

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

**MATERIALS CONCERNING
NOTICE OF CONVOCATION OF
THE 40TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Matters not Included in Delivered Documents Upon Request for Delivery of Documents
Pursuant to Laws and Regulations and the Articles of Incorporation
Among the Matters for Which Electronic Provision Measure are Taken

Business Report

Matters Concerning Subscription Rights to Shares

Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations and the Operating Status of the Systems

Consolidated Financial Statements

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Nonconsolidated Financial Statements

Nonconsolidated Statement of Changes in Net Assets

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For the 40th Business Term (For the fiscal year from January 1, 2024 to December 31, 2024)

Japan Tobacco Inc.

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| Pursuant to laws and regulations and Paragraph 2, Article 17 of the Company's Articles of Incorporation, the above matters are not included in documents delivered to shareholders who requested the delivery of documents. |
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Business Report

Matters Concerning Subscription Rights to Shares

1. Total number and others of subscription rights to shares as of December 31, 2024

| | |
|---|---|
| (1) Total number of subscription rights to shares | 1,153 units |
| (2) Class and number of shares to be delivered upon exercise of subscription rights to shares | Ordinary shares 230,600 shares (200 shares per subscription right to shares) |

2. Status of subscription rights to shares held by Members of the Board and Audit & Supervisory Board Members of JT as of December 31, 2024

| | |
|---|---|
| (1) Class and number of shares to be delivered upon exercise of subscription rights to shares | Ordinary shares 164,200 shares (200 shares per subscription right to shares) |
| (2) Value of property to be contributed when subscription rights to shares are exercised | ¥1 per share |
| (3) Assignment of subscription rights to shares | The approval of the Board of Directors is required for the assignment of subscription rights to shares. |
| (4) Conditions for exercising subscription rights to shares | Subscription rights to shares holder may exercise his/her subscription rights to shares only if he/she loses his/her all position as Member of the Board, Audit & Supervisory Board Member and Executive Officer. |

The status of ownership by Members of the Board and Audit & Supervisory Board Members of JT is as follows.

| Year granted | Payment due upon allotment of subscription rights to shares | Exercise period of subscription rights to shares | Members of the Board | | Audit & Supervisory Board Members | |
|--------------|---|--|----------------------|------------------------|-----------------------------------|------------------------|
| | | | Number of units | Number of shareholders | Number of units | Number of shareholders |
| FY2007 | ¥581,269 per unit | From January 9, 2008 to January 8, 2038 | 16 | 1 | - | - |
| FY2008 | ¥285,904 per unit | From October 7, 2008 to October 6, 2038 | 18 | 1 | - | - |
| FY2009 | ¥197,517 per unit | From October 14, 2009 to October 13, 2039 | 40 | 1 | - | - |
| FY2010 | ¥198,386 per unit | From October 5, 2010 to October 4, 2040 | 42 | 1 | - | - |
| FY2011 | ¥277,947 per unit | From October 4, 2011 to October 3, 2041 | 9 | 1 | - | - |
| FY2012 | ¥320,000 per unit | From October 10, 2012 to October 9, 2042 | 6 | 1 | - | - |
| FY2013 | ¥513,400 per unit | From October 8, 2013 to October 7, 2043 | 21 | 1 | - | - |
| FY2014 | ¥483,200 per unit | From October 7, 2014 to October 6, 2044 | 12 | 1 | - | - |
| FY2015 | ¥711,200 per unit | From August 4, 2015 to August 3, 2045 | 24 | 1 | - | - |
| FY2016 | ¥572,600 per unit | From July 5, 2016 to July 4, 2046 | 43 | 2 | - | - |
| FY2017 | ¥482,200 per unit | From July 4, 2017 to July 3, 2047 | 66 | 2 | - | - |
| FY2018 | ¥300,000 per unit | From July 3, 2018 to July 2, 2048 | 197 | 3 | - | - |
| FY2019 | ¥188,000 per unit | From July 2, 2019 to July 1, 2049 | 327 | 3 | - | - |

- (Notes)
1. Outside Directors are not included in the above category of “Members of the Board.”
 2. Based on the resolution of the 35th Ordinary General Meeting of Shareholders held on March 19, 2020, the stock option plan was abolished. Therefore, the Company did not issue any new subscription rights as stock options during the fiscal year ended December 31, 2024.

Overview of the Resolutions on the Development of Systems Necessary to Ensure the Properness of Operations and the Operating Status of the Systems

The Board of Directors has resolved with regard to the development of systems necessary to ensure that the execution of the duties by the Members of the Board complies with the laws, regulations and the Articles of Incorporation, and other systems necessary to ensure the properness of operations of a stock company as follows:

- (1) Systems to ensure that the performance of duties by the Members of the Board and employees of the Company, as well as by Directors, etc. (meaning “Directors, etc.” as provided for in Paragraph 1, Article 100, item 5 (i) of the Ordinance for Enforcement of the Companies Act) and employees (with Directors, etc. and employees hereafter collectively referred to as “directors and employees”) of subsidiaries, conforms to laws, regulations and the Articles of Incorporation**

A. Compliance system

The Company shall formulate the JT Group Compliance Policy, which summarizes the JT Group’s values and ethics that are common globally with the aim of ensuring that directors and employees of the Company and its subsidiaries act appropriately based on regulations concerning the compliance system while complying with laws and regulations, Company’s Articles of Incorporation, the social norms, etc., and the corporate and business units shall formulate codes of conduct tailored to their unique environments and characteristics (hereinafter referred to as the “Divisional Compliance Codes of Conduct”). Additionally, in order to ensure thorough compliance, the Company set up a JT Group Compliance Committee as a deliberative body responsible for the executive management and promotion of compliance for the entire JT Group, and the report on this work to the Board of Directors. The committee will be comprised of the President, Executive Vice Presidents, and outside experts, with the President serving as committee chair. Moreover, the Company appoints an Executive Officer in charge of compliance with overseeing the Legal and Compliance Division striving to establish and promote a group-wide, crossover system and grasp issues. Furthermore, the divisional compliance committees established within corporate and business units autonomously deliberate compliance related matters within their jurisdictions. The JT Group Compliance Committee, in addition to grasping and deliberating initiatives for the entire JT Group, strengthens ties with the Board of Directors through ample reporting to the Board. Through this framework, we strive for robust and enhanced JT Group compliance in terms of both supervision and promotion. The compliance promotion departments of the Company and its subsidiaries (meaning the Legal and Compliance Division within the Company, and corresponding departments within subsidiaries) distribute the Divisional Compliance Codes of Conduct through the divisions and organizations, to directors and employees, and work to enhance the effectiveness of the compliance system by awareness-raising activities directors and employees about compliance through training and other programs.

(Internal reporting system/Whistle-blower system)

Group companies have set up hotlines for Directors and employees and other parties to report acts suspected of being legal/regulatory violations and other such concerns. Compliance promotion departments that receive a report or query via their hotlines investigate its details and then take action, including recurrence prevention measures, as needed. Additionally, the Company has set up another hotline apart from the one staffed by its Legal and Compliance Division. The second hotline is independent from organizational units involved in operational execution and staffed by Audit & Supervisory Board Members, who investigate the details of any reports or queries received via the hotline. The Company then takes action, including recurrence prevention measures, as needed.

The Company refers or reports serious problems involving the JT Group to the divisional compliance committees and the JT Group Compliance Committee for further review as needed.

(System for excluding anti-social forces)

The Company and its subsidiaries are resolved to fight against, not to comply with, an unreasonable demand and not to have any relations with anti-social forces.

The Corporate Governance Division shall be the JT Group’s headquarters assuming the responsibility for supervising efforts to exclude anti-social forces, the Company cooperates with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such elements in an organized way.

In addition, the Company and its subsidiaries shall prohibit involving with anti-social forces and fully communicate to all directors and employees of the Company and its subsidiaries. At the same time, an awareness raising program for excluding anti-social forces is to be consistently administered for all directors and employees, by providing relevant training, etc. as necessary.

B. System to ensure the reliability of financial reporting

The Company has in place and operates an internal control system relating to financial reporting of JT Group in accordance with the Financial Instruments and Exchange Act. The Company strives to maintain and improve the reliability of its financial reporting by allocating a sufficient level of staff to the task of evaluating and reporting financial results.

C. Internal audit system

The Internal Audit Division of the Company oversees the internal audit system and examines and evaluates systems for supervising and managing the overall operations and the status of business execution from the viewpoints of legality and rationality, in order to protect the Company's assets and improve management efficiency. In coordination with the internal audit functions of all subsidiaries, the Internal Audit Division also undertakes the planning and performance of the JT Group's internal audit systems and policies, and supplements the internal audit functions of subsidiaries.

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

A. Storage and management of minutes

The Company makes sure to properly store and manage the minutes of General Meetings of Shareholders and meetings of the Board of Directors, in line with laws and regulations.

B. Storage and management of other information

The Company makes sure that the information on important matters relating to business execution and decision-making including the conclusion of corporate contracts is stored and managed by the relevant departments and divisions as specified by the Responsibility and Authority Regulations, and establishes rules on managing the processes of decision-making, procurement and accounting.

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

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

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

A. System to evaluate and manage risk of loss under normal circumstances

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

In cooperation with the internal audit functions of subsidiaries, the Internal Audit Division of the Company examines and evaluates the internal control systems, etc. of the JT Group companies in light of the level of importance and the risks involved, and from an objective standpoint that is independent of

organizations responsible for business execution. It provides reports and counsel to the President and Chief Executive Officer and also reports to the Board of Directors.

B. Preparedness for possible emergencies

The Company produces a manual for crisis management and disaster response. In the event of an emergency or a disaster, JT is ready to establish an emergency project system, and make prompt and proper responses under the leadership of senior management and through close cooperation between the relevant departments and divisions and subsidiaries. Events to which a response is made and the details of such events shall be reported to the Board of Directors.

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

A. Board of Directors of the Company

The Board of Directors of the Company meets once a month in principle and on more occasions as necessary, in order to make decisions with regard to the matters specified by laws and regulations and other important matters and to supervise business execution.

The Board of Directors of the Company receives reports from Members of the Board of the Company on the status of business execution at least once every three months.

B. Proper delegation of authority and system of responsibilities of the Company

For important management issues, particularly management policy and basic plans regarding overall business operations of the Company, in addition to matters to be referred to the Board of Directors of the Company, a clear decision-making process is stipulated in the Responsibility and Authority Regulations to have a system that enables to realize swift decision-making and high-quality business execution.

Executive Officers appointed by the Board of Directors execute business properly by exercising the authority delegated to them in their respective areas in accordance with the JT Group management strategies decided by the Board of Directors. In order to manage business operations in ways that contribute to the business efficiency and flexibility of the Company, basic matters concerning the Company's organization, allocation of duties to officers and staff and the roles of individual divisions are specified by the relevant internal rules.

C. Formulation, etc. of rules and policies that apply to the JT Group

The Company will construct an efficient system for business execution within the JT Group through the formulation, etc. of rules and policies that apply to the JT Group.

(6) Systems necessary to ensure the properness of operations in the Company and the business group which consists of the Company and its subsidiaries

A. Purpose of the JT Group

The JT Group has set "Fulfilling Moments, Enriching Life" as its purpose, and there is a group-wide consensus on this purpose.

B. Group management

The JT Group shall specify the functions and rules common for all group companies to effectuate group management that optimizes the operations of the entire JT Group as a whole.

The Company has put in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

(7) Matters for employees assisting Audit & Supervisory Board Members of the Company in their duties in the event such employees were requested by Audit & Supervisory Board Members

A. Establishment of Audit & Supervisory Board Member's Office

The Company has established an Audit & Supervisory Board Member's Office as an organization to assist the duties of the Company's Audit & Supervisory Board Members (hereinafter simply "Audit & Supervisory Board Members," with the terms "Audit & Supervisory Board," "Audit & Supervisory Board Member's Office," and "Vice President of the Audit & Supervisory Board Member's Office" also referring to those items within the Company).

B. Allocation of staff

The Company has allocated sufficient staff to the Audit & Supervisory Board Member's Office. In addition, the Company makes sure to review and reform the staffing structure as necessary based on consultations with the Audit & Supervisory Board.

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

A. Management of employees affiliated with the Audit & Supervisory Board Member's Office

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

B. Duties of employees belonging to the Audit & Supervisory Board Member's Office

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

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

A. Reporting to the Audit & Supervisory Board

When directors and employees of the Company and its subsidiaries detect any evidence of malfeasance in financial documents or serious breaches of laws or regulations or the Company's Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the Company's management.

B. Appropriate reporting in response to requests by Audit & Supervisory Board Members

Directors and employees of the Company and its subsidiaries shall respond in a prompt and appropriate manner when they are asked by Audit & Supervisory Board Members to compile important documents for their perusal, to accept field audits and to submit reports.

C. Reporting on the status of whistleblowing

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

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

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

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

A. Handling of expenses or debts in accordance with Article 388 of the Companies Act

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

B. Setting of budgets, etc.

With regard to miscellaneous expenses for audits by Audit & Supervisory Board Members, the Company will set a budget in order to secure the effectiveness of the audits. The Company will also bear the portion of miscellaneous expenses for audits by Audit & Supervisory Board Members that are in excess of budget, with the exception of cases in which the Company deems the expenses to be unnecessary to the performance of duties.

(12) Other systems to ensure effective auditing by Audit & Supervisory Board Members

A. Attendance at important meetings

Audit & Supervisory Board Members are allowed to attend not only meetings of the Board of Directors of the Company but also other important meetings of the Company.

B. Coordination between the Internal Audit Division, Legal and Compliance Division and the Audit & Supervisory Board Members

The Internal Audit Division and the Legal and Compliance Division maintain cooperation with Audit & Supervisory Board Members by exchanging information.

The status of systems necessary to ensure the properness of operations

A. Status of initiatives concerning compliance

- For the purpose of ensuring that the directors and employees of the Company and its subsidiaries comply with laws and regulations, the Company's Articles of Incorporation, social norms, etc., the Company shall establish a JT Group Compliance Policy that is a compilation of the sense of values and sense of ethics of the JT Group that is shared globally, and in addition, at corporate headquarters and each business office, establish compliance codes of conduct for each department corresponding to the unique environment and characteristics of the respective organization, in alignment with the JT Group Compliance Policy, and ensure thorough understanding and awareness by distributing the compliance codes of conduct of each department to their respective directors and employees.
- In accordance with the JT Group Compliance Rules, the Company performs appropriate reporting to the Board of Directors on the performance of the annual Compliance Plan, the occurrence of serious compliance violations, actions taken in response to these, and other matters of importance.
- In order to improve awareness of compliance and prevent improper actions, the Company conducts regular training for the directors and employees of the Company and its subsidiaries.
- With regard to whistleblowing systems, the Company maintains consultation and reporting desks inside and outside the Company, and thoroughly communicates to directors and employees of the Company and

its subsidiaries that persons who engage in consultation or whistleblowing are not to be subject to any disadvantageous treatment for reason of those actions. In addition, the content of consultations and whistleblowing are regularly reported within the divisional compliance committees and JT Group Compliance Committee.

- With regard to the handling of anti-social forces, the Company continues to collect related declarations and pledges from suppliers, and conducts regular training and other programs for the directors and employees of the Company and its subsidiaries.

B. Status of initiatives to manage the risk of loss

- With regard to the monetary and financial risks, the Company makes quarterly reports to the President, Chief Executive Officer and the Board of Directors in accordance with the Group Treasury Principle.
- With regard to the evaluation and examination of internal management systems, the Internal Audit Division provides reports and counsel to the President and Chief Executive Officer and also reports to the Board of Directors, in accordance with the Rules for Internal Audits.
- With regard to crises and disasters, the Company makes reports to the Board of Directors concerning events to which responses were made and the details of the events, in accordance with the “Decision Concerning the Preparation of Basic Policies and Systems Concerning the Construction of Internal Control Systems.”

C. Status of initiatives concerning the properness and efficiency of the execution of duties

- Meetings of the Board of Directors are held every month and as appropriate, in accordance with the Regulations of the Board of Directors. The Members of the Board in charge of businesses make quarterly reports to the Board of Directors on the status of business execution within each business, including within its subsidiaries.
- With regard to decision-making, etc. on execution of important business, etc., the Company is converting resolution procedures to electronic methods and is constructing a fast and efficient management system. The Company also accurately records and creates minutes of meetings of the Board of Directors, and performs appropriate storage and management of the information.

D. Securing the effectiveness of audits by Audit & Supervisory Board Members

- Audit & Supervisory Board Members receive reports as appropriate from directors and employees of the Company and its subsidiaries, regarding necessary information for audits. In addition to attending important conferences, Audit & Supervisory Board Members also perform appropriate checks of the content of electronic resolutions concerning decision-making on the execution of business. In addition, Audit & Supervisory Board Members regularly exchange opinions and otherwise communicate with each subsidiary’s own Audit & Supervisory Board Members to enhance audits performed by all Audit & Supervisory Board Members inside the JT Group.
- The Internal Audit Division and the Legal and Compliance Division also coordinate on conducting regular exchanges of information with Audit & Supervisory Board Members.
- In order to assist the duties of Audit & Supervisory Board Members, the Company has established an Audit & Supervisory Board Member’s Office that is independent of divisions responsible for execution, and has assigned necessary personnel to the Office. In addition, through consultation with Audit & Supervisory Board Members, the Company records a budget for expenses expected to be necessary for the duties of the Audit & Supervisory Board Members.

Consolidated Statement of Changes in Equity

(Year ended December 31, 2024)

(Millions of yen)

| | Equity attributable to owners of the parent company | | | | | | |
|---|---|-----------------|-----------------|-------------------------------|---|---|-------------|
| | Share capital | Capital surplus | Treasury shares | Other components of equity | | | |
| | | | | Subscription rights to shares | 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 | — | — | (2) | — | — | — | — |
| Disposal of treasury shares | — | 220 | 617 | (193) | — | — | — |
| Share-based payments | — | — | — | — | — | — | — |
| Dividends | — | — | — | — | — | — | — |
| 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 |

(Millions of yen)

| | Equity attributable to owners of the parent company | | | | | Non-controlling interests | Total equity |
|---|--|---|----------|-------------------|-----------|---------------------------|--------------|
| | Other components of equity | | | Retained earnings | Total | | |
| | 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 | — | — | — | 463,369 | 463,369 | 3,356 | 466,725 |
| 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 | 463,369 | 569,583 | 3,159 | 572,742 |
| Acquisition of treasury shares | — | — | — | — | (2) | — | (2) |
| Disposal of treasury shares | — | — | (193) | (493) | 151 | — | 151 |
| Share-based payments | — | — | — | 664 | 664 | 24 | 688 |
| Dividends | — | — | — | (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 | 3,321,034 | 4,050,752 | 82,104 | 4,132,856 |

Notes to Consolidated Financial Statements

1. Significant matters for preparing consolidated financial statements

(1) Accounting principles for preparing consolidated financial statements

The consolidated financial statements of Japan Tobacco Inc. (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS Accounting Standards”) pursuant to the provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies. Pursuant to the provisions of the second sentence of the same paragraph of the same Ordinance, some disclosure items required under IFRS Accounting Standards are omitted.

(2) Scope of consolidation

Number of consolidated subsidiaries: 268 companies

Major consolidated subsidiaries: TS Network Co., Ltd., Japan Filter Technology, Ltd., JT International S.A., Gallaher Ltd., Torii Pharmaceutical Co., Ltd., and TableMark Co., Ltd.

(3) Scope of equity method

Number of affiliates accounted for using the equity method: 53 companies

Major affiliates accounted for using the equity method: TC Megapolis JSC

Joint ventures are accounted for using the equity method.

(4) Accounting policies

A. Basis and method of valuation for financial assets other than derivatives

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 classification as follows:

(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.

iv) Impairment of financial assets

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

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

The Group assesses whether a credit risk on a financial asset has increased significantly based on a change of the default risk considering the 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 the financial assets are written-off directly.

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

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

B. Basis and method of valuation for derivatives

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.

C. Basis and method of valuation for 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.

D. Depreciation methods for significant depreciable assets

i) Property, plant and equipment and investment property (excluding right-of-use assets)

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.

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.

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 fiscal 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.

ii) Intangible assets (excluding right-of-use assets)

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

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

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each fiscal 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.

iii) Right-of-use assets

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

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

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

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

E. Policy on accounting of significant 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.

F. Post-employment benefits

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

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

For each plan, the Group calculates the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each fiscal 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 fiscal 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.

G. Accounting for revenue

i) Revenue from contracts with customers

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

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

ii) Interest income

Interest income is recognized using the effective interest rate method.

iii) Dividend income

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

H. 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.

I. Method of 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 the fiscal year end date. 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 the fiscal year end date, 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 to the rate. The resulting translation differences are recognized as other comprehensive income. However, the income and expenses of the Group's subsidiaries in the hyperinflationary economy are translated into Japanese yen at the rates of exchange prevailing at the fiscal year end date in accordance with the hyperinflationary accounting. Its details are stated in "M. Hyperinflationary Accounting Adjustments." 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.

J. Method of significant 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. 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 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 fair value of an equity instruments 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, 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.

K. 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.

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

M. Hyperinflationary Accounting Adjustments

As required by IAS 29, "Financial Reporting in Hyperinflationary Economies," the Group's consolidated financial statements include the operating results and financial condition of the Group's subsidiaries in the hyperinflationary economy, restated in terms of the measuring unit current at the end of the reporting period.

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

(5) Changes in accounting policies

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 2024.

| | IFRS Accounting Standards | Description of new standards and amendments |
|--------|------------------------------------|---|
| IFRS 7 | Financial Instruments: Disclosures | Providing requirements for disclosure relating to supplier finance arrangements |
| IAS 7 | Statement of Cash Flows | |

The adoption of the above standards and interpretations does not have a material impact on the consolidated financial statements. Presentation of some items in the consolidated financial statements for the year ended December 31, 2024 has been reclassified from those for the year ended December 31, 2023

2. Notes to accounting estimates

The following are estimates that have been recorded in the consolidated financial statements for the current fiscal year based on accounting estimates and that will have material impacts on the consolidated financial statements for the next fiscal year.

(1) Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

A. Amount recorded in the consolidated financial statements for the current fiscal year.

| | |
|-----------------------|--------------------|
| Plant and Equipment | ¥907,700 million |
| Goodwill | ¥2,914,254 million |
| Intangible Assets | ¥486,463 million |
| Investment Properties | ¥3,716 million |

B. Information that helps understanding of the content of accounting estimates

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.

(2) Post-employment Benefits

A. Amount recorded in the consolidated financial statements for the current fiscal year.

| | |
|--------------------------------|------------------|
| Retirement benefit assets | ¥89,573 million |
| Retirement benefit liabilities | ¥277,236 million |

B. Information that helps understanding of the content of accounting estimates

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.

(3) Provisions

A. Amount recorded in the consolidated financial statements for the current fiscal year.

| | |
|------------|-----------------|
| Provisions | ¥74,230 million |
|------------|-----------------|

B. Information that helps understanding of the content of accounting estimates

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.

(4) Income Taxes

A. Amount recorded in the consolidated financial statements for the current fiscal year.

| | |
|---------------------|-----------------|
| Income tax payables | ¥24,621 million |
|---------------------|-----------------|

| | |
|---------------------|-----------------|
| Deferred tax assets | ¥93,467 million |
|---------------------|-----------------|

| | |
|--------------------------|------------------|
| Deferred tax liabilities | ¥124,455 million |
|--------------------------|------------------|

B. Information that helps understanding of the content of accounting estimates

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.

(5) 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 “9. Contingencies.”

(6) Other information

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

3. Notes to consolidated statement of financial position

(1) Accumulated depreciation of assets (including accumulated impairment losses)

| | | |
|---------------------------------|---|------------------|
| Property, plant and equipment: | ¥ | 1,309,743million |
| Goodwill and intangible assets: | ¥ | 1,362,377million |
| Investment property: | ¥ | 5,164million |

(2) Assets pledged as collateral and liabilities relating to collateral

Pursuant to Article 6 of the Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for its corporate bonds.

Amount of liabilities relating to collateral

| | | |
|--------|---|----------------|
| Bonds: | ¥ | 125,000million |
|--------|---|----------------|

(3) Allowance for doubtful accounts directly deducted from assets

| | | |
|------------------------------|---|--------------|
| Trade and other receivables: | ¥ | 7,810million |
| Other financial assets: | ¥ | 6,780million |

4. Notes to consolidated statement of changes in equity

(1) Class and total number of issued shares and class and total number of treasury shares

(Thousands of shares)

| | Number of shares as of January 1, 2024 | Increase for the year ended December 31, 2024 | Decrease for the year ended December 31, 2024 | Number of shares as of December 31, 2024 |
|-----------------|--|---|---|--|
| Issued shares | | | | |
| Ordinary shares | 2,000,000 | - | - | 2,000,000 |
| Treasury shares | | | | |
| Ordinary shares | 224,692 | 0 | 283 | 224,409 |

(Note) The increase of 0 thousand treasury shares (ordinary shares) is due to purchase of shares less than one unit. The decrease of 283 thousand treasury shares (ordinary shares) is composed of 125 thousand treasury shares due to disposal for restricted stock remuneration, 121 thousand treasury shares due to exercise of share options, 38 thousand treasury shares due to disposal for performance share unit remuneration and 0 thousand treasury shares due to sale of shares less than one unit.

(2) Cash dividends

i) Dividends payments

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

ii) Dividends whose basis date is in the year ended December 31, 2024 but whose effective date falls in the year ending December 31, 2025.

The following proposal will be placed on the agenda of the Annual Shareholders' Meeting to be held on March 26, 2025.

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

(3) Class and number of shares under subscription rights to shares as of December 31, 2024 (excluding rights whose exercise period has not yet begun)

Ordinary shares 230,600shares

5. Revenue recognition

(1) Disaggregation of Revenue

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

(Millions of yen)

| | Reportable Segments | | | Other | Consolidated |
|---|---------------------|----------------------|-------------------|--------------|------------------|
| | Tobacco (Note 2) | Pharma- ceuticals | Processed Food | | |
| Core revenue from tobacco business (Note 1) | 2,778,610 | — | — | — | 2,778,610 |
| Other | 117,945 | 94,464 | 157,183 | 1,556 | 371,149 |
| Total | <u>2,896,555</u> | <u>94,464</u> | <u>157,183</u> | <u>1,556</u> | <u>3,149,759</u> |

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

(Note 2) Revenue from RRP in core revenue from the “Tobacco Business” was ¥98,873 million. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.

Breakdown of core revenue from tobacco business by cluster is as follows.

(Millions of yen)

| | Clusters | | | |
|--------------|----------|----------------|-----------|-----------|
| | Asia | Western Europe | EMA | Total |
| Core revenue | 802,325 | 688,921 | 1,287,364 | 2,778,610 |

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.

A. Tobacco Business

Tobacco business engage in the sale of tobacco products.

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

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

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

Pharmaceutical business mainly engages in the sale of prescription drugs and licensing.

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

Revenue from licensing is generated by licensing out the rights to develop and market each compound to licensees in the development stage, and the Group receives upfront income, milestone revenue and sales-based royalties.

Upfront income is recognized at the time the customer obtains control of the license. Milestone revenue is recognized at the time the milestone agreed between the parties such as the progress of development is achieved. Sales-based royalties are measured based on the Group’s licensees’ sales, and recognized by taking into consideration the timing of occurrence.

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

C. Processed 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 the case when consideration payable to the customer is a payment for a distinct product or service from the customer, revenue is measured at the amount of consideration promised with the customer, less consideration payable to the customer.

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

Transactions in which the Group is involved as an 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.

6. Financial instruments

(1) Status of financial instruments

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.

(2) The breakdown of financial instruments by fair value level

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

i) Financial Instruments Measured at Amortized Cost

The carrying amount on the consolidated statement of financial position and fair value hierarchy of financial instruments measured at amortized cost as of December 31, 2024 are as follows:

(Millions of yen)

| | Carrying amount on consolidated statement of financial position | Fair value | | | Total |
|-----------------------------|---|------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | |
| Long-term borrowings (Note) | 738,335 | — | 738,281 | — | 738,281 |
| Bonds (Note) | 928,136 | 876,125 | — | — | 876,125 |

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, the 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.

ii) Financial Instruments Measured at Fair Value

The fair value hierarchy of financial instruments measured at fair value as of December 31, 2024 is as follows:

(Millions of yen)

| | Level 1 | Level 2 | Level 3 | 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 | 25,561 | 44,598 | 45,920 | 116,078 |
| Derivative liabilities | — | 45,103 | — | 45,103 |
| Total | — | 45,103 | — | 45,103 |

7. Investment property

(1) Status of investment property

The Group owns some rental properties such as office buildings in Tokyo and other areas.

(2) Fair value of investment property

The carrying amount on the consolidated statement of financial position and the fair value of investment properties as of December 31, 2024 are as follows:

(Millions of yen)

| | Carrying amount on consolidated statement of financial position | Fair value |
|---------------------|---|------------|
| Investment property | 3,716 | 12,284 |

(Notes) 1. The carrying amount on the consolidated statement of financial position is the acquisition cost less accumulated depreciation and accumulated impairment losses, if any.

2. The fair value of investment properties 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.

8. Per share information

| | | |
|--|---|----------|
| (1) Equity attributable to owners of the parent company per share: | ¥ | 2,281.35 |
| (2) Basic earnings per share: | ¥ | 260.98 |
| (3) Diluted earnings per share: | ¥ | 260.94 |

9. 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 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, 2024, there were a total of 51 smoking and health related cases pending for which no provisions have been recorded, including cases in which the Company's subsidiaries were named as defendants or for which the Company may have certain indemnity obligations pursuant to agreements such as the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations. In addition, there were 84 lawsuits for which a provision has been made for contingent liabilities assumed in business combinations as a result of acquisitions.

In March 2019, the Quebec Court of Appeal dismissed the appeal by three Canadian tobacco manufacturers including JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary, of the lower court decision in the two class action lawsuits in Quebec. The Quebec Court of Appeal ordered a total damage award against the appellants of approximately ¥1,499.6 billion (approximately CAD 13.7 billion), in which the share of the total damage award against JTI-Mac is approximately ¥194.3 billion (approximately CAD 1.8 billion). Given the Quebec Court of Appeal's decision, JTI-Mac filed for protection from its creditors under the Companies' Creditors Arrangement Act (CCAA), and the Ontario Superior Court has granted the CCAA application and extended protection in favor of JTI-Mac (hereinafter referred to as "CCAA Proceedings"). As a result, all legal proceedings and execution of judgments against JTI-Mac in Canada were stayed by the CCAA Proceedings.

As part of the CCAA Proceedings, JTI-Mac has been participating in a Court-ordered mediation process with the respective creditors, including the Quebec class action plaintiffs (hereinafter referred to collectively as the "Creditors"), with the intention of finally resolving all pending lawsuits. On October 17, 2024, the court-appointed Mediator and JTI-Mac's Monitor published a proposed Plan of Compromise or Arrangement (the "Plan"). The Plan aimed at a comprehensive settlement between JTI-Mac and the Creditors, resolving all smoking and health related claims against JTI-Mac and its executives, including 18 pending lawsuits against JTI-Mac. The Plan includes a total settlement payment of CAD 32.5 billion by JTI-Mac and two other Canadian tobacco manufacturers. Following the approval of the Plan at the meeting of Creditors held on December 12, 2024, the Ontario Superior Court held a hearing with the three defendant tobacco manufacturers, including JTI-Mac, from January 29 to January 31, 2025 to consider whether to approve the Plan. During the hearing, JTI-Mac presented solutions to the unresolved key issues in the Plan.

Upon conduct of foregoing three-days-hearing, determination of the Ontario Superior Court is yet to be made..

Under the CCAA, business assets of JTI-Mac continue to be protected and it carries on its business in the ordinary course.

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

i) Individual claim

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

ii) Class actions

There are eight ongoing class actions in Canada against the Company's subsidiary and/or indemnitees. The cases are stayed by the CCAA Proceedings. In addition, there is one ongoing class action in the United States of America against the Company's subsidiary. The case is stayed.

iii) Health-care cost recovery litigation

There are ten ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by all the Canadian provinces (except three Canadian territories). The cases are stayed by the CCAA Proceedings.

(2) Other legal proceedings

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

10. Business Combinations

Acquisition of the Tobacco Company in the United States

(1) Summary of the Business Combination

On October 7, 2024, Eastern Daylight Time, the Group acquired all outstanding fully diluted shares of Vector Group Ltd. (VGR), a company operating tobacco business in the United States.

VGR has well-established brands such as "Montego" and "Eagle" in the value segment, growing in the United States.

The purpose of this acquisition is to expand the Group presence in the United States, the second largest tobacco market in net sales and one of the most profitable globally.

(2) Financial Impact on the Group

Since the acquisition date, the acquired business has contributed to consolidated revenue of ¥32,828 million and consolidated operating profit of ¥9,025 million. The above operating profit includes the amortization of trademarks and other intangible assets acquired from the business combination, etc.

(3) Consideration and Details (Total of the Acquisition)

The consideration was ¥344,643 million and paid fully in cash.

(4) Net Cash Outflow for the Business Combination (Total of the Acquisition)

| | (Millions of yen) |
|--|--|
| | Net cash outflow for the business combination |
| Cash consideration | 344,643 |
| Cash and cash equivalents in subsidiaries acquired | (78,976) |
| Net cash outflow for the business combination | 265,667 |

(5) Fair Values of the Assets Acquired and Liabilities Assumed

| | (Millions of yen) |
|-------------------------------------|-------------------|
| | Fair value |
| Current assets | 121,853 |
| Trademarks | 51,210 |
| Non-current assets except the above | 308,127 |
| Total assets | 481,189 |
| Current liabilities | 80,969 |
| Non-current liabilities | 303,652 |
| Total liabilities | 384,622 |
| Goodwill | 248,076 |

Goodwill represents excess earning power resulting from the effects of business integration synergies including enhanced business scale.

Non-current assets except trademarks include intangible assets related to contracts and licenses to operate tobacco businesses in the United States.

Fair values of assets acquired and liabilities assumed are provisional amounts recognized at the acquisition date and may change during the measurement period (one year from the acquisition date).

Acquisition-related costs related to this business combination are expensed as "Selling, general and administrative expense" of ¥3,575 million and "Financial costs" of ¥1,187 millions.

Also, unamortized costs of ¥(1,142) million, which are not recorded as "Financial costs" at the end of the current fiscal year in origination costs related to debt financing for the acquisition deducted from the fair value of the borrowings at the initial recognition, are recorded as "Bonds and borrowings".

11. Significant subsequent events

The Company entered into loan agreements with banks as follows:

- (1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited
- (2) Aggregate amount of borrowings : ¥100 billion
- (3) Interest rates : Floating rates (TIBOR plus spread)
- (4) Drawdown date : January 31, 2025
- (5) Repayment date : January 31, 2055

The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2030.

- (6) Collateral/Guarantee : None
- (7) Use of proceeds : Repayment of the Existing Subordinated Loan
- (8) Other borrowing terms :

- a. Interest deferral clause

The Company may, at its option, defer the payment of interest.

- b. Subordination clause

The lenders shall have subordinated claim rights subordinated to senior debts in liquidation proceedings, bankruptcy proceedings, reorganization proceedings, civil rehabilitation proceedings or any other equivalent proceedings other than those under the laws of Japan.

No terms and conditions of the Subordinated Loan Agreement may be amended in a manner detrimental in any way to any creditors of the Company other than the creditors of the subordinated receivables.

- c. Replacement restrictions

There is no contractual provision on replacement restrictions.

Provided, when making a prepayment of the Subordinated Loan, the Company intends to replace it with the funds raised by common stock or financial instruments that have equity credit attributes approved by rating agencies to be equal to or higher than the Subordinated Loan within twelve months prior to the prepayment date. However, the Company may decide not to replace the Subordinated Loan with the approved funds that have equal or higher equity credit attributes, if predefined financial requirements are met.

12. All figures are rounded off to the nearest unit.

Nonconsolidated Statement of Changes in Net Assets

(Year ended December 31, 2024)

(Millions of yen)

| | Shareholders' equity | | | | | | | | | |
|---|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|--|-----------------------------|-------------------------------------|-----------------------------------|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | | | | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | | | | Total 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, 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 |

Notes to Nonconsolidated Financial Statements

1. Significant accounting policies

(1) Basis and method of valuation for securities

Shares of subsidiaries and affiliates:

Stated at cost determined by the moving-average method.

Available-for-sale securities:

Securities with a market price:

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

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

i) Property, plant and equipment (excluding leased 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 |

ii) Intangible assets (excluding leased assets)

Straight-line method

The main useful lives are as follows:

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

iii) Leased 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 accounting of provisions

i) Allowance for doubtful accounts

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

ii) Provision for bonuses

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

iii) Provision for retirement benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefit obligations and fair values 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).

(6) Policy on translation of assets and liabilities denominated in foreign currency into Japanese yen

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

(7) Policy on accounting of revenue and expense

Revenue from contracts with customers

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

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

(8) Method of hedge accounting

Deferral hedge accounting is applied.

For interest rates 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) Adoption of Group Tax Sharing System

The Company adopts the group tax sharing system.

(10) Changes in presentation method

In nonconsolidated balance sheet, "Patent right", which was presented separately under intangible assets in the previous fiscal year, is immaterial and therefore is included in "Other" under intangible assets from the current fiscal year.

2. Notes to 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 ¥1,508,834 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 ¥ 1,356,191 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 or not by referring to the result of the impairment test of goodwill allocated to the tobacco cash-generating unit in the consolidated financial statements in accordance with IFRS. 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.

3. Notes to nonconsolidated balance sheet

(1) Receivables and payables with respect to subsidiaries and affiliates (excluding items separately presented)

| | | |
|-------------------------|---|-----------------|
| Short-term receivables: | ¥ | 26,977 million |
| Short-term payables: | ¥ | 160,736 million |
| Long-term payables: | ¥ | 27 million |

(2) Accumulated depreciation of property, plant and equipment: ¥ 412,765 million

(3) Pursuant to Article 6 of the Japan Tobacco Inc. Act, the Company's assets are pledged as general collateral for its corporate bonds.

| | | | |
|---|-------|---|-----------------|
| Amount of liabilities relating to collateral: | Bonds | ¥ | 125,000 million |
|---|-------|---|-----------------|

(4) Guarantee obligations

| Guaranteed party | Guarantee amount | Type of guarantee obligation | |
|---|-------------------|--|--|
| | (Millions of yen) | | |
| JT International Financial Services B.V. | 814,346 | Bond guarantee, guarantee denominated in foreign currencies | ¥ 814,346 million (EUR 2,600 million) (USD 1,945 million) (GBP 400 million) |
| JT International Holding B.V. | 353,210 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 353,210 million (USD 2,236 million)others |
| JT International S.A. | 281,963 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 281,963 million (USD 1,718 million)others |
| JT International Company Netherlands B.V. | 81,544 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 81,544 million (EUR 495 million) |
| Gallaher Ltd. | 41,690 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 41,690 million (USD 264 million)others |
| JT International Hellas A.E.B.E. | 33,933 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 33,933 million (EUR 206 million) |
| JT International spol. s r.o. | 22,193 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 22,193 million (CZK 3,405 million)others |
| JT International Germany GmbH | 18,346 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 18,346 million (EUR 108 million)others |
| JT Canada LLC Inc. | 15,248 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 15,248 million (CAD 139 million) |
| Tobaccoland Handels GmbH & Co KG | 14,814 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 14,814 million (EUR 90 million) |
| JT International Luxembourg S.A. | 12,345 | Loan guarantee, guarantee denominated in foreign currencies | ¥ 12,345 million (EUR 75 million) |
| Other (52 companies) | 112,293 | Loan guarantee | |
| Total | 1,801,924 | | |

(5) Payables to Directors and Audit & Supervisory Board Members

| | | |
|---------------------|---|------------|
| Long-term payables: | ¥ | 41 million |
|---------------------|---|------------|

(6) "Cash management system deposits received" are funds entrusted in the cash management system for group companies.

4. Notes to nonconsolidated statement of income

(1) Amount of transactions with subsidiaries and affiliates

| | | |
|---|---|-----------------|
| Net sales: | ¥ | 59,357 million |
| Purchase of goods: | ¥ | 78,917 million |
| Selling, general and administrative expenses: | ¥ | 84,596 million |
| Dividends income: | ¥ | 423,188 million |
| Amount of non-operating transactions: | ¥ | 22,658 million |

(2) Total research and development expenses are ¥64,712 million, all of which were recorded as general and administrative expenses.

5. Notes to nonconsolidated statement of changes in net assets

Class and number of shares of treasury shares

(Thousands of shares)

| | Number of shares as of January 1, 2024 | Increase for the year ended December 31, 2024 | Decrease for the year ended December 31, 2024 | Number of shares as of December 31, 2024 |
|-----------------|---|---|---|---|
| Treasury shares | | | | |
| Ordinary shares | 224,692 | 0 | 283 | 224,409 |
| Total | 224,692 | 0 | 283 | 224,409 |

(Note) The increase of 0 thousand treasury shares (ordinary shares) is due to purchase of shares less than one unit. The decrease of 283 thousand treasury shares (ordinary shares) is composed of 125 thousand treasury shares due to disposal for restricted stock remuneration, 121 thousand treasury shares due to exercise of share options, 38 thousand treasury shares due to disposal for performance share unit remuneration and 0 thousand treasury shares due to sales of shares less than one unit.

6. Tax effect accounting

(1) Breakdown of deferred tax assets and deferred tax liabilities by major cause

| | |
|--|-------------------|
| Deferred tax assets | |
| Provision for retirement benefits | ¥ 24,545 million |
| Obligations pertaining to mutual assistance pension benefits | ¥ 4,284 million |
| Investments in subsidiaries | ¥ 6,202 million |
| Other | ¥ 57,552 million |
| Subtotal | ¥ 92,584 million |
| Less valuation allowance | ¥ (25,535)million |
| Deferred tax assets total | ¥ 67,049 million |
| | |
| Deferred tax liabilities | |
| Reserve for reduction entry | ¥ (13,726)million |
| Deferred gains or losses on hedges | ¥ (11,398)million |
| Valuation difference on available-for-sale securities | ¥ (3,085)million |
| Other | ¥ (12,858)million |
| Deferred tax liabilities total | ¥ (41,068)million |
| Net deferred tax assets | ¥ 25,981 million |

(2) The breakdown of major items that caused significant differences between the effective statutory tax rate and the actual tax rate when applying tax effect accounting

| | |
|---|----------|
| Effective statutory tax rate | 30.43% |
| (Adjustments) | |
| Permanent difference arising from non-deductible items including entertainment expenses | 0.19% |
| Permanent difference arising from non-taxable items including dividends income | (30.21%) |
| Tax credit of items including research and development expenses | (0.69%) |
| Changes in valuation allowance | 0.14% |
| Other | 0.32% |
| Actual effective tax rate after applying tax effect accounting | 0.17% |

(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.

7. Related-party transactions

Subsidiaries and Affiliates

| Type | Name | Ownership ratio of voting rights | Relation with related-parties | Description of transaction | Transaction amount | Item | End-of-period balance |
|------------|---|----------------------------------|--|--|--------------------|--|-----------------------|
| Subsidiary | Table Mark Co., Ltd. | Direct ownership 100% | Lending of funds | Lending of funds (Notes 1, 2) | 25,945 | Short-term loan receivables from subsidiaries and affiliates | 21,979 |
| | | | | Receipt of repayment of funds (Notes 1, 2) | 31,705 | Long-term loan receivables from subsidiaries and affiliates | 4,505 |
| | JT International Holding B.V. | Direct ownership 100% | Borrowing of funds and guarantee of obligations | Borrowing of funds (Notes 1, 2) | 910,000 | Short-term borrowings | 100,000 |
| | | | | Repayment of funds (Notes 1, 2) | 810,000 | | |
| | | | | Guarantee of obligations (Note 3) | 353,210 | - | - |
| | TS Network Co., Ltd. | Direct ownership 85.25% | Deposits received for cash management system | Receipt of surplus funds (Notes 1, 2) | - | Cash management system deposits received | 210,089 |
| | Japan Filter Technology, Ltd. | Direct ownership 100% | Deposits received for cash management system | Receipt of surplus funds (Notes 1, 2) | - | Cash management system deposits received | 26,788 |
| | JT International Financial Services B.V. | Indirect ownership 100% | Guarantee of obligations | Guarantee of obligations (Note 3) | 814,346 | - | - |
| | JT International S.A. | Indirect ownership 100% | Payment of commission and guarantee of obligations | Payment of commission (Note 4) | 36,053 | Accounts payable-other | 36,053 |
| | | | | Guarantee of obligations (Note 3) | 281,963 | - | - |
| | JT International Company Netherlands B.V. | Indirect ownership 100% | Guarantee of obligations | Guarantee of obligations (Note 3) | 81,544 | - | - |
| | Gallaher Ltd. | Indirect ownership 100% | Guarantee of obligations | Guarantee of obligations (Note 3) | 41,690 | - | - |
| | JT International Hellas A.E.B.E. | Indirect ownership 100% | Guarantee of obligations | Guarantee of obligations (Note 3) | 33,933 | - | - |

Transaction conditions and policy on determination of transaction conditions

- (Notes) 1. Interest rates on lending and borrowing of funds and that on receipt of surplus funds are reasonably determined taking into account interest rates on the market.
2. For lending/borrowing from the cash management system, transaction amounts are omitted from the table above because of their frequent occurrence.
3. Guarantees of obligations are made for bank loans, and guarantee fees are calculated based on the guarantee amount.
4. Commission is reasonably determined taking into account general transaction conditions.

8. Per share information

| | | |
|-----------------------------------|---|--------|
| (1) Net assets per share: | ¥ | 684.01 |
| (2) Net income per share: | ¥ | 228.02 |
| (3) Diluted net income per share: | ¥ | 227.98 |

9. Significant subsequent events

The Company entered into loan agreements with banks as follows:

(1) Lenders : Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited

(2) Aggregate amount of borrowings : ¥100 billion

(3) Interest rates : Floating rates (TIBOR plus spread)

(4) Drawdown date : January 31, 2025

(5) Repayment date : January 31, 2055

The Company may, at its option, repay early all or a portion of the principal on any Interest Payment Date on or after the Interest Payment Date of January 2030.

(6) Collateral/Guarantee : None

(7) Use of proceeds : Repayment of the Existing Subordinated Loan

(8) Other borrowing terms :

a. Interest deferral clause

The Company may, at its option, defer the payment of interest.

b. Subordination clause

The lenders shall have subordinated claim rights subordinated to senior debts in liquidation proceedings, bankruptcy proceedings, reorganization proceedings, civil rehabilitation proceedings or any other equivalent proceedings other than those under the laws of Japan.

No terms and conditions of the Subordinated Loan Agreement may be amended in a manner detrimental in any way to any creditors of the Company other than the creditors of the subordinated receivables.

c. Replacement restrictions

There is no contractual provision on replacement restrictions.

Provided, when making a prepayment of the Subordinated Loan, the Company intends to replace it with the funds raised by common stock or financial instruments that have equity credit attributes approved by rating agencies to be equal to or higher than the Subordinated Loan within twelve months prior to the prepayment date. However, the Company may decide not to replace the Subordinated Loan with the approved funds that have equal or higher equity credit attributes, if predefined financial requirements are met.

10. All figures are rounded off to the nearest unit.