

Risk Factors

The JT Group is a global company with, at its core, the tobacco business selling products in more than 130 markets. Our operations are subject to various risks stemming from their attributes, changes in business environments, and other factors.

We have introduced consistent enterprise risk management (ERM) processes across the entire Group with the aim of contributing to sustainable profit growth and corporate value over the medium to long term, and enhancing the JT Group's system for ensuring transparent, fair, timely, and decisive decision-making. We identify risks that could have an impact on the Group, assess them in terms of their potential impact and likelihood in order to prioritize them, formulate mitigation plans, and monitor their plan's progress. Any of these risk factors could have an impact on the Group's business operations and financial results; however, managing risk appropriately will enable us to grasp business growth opportunities appropriately and strategically develop our business. The following discussion of risk factors should be read together with "Forward-looking statements" on P. 5.

Risk factors	Risk description	Potential impact(s)	Main measures to address risk
1) Large or repeated tax increases	Tobacco products are subject to tobacco taxes or other similar taxes in addition to sales tax or VAT. Some countries have been raising tobacco taxes or discussing tax increases from a fiscal and/or public health standpoint. Additionally, VAT rates generally tend to increase over time. Our policy with respect to tax increases is to raise prices to pass on the tax increase to consumers*, taking into account not only the tax increase's magnitude but also the price elasticity of demand for tobacco products. We also endeavor to minimize tax increases' impact on our operations through measures to drive top-line growth and improve cost efficiency. Most governments have adopted a reasonable approach to taxation, recognizing that large or repeated tax increases may end up reducing tax revenues. In some instances, however, past tax increases have materially affected our business in certain markets.	Large or repeated increases in taxes on tobacco products tend to lead to reduced consumption of, and/or increased illicit trade in, tobacco products. They may also induce consumers* to switch to lower-priced products. Consequently, they may result in reductions in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> Promote understanding among relevant authorities that large or repeated tax increases may have counterproductive consequences, such as growth in illicit trade and decreased tax revenue due to reduced demand Optimize the product portfolio for adaptability to changes in consumers* preferences and behavior Strengthen and expand our global operational platform and increase the number of consistently profitable markets to avoid overdependence on profits from a few markets Further improve cost efficiency to ensure adequate profitability Set prices appropriately and undertake measures aimed at improving cost efficiency in a bid to minimize the impact of higher taxes in affected markets
2) Growth in illicit trade	Illicit trade is a problem for not only the tobacco industry but also society as a whole. It harms the tobacco industry by diverting demand from law-abiding businesses. Its potential societal harms include reduction in government tax revenues, increased organized crime, and adverse health consequences due to poor production quality or inadequate post-production quality controls. Together with the rest of the tobacco companies, we continue to endeavor to eradicate illicit trade, particularly cigarette smuggling and counterfeiting. Illicit trade tends to grow following large or repeated tax increases. Additionally, regulations on cigarette ingredients and packaging may facilitate illicit trade by making cigarettes easier to counterfeit and illegitimate products harder to detect.	Growth in illicit trade results in decreased demand for legitimate products and may lead to reductions in our unit sales, revenue and/or profits. Costs incurred to combat illicit trade may also weigh on profits. Additionally, circulation of counterfeit products may undermine trust in legitimate products and, in turn, impair the value of both the brand and brand owner for a number of reasons, including the low quality of counterfeit products.	<ul style="list-style-type: none"> Take action to eradicate illicit trade in cooperation with governments, regulatory authorities and law enforcement agencies Roll out and operate a track-and-trace system for tobacco products and analyze the movement of products through the supply chain Do business only with reputable parties in accord with stringent compliance policies Educate consumers* on negative consequences of purchasing illegitimate products <p>See Details Tackling illegal trade</p>

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

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3) Tightening of tobacco regulations	<p>The tobacco industry is subject to many regulations, most notably on sales promotion activities (including advertising). Regulatory developments may affect our operations and/or financial results. Such regulations can also lead to growth in illicit trade to the potential detriment of our law-abiding, above-board businesses. Additionally, if stricter regulations are imposed on communications with consumers*, they may preclude effective sales promotion activities and, in turn, adversely affect top-line growth.</p> <p>As a responsible company, we comply with the laws and regulations of every market in which we operate. We believe laws and regulations should rightfully differ from one country to another as a reflection of countries' respective legal systems, cultures and social conditions.</p>	<p>Imposition of stricter regulations on sales promotion activities may undermine top-line growth strategies' effectiveness by depriving us of opportunities to grow brand equity. It can also cause us to incur additional regulatory compliance costs under certain circumstances. Our unit sales, revenue and/or profits may decrease as a result of such impacts.</p>	<ul style="list-style-type: none"> • Expeditiously collect accurate information to learn of regulatory developments • Pursue constructive dialogue with governments and regulatory authorities to encourage reasonable, unbiased regulation that fulfills its intended objective <p>See Details Regulations and Key Laws (P. 86)</p>
4) Competition	<p>Our tobacco business is engaged in fierce competition with competitors. In the tobacco business, we have been expanding our operations through not only organic growth but also M&A, including acquisitions of RJR Nabisco Inc.'s non-U.S. tobacco business, Gallaher Group Plc, and Vector Group Ltd. As a result of such acquisitions, we compete with both global tobacco companies and local players with strong footholds in their respective markets. Market shares fluctuate in response to various factors, including regulatory changes, shifts in consumer* preferences/behavior, and local economic conditions. Market shares are also prone to short-term fluctuations in response to one-off events such as competitors' new product launches and accompanying sales promotion campaigns.</p>	<p>Market share fluctuations and declining competitive advantage may affect our financial results. Additionally, markets in which we operate sometimes become embroiled in price competition due to events such as a brand repositioning or a price cut in pursuit of market share gains. Such price competition may negatively impact our profit margins in individual markets.</p>	<ul style="list-style-type: none"> • Optimize our product portfolio by offering products that meet consumer* needs and changing preferences/behavior, and by achieving strong brand positioning in every price segment • Strengthen sales capabilities and conduct effective sales promotions • Further improve cost efficiency to ensure profitability • Strengthen and expand our global operational platform and increase the number of consistently profitable markets to avoid overdependence on profits from a few markets
5) Country risk	<p>While working to secure long-term growth by expanding our business worldwide, such geographic expansion has been accompanied by increased exposure to country risk. If political, economic or social turmoil were to occur, our operations and/or financial results may be affected. With the extension and increasingly complex effects of the Russia-Ukraine war, the Company has been operating in the Russian market in strict compliance with all sanctions and regulations imposed nationally and internationally. Since the challenges of operating in Russia at this time are unprecedented, the Company is unable to reasonably estimate the outlook and the impact on financial results as of the issued date of Integrated Report 2026.</p>	<p>Political instability, economic recession, social unrest or other such events could disrupt our operations in the market in question. The disruption includes interruption in supply chains or distribution, damage to assets or facilities, or difficulties in staffing and sales management. This may lead to a decrease in our unit sales, revenue and/or profits</p>	<ul style="list-style-type: none"> • Collect and monitor information related to country risk in markets in which we operate to maintain stable operations, and conduct scenario planning based on the information • Strengthen and expand our global operational platform and increase the number of consistently profitable markets to avoid overdependence on profits from a few markets

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<p>6) Currency risk</p>	<p>Our operations' global scope exposes us to currency risk. While we prepare our consolidated financial statements in Japanese yen, our overseas subsidiaries prepare their financial statements in various other currencies, including the Russian ruble, Euro, British pound, Taiwanese dollar, U.S. dollar, and Swiss franc. Changes in such foreign currencies' exchange values against the yen affect our reported earnings. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We hedge this risk with foreign currency debt, a portion of which is designated as net-investment hedges. Additionally, gains or losses on the sale or liquidation of subsidiaries that were acquired in a transaction denominated in a non-yen currency and impairment losses recognized against such subsidiaries are affected by changes in the acquisition currency's exchange value against the yen between the acquisition date and the date of the sale, liquidation or impairment.</p>	<p>Our consolidated financial results are affected by changes in other currencies' exchange value against the yen. The international tobacco business's financial results, the reporting currency for which is the U.S. dollar, are affected by changes in other currencies' exchange rate against the U.S. dollar. Subsidiaries' transactions in currencies other than their respective reporting currencies are also subject to currency risk.</p>	<ul style="list-style-type: none"> • Formulate foreign exchange hedging policies that comprehensively take into account prevailing foreign exchange market conditions, among other factors, and mitigate currency risk by hedging with foreign currency debt or other suitable instruments in accordance with said policies
<p>7) Unfavorable litigation developments</p>	<p>Some of JT's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking, the marketing of tobacco or exposure to tobacco smoke. In addition, JT and/or some of its subsidiaries are also defendants in lawsuits other than the smoking/vaping and health-related cases and may face further lawsuits in the future.</p>	<p>The JT Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the JT Group and payment of a substantial amount of monetary compensation could materially affect its financial performance.</p> <p>Moreover, critical media coverage of these lawsuits may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance.</p> <p>Apart from smoking/vaping and health-related litigation, the JT Group also may become a defendant in further litigation. Should any problems arise on the Group's product quality, this may lead to claims seeking product liability. Such litigation cases may negatively affect the Group's business performance or such operations as the manufacture, sale, import, and export of its products, should the outcome of any such claims prove unfavorable.</p>	<ul style="list-style-type: none"> • Apply a system in order to deeply cooperate internally and externally, quickly understand the information regarding the case and share information with management and relevant departments • Coordinate with experienced external counsel if necessary and respond to litigation cases pertaining to the JT Group in a timely and appropriate manner <p>See Details Litigation (P. 88)</p>

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8) Natural disasters and other contingency situations	Our financial results could be adversely affected by the escalating frequency and severity of earthquakes, volcanic eruptions, tsunamis, typhoons, floods, other natural disasters and pandemic consequences, potentially including employee casualties, product supply shortages or stoppages due to damage to our supply chain and distribution networks, and reduced demand for our products.	Natural disasters could disrupt not only our own operations but also any of our value chain partners' operations. Such disruptions could adversely affect our financial results.	<ul style="list-style-type: none"> • Routinely gather and relay information related to crisis management on an ongoing basis • Insure key assets with casualty insurance as appropriate • Periodically review business continuity plans, including overall global optimization of supply chains, secure appropriate levels of inventory, and make revisions as warranted • Conduct initiatives such as disaster preparedness drills and foster a disaster preparedness mindset among employees
9) Climate change	Climate change associated with global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change; and biodiversity loss. Such impacts' potential consequences include supply chain disruptions and changes in the environments in which tobacco leaf and/or other agricultural commodities we use in our products are grown or raised. Such consequences may adversely affect our products and/or financial results through deterioration in these inputs' quality and/or increases in their prices/sourcing costs. Additionally, if a carbon tax is imposed on energy derived from fossil fuels in conjunction with the transition to a decarbonized society to mitigate climate change's impacts, our profits may be reduced by increased operating expenses.	Climate change could adversely affect our operations and/or value chains and, in turn, our financial results. Additionally, our financial results could be adversely affected by increases in operating expenses stemming from the transition to a decarbonized society.	<ul style="list-style-type: none"> • Conduct climate scenario analysis in accord with the TCFD recommendations and develop the capability to more accurately ascertain climate change's potential impacts on our operations and take appropriate action to mitigate them • Strive to reduce greenhouse gas emissions to Net-Zero across our value chain to mitigate climate change's impacts • Implement the measures in Section 8 above to address risks posed by natural disasters and other contingencies, which may be exacerbated by climate change <p>See Details Living with the planet (P. 32)</p>
10) Information security	In the operation of business, the JT Group utilizes various types of information technology to efficiently perform business and operations. Attacks attributable to illicit access, computer viruses, and other factors are becoming more complex and ingenious as digital technology evolves. Against this backdrop, system failures or the leakage of confidential information may occur owing to attacks via illicit access to the Group and suppliers as well as such unforeseen events as disasters.	In the event of a leakage of confidential information or system failure owing to an illicit attack, the business performance of the Group may be negatively affected due to the temporary suspension of information systems, the decline of public trust, the loss of competitive advantage, and the incurring of expenses to appropriately respond to these events.	<ul style="list-style-type: none"> • Put in place rules in relation to information security; work to monitor, manage, and protect information assets, such as the systems and data owned by the Group, in an appropriate manner • Continuously carry out technological and operational inspections and improvements related to security for key systems, including requests to suppliers • Carry out various initiatives, including information security e-learning; work to raise employee awareness