corporate tax or tax effect accounting related to these taxes

Following the adoption of the group tax sharing system, the Company applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021) for the accounting treatment and disclosure of corporate tax and local corporate taxes or tax effect accounting related to these taxes.

4 Adjustments to deferred tax assets and deferred tax liabilities due to changes in income tax rate

The Act Partially Amending the Income Tax Act, etc. (Act No. 13 of 2025) was passed by the National Diet on March 31, 2025. As a result, the Defense Special Corporation Tax will be imposed starting from fiscal years beginning on or after April 1, 2026. Accordingly, deferred tax assets and liabilities related to temporary differences expected to be reversed in fiscal years beginning on or after January 1, 2027 are calculated using a revised statutory effective tax rate, which is changed from 30.43% to 31.34%. As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities), income taxes - deferred, valuation difference on available-for-sale securities, and deferred gains or losses on hedges for the fiscal year ended December 31, 2025 decreased by ¥7 million, ¥432 million, ¥86 million, and ¥352 million, respectively.

(Business combinations)

Absorption-type Split

1. Overview of the business divestiture

(1) Name of the successor company

Shionogi & Co., Ltd.

(2) Details of the divested business

The Company's Pharmaceutical Business

(3) Major reason for the business divestiture

The Company has determined that, in order to enhance the drug discovery capabilities and benefits for patients, the best option is to transfer the Business to a dedicated pharmaceutical company that ensures to continue growing the Business mid to long term.

(4) Date of the business divestiture

December 1, 2025

(5) Outline of the transaction including the legal form

An absorption-type split in which the Company will be the splitting company and Shionogi will be the successor company.

2. Accounting overview

(1) Amount of gain or loss on transfer

Immaterial impact on the nonconsolidated financial statements.

(2) Carrying amounts of assets and liabilities pertaining to the transferred business and the breakdown thereof

Current assets	¥9,937 million
Noncurrent assets	¥10,295 million
Total assets	¥20,233 million
Current liabilities	¥6,082 million
Noncurrent liabilities	¥9,880 million
Total liabilities	¥15,961 million

(3) Accounting treatment

The accounting treatment of the transaction was 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).

3. Estimated amount of profit and loss related to the divested business reported in the

nonconsolidated statement of income for the current fiscal year ended December 31, 2025

Net sales	¥51.1 billion
Operating profit	¥12.5 billion

(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, 2025	Increase in the year ended December 31, 2025	Decrease in the year ended December 31, 2025	Depreciation during the year ended December 31, 2025	As of December 31, 2025	Accumulated depreciation or accumulated amortization as of December 31, 2025
Property, plant and equipment	Buildings	65,106	3,806	14,318 (9,241)	4,628	49,966	148,509
	Structures	1,849	203	227 (10)	184	1,641	7,454
	Machinery and equipment	28,822	15,103	1,601 (1,061)	5,001	37,322	154,073
	Vehicles	961	827	156 (149)	355	1,277	1,344
	Tools, furniture and fixtures	12,401	6,159	2,044 (1,148)	5,507	11,008	40,540
	Land	43,669	4	6,224 (2,759)	—	37,449	—
	Construction in progress	6,605	3,894	5,107	—	5,392	—
	Total property, plant and equipment	159,412	29,996	29,678 (14,367)	15,676	144,054	351,921
Intangible assets	Right of trademark	16,422	—	0	16,327	96	—
	Software	16,481	4,531	779 (3)	5,535	14,699	—
	Goodwill	35,771	—	—	35,771	—	—
	Other	6,831	3,475	5,061 (2,673)	575	4,670	—
	Total intangible assets	75,505	8,006	5,840 (2,676)	58,207	19,464	—

(Note 1) The figures in parentheses in the “Decrease in the year ended December 31, 2025” column represent decreases due to impairment loss included in the figures above.

(Note 2) Other includes software in progress.

(Note 3) The major item of “Increase in the year ended December 31, 2025” and “Decrease in the year ended December 31, 2025” is as follows:

Buildings Decrease Transfer of the Company’s Pharmaceutical Business ¥13,773 million

Detailed Schedule of Reserve Allowances

(Millions of yen)

Category	As of January 1, 2025	Increase in the year ended December 31, 2025	Decrease in the year ended December 31, 2025	As of December 31, 2025
Allowance for doubtful accounts	121	—	26	95
Provision for bonuses	13,396	13,843	13,396	13,843
Other provisions	3,471	1,379	3,471	1,379

(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.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

<Audit of Consolidated Financial Statements>

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2025, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, including the ethical requirements that are relevant to audits of the financial statements of public interest entities, 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.

Measurement of financial liability arising from the settlement of litigation in Canada
Key Audit Matter Description
As described in Note 4 "Significant Accounting Estimates and Judgements" and Note 20 "Provisions" to the consolidated financial statements, in connection with lawsuits related to smoking and health against JTI Macdonald Corp., a Canadian subsidiary of Japan Tobacco Inc. (hereinafter referred to as "JTI-Mac") was a party to ten health care cost recovery cases brought by the Canadian provinces and eight class actions where plaintiffs were seeking damages for harm allegedly caused by smoking of cigarettes. Following a decision of the Quebec Court of Appeal related to two class actions, JTI-Mac and its competitors and co-defendants (hereinafter referred to as the "Tobacco Companies"), had been operating under the protection of the Companies' Creditors Arrangement Act ("CCAA") and participating in a court-ordered mediation process with representatives of all claimant groups, including the Quebec class action plaintiffs.

Ultimately, CCAA Plans of Compromise and Arrangement, under which the Tobacco Companies would pay a total of CAD 32.5 billion (approximately ¥3.56 trillion) in aggregate to settle the litigation were approved by the Ontario Superior Court on March 6, 2025, and implemented on August 29, 2025.

The Company recorded a provision for loss on litigation in Canada of ¥375,636 million in the previous fiscal year. In this fiscal year, JTI-Mac deposited approximately ¥179,952 million as an upfront payment. Therefore, the Company utilized an amount equal to JTI-Mac's deposit payment from the provision for loss on litigation in Canada recorded in the previous fiscal year and reclassified the remaining balance to "Other financial liabilities" on the consolidated statement of financial position as a financial instrument measured at amortized cost under IFRS 9 "Financial Instruments." As of the end of the current fiscal year, such liability amounted to ¥156,511 million, as disclosed in Note 19 "Bonds and borrowings (including other financial liabilities)."

As described in Note 4 "Significant Accounting Estimates and Judgements" to the consolidated financial statements, the settlement amount that has been reclassified to "Other financial liabilities" is expected to be paid over a period of 30 to 40 years in aggregate until the total settlement amount has been fully paid by the Tobacco Companies, and is calculated as the aggregate of the annual payments determined by applying a certain percentage of JTI-Mac's annual net after-tax income for each year (85% for years 1–5, 80% for years 6–10, 75% for years 11–15, and 70% from year 16 onwards). The Company measures "Other financial liabilities" as the total of the present value of annual payments estimated using the certain percentage to JTI-Mac's annual net after-tax income for each year based on its future business plans. The discount rate used in calculating the liability is a pre-tax discount rate of 6.13%, which reflects the time value of money and the risks specific to the liability arising from the settlement of the Canadian litigation.

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

- 1) Expected market volume of the tobacco business in Canada (Sales volume of tobacco products)
- 2) Expected JTI-Mac's market share in the Canadian tobacco market

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

Considering the above, measurement of the liability includes the matters requiring subjective judgments made by management, uncertainty that is difficult to prove and expertise knowledge, respectively. The measurement of the liability requires complex and high-level audit judgement and considering the financial impact of the liability to the consolidated financial position and financial results, we have determined these matters regarding the liability to be a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

We instructed the component auditor to perform the following audit procedures to address the key audit matter on calculating the financial liability arising from the settlement of litigation in Canada, then we reviewed and evaluated the sufficiency of the procedures performed by the component auditor. We also compared the CCAA Plan of Compromise and Arrangement approved by the Ontario Superior Court (hereinafter referred to as the "Plan") to confirm the consistency with the Company's understanding of calculation method of the annual payments:

- Understanding of the Plan and evaluating the internal controls related to measurement of the liability including developing JTI-Mac's business plan;
- Evaluating the reasonableness of the expected future market size of the tobacco business in Canada, which is one of the significant assumptions in the business plan, with testing the consistency with the market forecasts published by analysts and analyzing the historical sales results of JTI-Mac;

- Evaluating the reasonableness of the expected JTI-Mac's future market share in the Canadian tobacco market, which is one of the significant assumptions in the business plan, with assessing the level of uncertainty and existence of management bias and comparing actual results of JTI-Mac's market share to management's historical forecasts;
- Evaluating the sales strategies including the pricing per the product category, with confirming the consistency with business plan approved by JTI-Mac's Board of Directors and evaluating the feasibility of the pricing effect by comparing the historical result of the pricing;
- Analyzing historical market share data, inspecting market forecasts published by analysts and confirming the consistency with JTI-Mac's sales strategy to assess the reasonableness of the assumption on the other two co-defendants' annual payments that are the basis to determine the period of future payments; and
- Evaluating whether the risks specific to the liability were appropriately reflected to the calculation of the discount rate with the assistance of the valuation specialists in our network firm.

Evaluation of goodwill allocated to tobacco cash-generating unit

Key Audit Matter Description

As described in Note 14 "Goodwill and Intangible Assets" to the consolidated financial statements, 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 ¥2,897,728 million allocated to the tobacco cash-generating unit at the end of this fiscal year, which is mainly as results of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999, Gallaher Group Plc in 2007, Natural American Spirit's non-U.S. tobacco operations in 2016 and Vector Group Ltd. in the previous fiscal year.

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 4.7% in the fourth year to 3.8% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the impairment test, the value in use sufficiently exceeds the carrying amount of the tobacco cash-generating unit, and management believes that the value in use will not fall below the carrying amount even if the growth rate used in calculating the value in use fluctuates within a reasonable range.

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

Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of the goodwill allocated to the tobacco cash-generating unit to be a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

In response to this key audit matter, we performed the following procedures for the impairment test of goodwill allocated to the tobacco cash-generating unit:

- In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we performed the following audit procedures:
 - ✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared;
 - ✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and
 - ✓ Inquiring of management on the background and rationality of data used by management to determine the growth rates after the current three-year business plan, as well as testing the growth rates based on available external information, with the assistance of the valuation specialists in our network firm.
- We discussed with management regarding the results of the impairment test of goodwill allocated to the tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Statements and Independent Auditor's Report, but does not include (1) Consolidated Financial Statements, (2) Nonconsolidated Financial Statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRS Accounting Standards as issued by the IASB, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2025, which were charged by us and our network firms to Japan Tobacco Inc. and its subsidiaries were ¥2,082 million and ¥2,207 million, respectively.

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

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

Deloitte Touche Tohmatsu LLC

March 23, 2026

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

<Audit of Nonconsolidated Financial Statements>

Opinion

We have audited the nonconsolidated financial statements of Japan Tobacco Inc. (the "Company"), which comprise the nonconsolidated balance sheet as of December 31, 2025, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 41st fiscal year from January 1, 2025 to December 31, 2025, 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, 2025, 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, including the ethical requirements that are relevant to audits of the financial statements of public interest entities, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

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

Evaluation of Shares of Subsidiaries
Key Audit Matter Description
<p>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 ¥1,652,493 million (approximately 60.3% of Total assets), which includes the shares of JT International Holding B.V., one of the subsidiaries, of ¥1,527,785 million.</p> <p>The tobacco business manufactures and sells tobacco products in various countries mainly through JT International S.A. The Company invests in JT International Holding B.V., which consolidates the financial results of the tobacco business, including JT International S.A.</p>

The Company considers whether to recognize impairment of shares of JT International Holding B.V. by comparing the carrying amount of JT International Holding B.V. shares with the net assets value calculated using the net assets on the balance sheet of JT International Holding B.V. In addition, the Company determines whether the net assets value of JT International Holding B.V. shares has declined significantly referring to the results of the impairment test of goodwill allocated to the tobacco cash-generating unit.

The Company's consolidated financial statements are prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB), 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 4.7% in the fourth year to 3.8% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the consideration, the Company concluded that it was not necessary to recognize an impairment on JT International Holding B.V. shares.

The three-year business plan used in the evaluation of JT International Holding B.V. shares, and the underlying assumptions for growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and a fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards.

Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of JT International Holding B.V. shares to be a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

In response to this key audit matter, we obtained and inspected the results of Company's evaluation of JT International Holding B.V. shares.

In addition, we performed the following procedures in relation to the impairment test of goodwill allocated to the tobacco cash-generating unit:

- In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we performed the following audit procedures:
 - ✓ Instructing the component auditor to evaluate internal controls over the examination and approval process to ensure the three-year business plan is appropriately prepared;
 - ✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the tobacco cash-generating unit operates as of the end of this fiscal year; and
 - ✓ Inquiring of management on the background and rationality of data used by management to determine the growth rates after the current three-year business plan, as well as testing the growth rates based on available external information, with the assistance of the valuation specialists in our network firm.
- We discussed with management regarding the results of the impairment test of goodwill allocated to the tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Financial Statements and Independent Auditor's Report, but does not include (1) Consolidated Financial Statements, (2) Nonconsolidated Financial Statements and our auditor's reports thereon.

Our opinion on the nonconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the nonconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the nonconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the nonconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the nonconsolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the nonconsolidated financial statements, including the disclosures, and whether the nonconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

<Fee-Related Information>

Fee-related information is disclosed in independent auditor's report on the consolidated financial statements as of and for the year ended December 31, 2025.

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 23, 2026