Japan Tobacco Inc.

Integrated Report 2020

Year ended December 31, 2020

Forward-looking statements
This report contains forward-looking statements. These statements appear in a number of places in this report and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "would," "expect," "intend," "project," "plan," "aim," "seek," "target," "anticipate," "believe," "estimate," "predict," "potential" or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

1. increase in awareness of health concerns related to smoking;
2. regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
3. litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
4. our ability to further diversify our business beyond the traditional tobacco industry;
5. our ability to successfully expand internationally and make investments outside Japan;
6. competition, changing consumer preferences and behavior;
7. our ability to manage impacts derived from business diversification or business expansion;
8. economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
9. fluctuations in foreign exchange rates and the costs of raw materials; and
10. catastrophes, including natural disasters.

Editorial policy

Period covered
In principle, this report covers the period from January 1, 2020 to December 31, 2020, but also includes some information related to activities before and after this period.

Scope of report
Japan Tobacco Inc. and consolidated subsidiaries

Published
March 2021

Referenced guidelines
The International Integrated Reporting Council's "International Integrated Reporting Framework" was referred to in the writing of this report. In addition, the GRI Standards of the Global Reporting Initiative were referred to with regard to ESG information.

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CORPORATE PROFILE

The JT Group is a leading global tobacco company operating in over 70 countries/regions and our products are sold in over 130 countries/regions.

To illustrate the overview of the Group, this chapter explains the Group's management principle and vision, which are the foundation of its value creation, outlines its businesses, and presents key financial and non-financial performance indicators.

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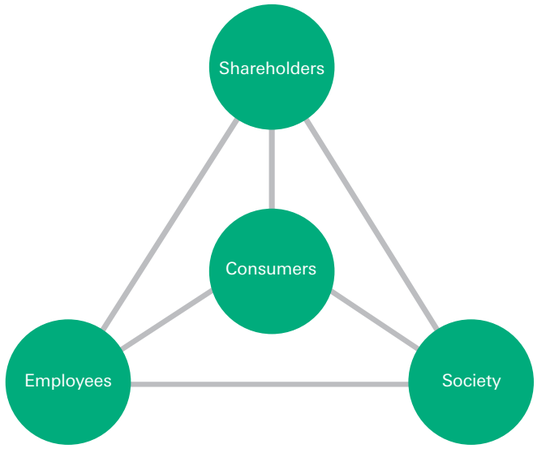
Our management principle

Management principle

To pursue the 4S model

Under the 4S model, we strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups and exceeding their expectations wherever we can.



By pursuing the 4S model, we aim to achieve sustainable profit growth over the mid to long term. We firmly believe that pursuing the 4S model is the best approach to continuously grow our corporate value and serve our four stakeholder constituencies' common interests.

Consumers

We provide exceptional products and services that deliver value beyond fulfillment of diverse needs and preferences. To keep doing so, we will upgrade our innovation capabilities by leveraging our Group's diversity.

Shareholders

We aim to enhance shareholder returns by realizing the mid- to long-term profit growth, placing priority on striking a balance between profit growth through business investments and shareholder returns.

Employees

We aim to be an appealing, highly esteemed company for which our employees are proud to work. While evaluating employees fairly and transparently and supporting their personal growth, we aim to foster a corporate culture that respects and embraces diverse values.

Society

In order to fulfill our responsibility as a member of society and contribute to society's sustainable development through our business, we will work with a wide range of stakeholders and strive to resolve various issues together.

VISION

To continue to be a growing global company that provides diverse value, unique to the JT Group.

Based on our 4S model, our vision shall continue to be a growing global company that provides diverse value, unique to the JT Group.

Our long, rich history has endowed us with three key strengths: a solid financial base, superior brand equity and a diverse workforce. To realize our Vision, we plan to leverage these strengths as sources of competitiveness in our business activities. We will create a variety of products and services that meet the needs of our consumers and society, enhance the corporate value of the JT Group, and create social value that contributes to the development of a sustainable society.



The JT Group MISSION

To create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals.

Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals through the 4S model. Our code of conduct and values guide the way in which every employee should act on a daily basis. We have codified them into three statements we call the JT Group WAY.

The world in which we live encompasses diverse natural environments, societies and peoples. By embracing such diversity, we believe we can create brands that offer value to our consumers.

We define a brand as all products, services and actions trusted by consumers and believe it is the key to forming deep bonds of trust between us and consumers. Setting our brands as our most valuable management resource, we will continue to create, develop, and refine distinctive brands that win consumers' trust.

In order to achieve our mission, each and every one of us at the JT Group practices the JT Group WAY as a personal guide.

The JT Group WAY

- **Act with integrity, always putting the consumer first.**
- **Continue to evolve while remaining committed to quality in all its aspects.**
- **Harness the power of diversity across the JT Group.**

At a glance

The JT Group is a leading global tobacco company operating in over 70 countries/regions and our products are sold in over 130 countries/regions. In addition to the tobacco business, we are developing pharmaceutical and processed food businesses.

International Tobacco Business

The international tobacco business, headquartered in Geneva, manufactures and offers tobacco products all over the world except Japan and a few Asian countries/regions.

Its key markets include France, Italy, Russia, Spain, Taiwan, Turkey and the U.K. Its international brand portfolio includes leading brands in cigarettes and FCT (fine cut tobacco), such as Winston, Camel, MEVIUS and LD, as well as in RRP (Reduced-Risk Products),* such as Logic and Ploom.

Japanese-Domestic Tobacco Business

The Japanese-domestic tobacco business, headquartered in Tokyo, manufactures and offers tobacco products mainly for Japan.

Its brand portfolio includes Ploom in the RRP category and the key brands such as MEVIUS, Seven Stars, Natural American Spirit, Winston and Camel in the cigarette category.

Pharmaceutical Business

The pharmaceutical business focuses on the R&D, manufacturing and sale of prescription drugs, concentrating on three specific therapeutic areas: metabolic diseases, autoimmune/inflammatory diseases, and viral infection.

CORECTIM® Ointment, Riona® Tablets and REMITCH® CAPSULES/OD Tablets are the main products among others.

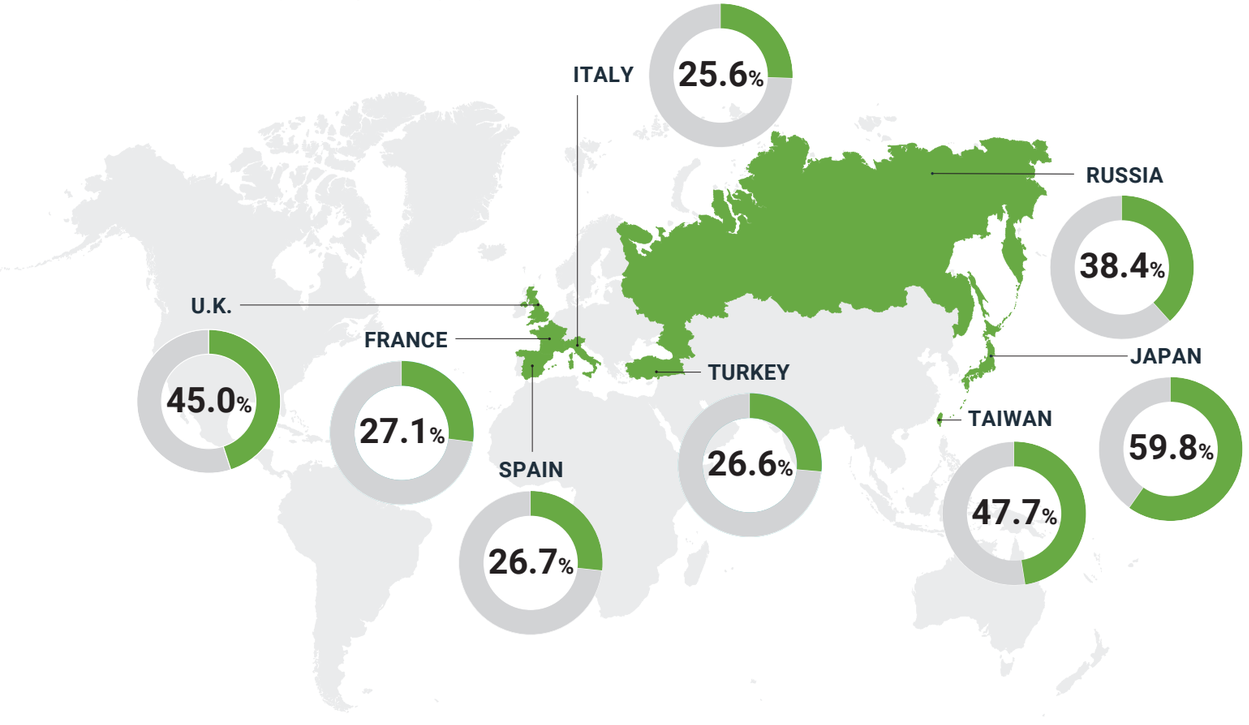
Processed Food Business

The processed food business handles the frozen and ambient food business, mainly for frozen noodles, packaged cooked rice, and frozen okonomiyaki (Japanese savory pancakes); the seasonings business, focusing on seasonings including yeast extracts; and the bakery business through bakery chain outlets, mainly in the Tokyo metropolitan area.

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

Combustibles market share in the tobacco business

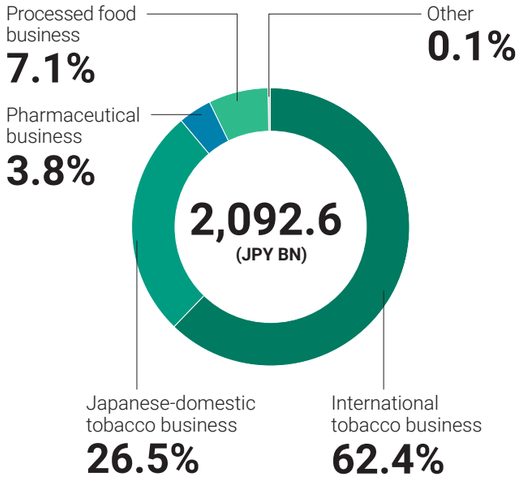
The presence of JT Group in our key markets (2020)



Source: JT estimate, IRI, Nielsen and Logista

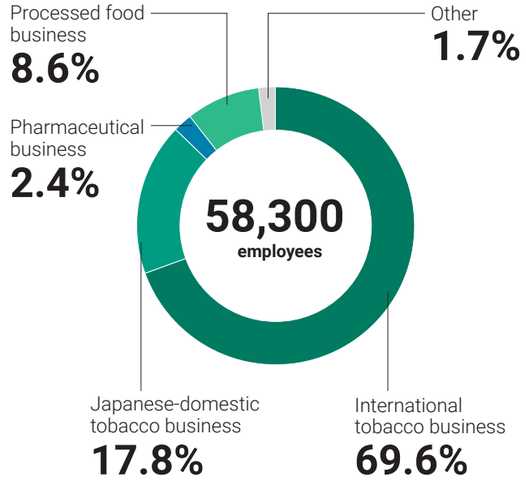
Total revenue

(2020)



Number of employees

(As of December 31, 2020)



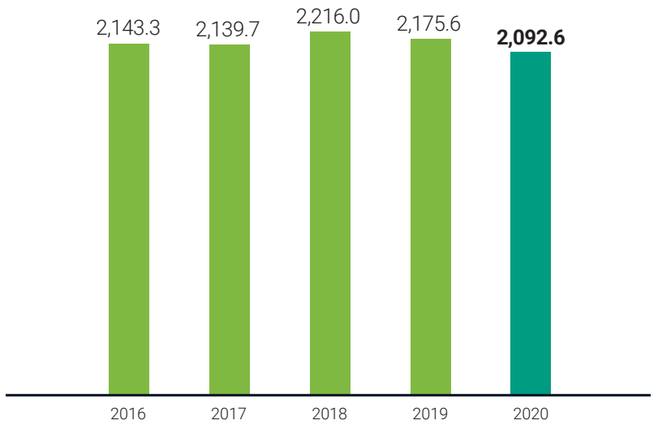
* RRP (Reduced-Risk Products): Products with the potential to reduce the risks associated with smoking.

Key performance indicators

Financial performance review

Revenue

(JPY BN)



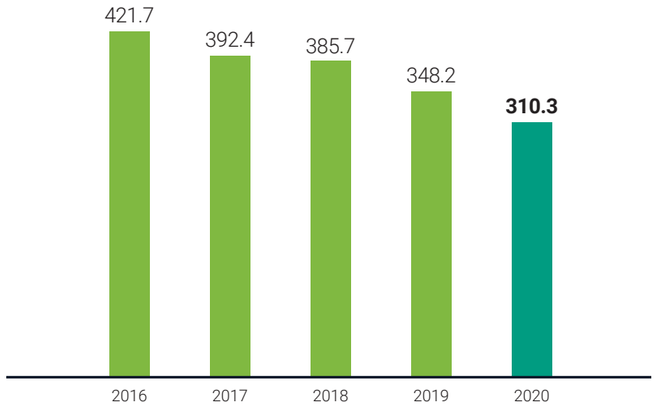
JPY 2,092.6 BN

3.8% decrease year on year

Revenue on a consolidated basis. Excludes excise and other similar taxes, as well as sales from transactions in which the JT Group acts as an agent.

Profit

(JPY BN)



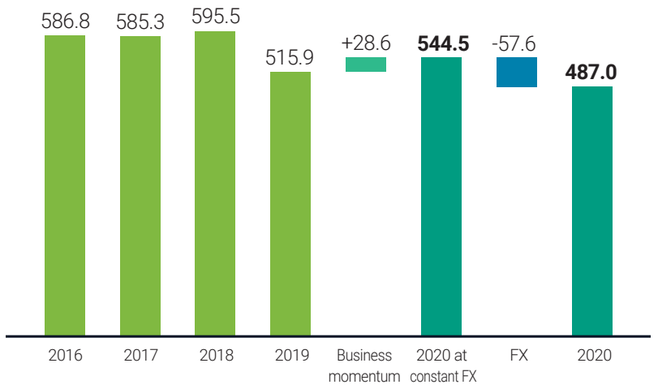
JPY 310.3 BN

10.9% decrease year on year

Profit attributable to owners of the parent company.

Adjusted operating profit

(JPY BN)



5.5% increase year on year at constant FX

5.6% decrease to

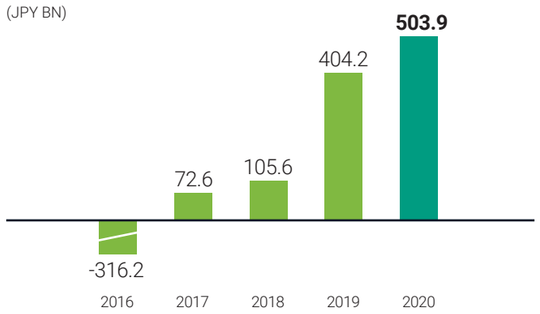
JPY **487.0** BN (reported basis)

Consolidated adjusted operating profit (AOP) at constant FX, JT Group's performance indicator, grew 5.5%. On a reported basis, AOP was down 5.6% due to unfavorable foreign currency impacts. Adjusted operating profit is calculated as follows: Adjusted operating profit=Operating profit+amortization cost of acquired intangibles arising from business acquisitions+ adjusted items (income and costs)*

* Adjusted items (income and costs) are impairment losses on goodwill, restructuring income and costs and others

Free cash flow

(JPY BN)



JPY 503.9 BN

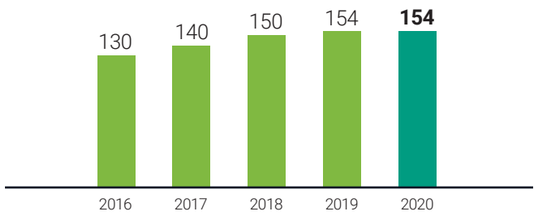
JPY **99.7** BN increase year on year

Free cash flow is the sum of cash flows from operating activities and investing activities, but excludes the following items:

- From operating cash flow: depreciation from lease transactions, interest received, dividends received, interest paid and income taxes related to these items excluding lease transactions, and other items
- From investing cash flow: purchase of investment securities (both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes

Dividend per share

(JPY)



154 yen

The sum of interim and year-end dividends per share, the record dates of which fall in the relevant fiscal year.

Non-financial performance review

Dow Jones Sustainability Indices (DJSI)

We are proud to be included in DJSI Asia Pacific for the seventh consecutive year, retaining second place in the tobacco industry.

Highlights include:

- Improved scores across all economic, environmental and social dimensions
- Continued to be the industry leader in the social dimension, with a full score in Social Reporting and Corporate Citizenship and Philanthropy
- In the environmental dimension, earned perfect scores in Environmental Reporting and Climate Strategy
- Also earned a perfect score in Materiality in the social dimension
- Awarded the Bronze Class and Industry Mover distinction in the SAM Sustainability Yearbook 2021 for the second consecutive year

RRP (Reduced-Risk Products)

At the end of 2020, our RRP portfolio was present in **27** countries, with a choice of **6** tobacco vapor offerings (T-Vapor) and **5** types of e-cigarettes (E-Vapor).

Tackling illegal trade

As part of our constructive partnership with law enforcement agencies around the world, we provided them with information to effectively tackle illegal trade in tobacco products, leading to:

- More than **60** counterfeit tobacco factories and warehouses raided
- **3.22** billion illegal cigarettes seized

Respect for human rights

In 2020, with our ability to conduct in-person Human Rights Impact Assessments disrupted by the pandemic, we expanded the human rights self-assessment questionnaire tool. This tool was launched in a further **10** countries in 2020.

Contributing to our communities

US$ **49.5** MM: Total value of community investment

7,888: The number of employees who volunteered on company time (Total of 19,199 hours volunteered)

3,589: The number of employees who volunteered on their own time (Total of 4,889 hours volunteered)

Agricultural Labor Practices (ALP)

Of all the entities that provided us with tobacco leaf, either directly or through leaf merchants, **87**% reported against ALP.

Compliance

More than **99**% of our employees in our Japanese operations completed online training on the Code of Conduct.

Almost **2/3** of employees of our international tobacco business took advanced information security training voluntarily.

Investing in people

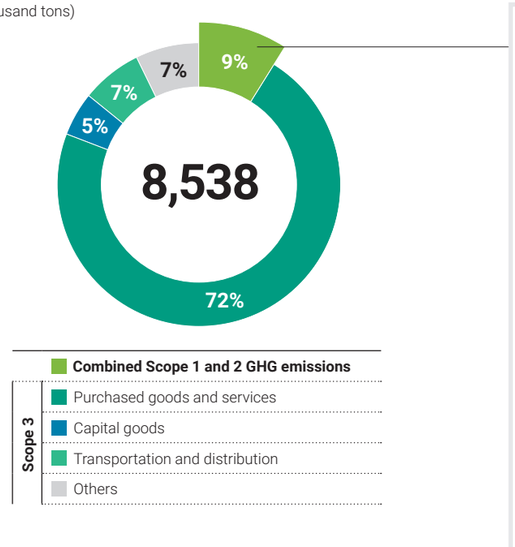
Our international tobacco business was certified as a Global Top Employer for the seventh consecutive year. We were certified as a Top Employer by the Top Employers Institute in **64** countries around the world. In Japan, JT was selected as a "White 500" company and achieved Gold status in the Pride Index Report of Japanese employers for the fifth consecutive year.

Environment

We strive to further reduce environmental impacts, focusing on the most significant environmental risks and opportunities for our business and stakeholders. For further information on our environmental data, please visit JT.com.

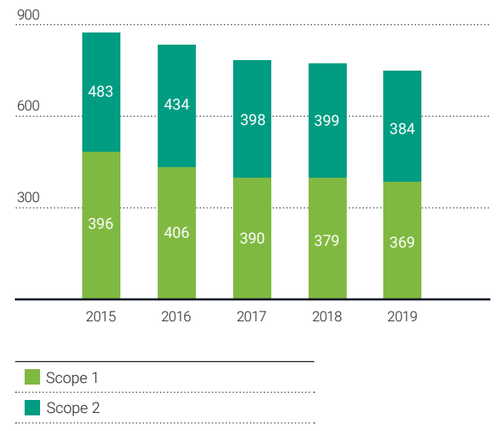
GHG emissions in our value chain in 2019

(CO_2e thousand tons)

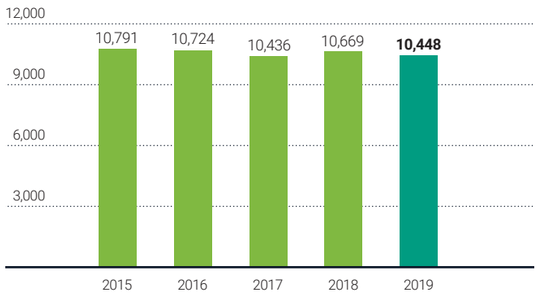


Combined Scope 1 and 2 GHG emissions

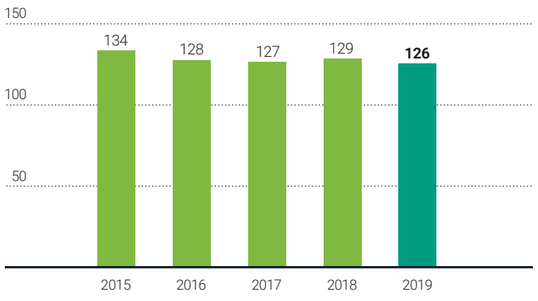
(CO_2e thousand tons)



Water withdrawal (Thousand m^3)



Waste generated (Thousand tons)



Note: In the second quarter of 2021, we will report 2020 data, in line with our recalculation policy. Read more about our calculation methodology at JT.com.

For the second year running, we achieved a place on CDP's prestigious "A List" for tackling climate change and acting to protect water security. We are also recognized as a global leader for engaging our supply chain on climate change. This marks our second recognition for CDP Supplier Engagement Leader following 2019.

▶ Read more on JT.com.

▶ Learn more about our non-financial data scope annotations at JT.com.
Any data without annotated scope in this report covers the entire JT Group including subsidiaries.

Our response to COVID-19

The COVID-19 pandemic has drastically changed our daily lives, including our day-to-day environments and jobs. How much longer the upheaval will persist is hard to predict. During the pandemic, the JT Group has taken various steps to act responsibly based on pandemic-response policies and business continuity plans.

COVID-19 impact on our top line

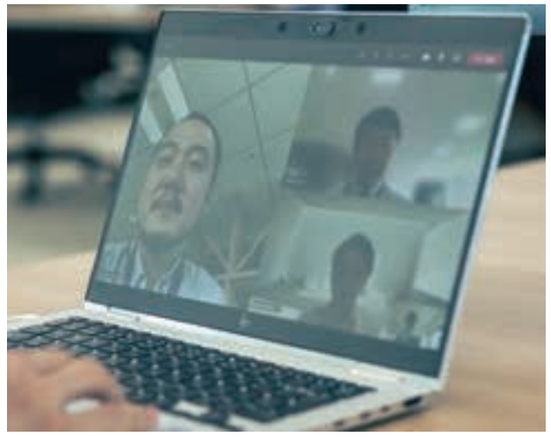
We estimate the pandemic has reduced our consolidated revenue by about 3% for 2020. The headwind on the tobacco business was concentrated in its Duty-Free operations, due to international travel restrictions. The processed food business has seen a falloff in food-service products within its frozen and ambient food as well as the seasonings business, in addition to the decline in demand in its bakery business.

Safety of our employees and support for our business partners

Under the COVID-19 pandemic, we have placed top priority on ensuring the safety of stakeholders involved in our operations. For employees, across the entire JT Group, we promptly encouraged working from home (WFH) to all the positions that did not require immediate presence of our employees within the premises, whether in offices, factories or sales teams. As an example, in Japan, more than 80% of our employees with office positions that can be done at home were doing so as of January 2021. To enable such widespread WFH, we rapidly upgraded our IT infrastructure.

For all employees with jobs not conducive to WFH, including those working in sales roles, stores, factories, warehouses and research facilities, we have sufficiently provided personal protective equipment (PPE) such as masks and enforced strict requirements with respect to hand-washing/sanitizing, mask-wearing, and checking body temperature. We continue to operate with maximal safeguards against infection in place.

Keeping supply chains functioning even amid the pandemic is crucial to delivering products to consumers. We have been maintaining close communication with a host of suppliers to prevent disruptions in product supplies. By virtue of such efforts, we have averted so far major product supply disruptions.



Improving our social impact

We strive to improve our social impact by helping to make communities more inclusive and resilient. In the countries and regions where we operate, the JT Group provides emergency support such as essential supplies and financial aid in response to requests from local communities. We are also providing our support to solve issues caused by the prolonged effect of the pandemic for a better recovery. Visit our website* to find out more about our initiatives and programs to support those in need in Japan.

* Available only in Japanese

Digital Transformation (DX)

We expect DX to play a key role in strengthening our competitiveness. Since 2019, we have been carrying out various digital initiatives under the leadership of an executive officer. We have been working on a modernization of our technology platform in our markets, factories and logistics, expanding into artificial intelligence, IoT and robotic process automation (RPA). We have also taken initiatives to enhance consumer convenience on our digital platforms across our businesses. A great example of these initiatives is CLUB JT in Japan (see details below). Given the dramatic increase in opportunities for our employees to communicate online with each other and consumers since the pandemic, we expect online communication to continue to play an increasingly important role.

CLUB JT is a digital marketing platform launched in March 2020 by the Japanese-domestic tobacco business in pursuit of better two-way communication with consumers. It features not only an online shop to meet diverse consumer needs but also useful content like a map showing nearby locations where smoking is permitted. We are endeavoring to increase points of contact with consumers even as the pandemic has reduced opportunities for face-to-face communication.

Tackling illegal trade

Tobacco is the JT Group's core business and tackling the illegal trade of tobacco products is one of our top priorities. The outbreak of COVID-19 has caused serious damage to economies around the world. With dwindling consumer confidence and buying power, criminal groups are seeking to exploit the decline in affordability. To assess the negative impact of pandemics on illegal trade, we carried out an analysis and shared our findings with law enforcement agencies. We also published the report on our website. Throughout the COVID-19 pandemic and beyond, we will continue to combat illegal trade by working and engaging with the relevant authorities.

▶ Please see Regulatory environment and illegal trade (P. 77) for more details.



With the pandemic showing no sign of abating, we must not view its impact as something temporary, but instead be prepared for the continuous societal transformation it causes. Capitalizing on our strengths as a global player, we will continue to act in cooperation with our stakeholders.

VALUE CREATION

The JT Group enhances corporate value by providing a wide range of products and services that satisfy the needs of consumers and society. At the same time, the Group creates social value that contributes to the sustainable development of society.

This chapter shows the JT Group's value creation road map through the message from the CEO and illustration of the value creation process. Other contents include the Group's value chain and its unique strengths as the source of its competitiveness, and also initiatives to enhance them.

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Message from the CEO

The COVID-19 pandemic has brought an unprecedented upheaval around the world. I extend my heartfelt sympathies to everyone suffering in any way from this pandemic. Amid these challenging times, I want to also thank the essential workers who keep society functioning worldwide, our supply-chain partners and our employees dedicating themselves to keeping our businesses running.

The JT Group has placed utmost priority on the safety of all stakeholders, even during this crisis, especially our employees and their families, while doing everything possible to minimize inconvenience to consumers and business associates. Faced with such a worldwide crisis, collective wisdom is critical to prevent spreading the COVID-19 infection. We at the JT Group, as a good corporate citizen, have been continuously seeking solutions to societal challenges, helping to bring about increasingly inclusive and sustainable solutions to local communities. We will continue to fulfill our role as a responsible member of the local communities in which we operate.

Please see here for more on the JT Group's response to COVID-19 (P. 10).



Masamichi Terabatake
Representative Director and President,
Chief Executive Officer

M. Terabatake

JT Group value creation

Our operating environment has regularly been impacted by uncertainties stemming from multiple factors, including changing international political conditions and exchange rate fluctuations. These uncertainties are now compounded by a risk of pandemic-induced global economic volatility and the impact of lockdowns and travel restrictions. We expect the impact of COVID-19 on consumer behavior to persist to some extent even after COVID-19 abates or even completely ends.

In the midst of an operating environment that has been undergoing drastic changes historically, we have continued to grow by proactively transforming and preemptively addressing challenges with our sights set firmly on the future. For example, we have made major acquisitions, including RJR Nabisco Inc.'s non-U.S. tobacco business and Gallaher Group Plc; geographically expanded into emerging markets; and strengthened our brand equity, particularly in our GFB (Global Flagship Brands). Today we continue to invest in RRP (Reduced-Risk products) sales expansion.

My confidence is rooted in our unwavering management principle encapsulated in our pursuit of the 4S model and in the core strengths we have cultivated over the course of our evolution to date, namely a solid financial base, superior brand equity and a diverse workforce. Capitalizing on these strengths as a source of competitiveness, we will continue to grow our corporate value by creating a wide range of products and services that meet consumers and society's needs. At the same time, we will continue to create social value through sustainability initiatives that help to usher in a more sustainable society.



With the capabilities we have built through our actions to date, I am confident we can realize our mid- to long-term vision of continuing to achieve global growth by providing diverse value unique to JT, even in times of tumultuous change like today's unprecedented circumstances.

▶ Please see here for more on the JT Group's value creation (P. 20).

In pursuit of sustainable profit growth: Business Plan 2021

To achieve our vision, we have set a Group profit target and our shareholder return policy from a mid- to long-term perspective in our latest three-year (2021-23) business plan, Business Plan 2021, based on the 4S model and the resource allocation policy.

Under our Business Plan 2021, our three-year business plan, we will remain committed to pursuing sustainable profit growth over the mid to long term. Specifically, we will continue aiming to achieve mid to high single digit annual average growth of consolidated adjusted operating profit at constant FX, a measure of operating performance that excludes exchange rate movements and special factors, over the mid to long term. The key to achieving this target is to continue growing our tobacco business, which we have designated as our core and driver of the JT Group's profit growth.

The tobacco business's operating environment currently continues to experience major changes, including changing perception of smoking and health, heightened tobacco regulations and tax reforms in various countries, increasingly diverse consumer preferences as well as expansion and intense competition in product development in the RRP category. For the JT Group to achieve sustainable growth amid such an environment, it is necessary to strengthen our competitiveness and profitability. Since I assumed office as the CEO of the Group in 2018, we have made progress in several areas, starting with transforming the operating and organizational structures in the international tobacco business to strengthen the business foundation. To especially strengthen the RRP business, we have formed global R&D and global RRP functions by integrating their respective domestic and international teams. Furthermore, as the head of the tobacco business, I have been leading the development of next generation devices for HTS (heated tobacco sticks), which will be launched in Japan early in the second half of this year.

The RRP category, especially HTS, which has been mainly growing in Japan in recent years, is an entirely new business in comparison to the combustible business for us. The combustible business model is well established and it has been possible for the international tobacco business and the Japanese-domestic tobacco business to grow their respective contribution. However, our competitors are concentrating their global resources in this new business. In order to strengthen our position in the RRP category, it is essential to continue deploying a consistent strategy to offer products and services that meet consumers' needs with agility and in a short turnaround.

Recognizing these challenges, effective January 2022 we decided to transcend the boundaries of the international tobacco business and the Japanese-domestic tobacco business to operate as a single tobacco business in order to further enhance the speed of business operations and break through the current uncertainties. Combining the existing tobacco businesses is an important step toward nurturing the RRP category into our long-term growth driver. This combination will help us to focus our resources on HTS and maintain a competitive organizational structure as our competitors.

In the Business Plan 2021, we have redefined the investment priorities in the tobacco business toward more focus on HTS and combustibles, particularly on HTS, taking into account the further expansion of RRP category.

Regarding business investments, over the past three years we focused on manufacturing capabilities. Going forward we have decided to strengthen investments in areas closer to our consumers, such as R&D, marketing, and digital capabilities. We plan to increase total investment in RRP compared to the past three years. In addition, with regard to improving profitability to support increased investment in RRP, we expect to realize cost savings of approximately 40 billion yen, compared to 2019, for the entire tobacco business in 2023 when JTI's transformation and review of the business operation model in the Japanese market will be completed.

The integration plan for the unification of the tobacco businesses and setting up the specific goals and strategies for the global tobacco business are expected to be prepared by the middle of this year, under my leadership as a project owner. Through this integration, we intend to enhance our competitiveness and deliver results through our collective efforts by enhancing the speed of decision-making and a more effective and efficient business management system based on a simplified organizational structure, as well as by sharing the knowledge possessed by each market globally.

The pharmaceutical and processed food businesses both face adverse operating environments in our view. Nonetheless, their role as secondary profit growth drivers remains unchanged. The pharmaceutical business is committed to developing globally marketable, innovative drugs and making them available to patients as early as possible; the processed food business, will focus on producing products that consumers and their loved ones can enjoy safely.

Next, I would like to discuss changes to our shareholder return policy.
We have revised our shareholder return policy, effective from 2021. We did so partly from the standpoint of business continuity across the entirety of our supply chain. With our revised shareholder return policy, we can better maintain a financial foundation able to withstand major changes in our operating environment, like those caused by Lehman shock or the more recent COVID-19 pandemic. A second motivation was to better align our shareholder return policy with our resource allocation policy, under which we prioritize business investments that will lead to sustained profit growth over the mid to long term and seek to strike a balance between investment-driven profit growth and shareholder returns. Under our previous shareholder return policy, we aimed to steadily increase dividend per share (DPS) every year. Going forward, will be targeting a dividend payout ratio of 75%.* For 2021, we are forecasting DPS of 130 yen. Even under our revised policy, our long-standing aim of increasing shareholder returns by achieving mid- to long-term profit growth through business investment remains unchanged.

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

▶ Please see page 28 for more on Business Plan 2021 and Message from the CFO on page 30 for more on shareholder returns.

Sustainability initiatives for long-term business growth

Sustainability initiatives are essential for attaining mid- to long-term profit growth of our business. These initiatives will in turn sustain growth in shareholder returns, as set out in Business Plan 2021. We have consistently placed importance on creating corporate values that will contribute to sustainable development of our society. The 4S model, our management principle, is about our commitment to our valued consumers, shareholders, employees and the wider society. We believe the model has a close affinity to sustainability.

Sustainability has always been at the core of our management initiatives. For example, as the JT Corporate Governance Policy sets out that the Board of Directors shall proactively address sustainability issues, we have appointed a chief sustainability officer who is a board member. Our Group Sustainability Strategy has been formulated based on material issues defined through materiality assessment. Specifically, we have set out three absolute requirements for sustainability which apply across the Group, while each business has set out its own focus areas with plans and targets. As the Group CEO, I am committed to achieving the sustainability targets. Our Board of Directors is too. In order to better realize our plans and targets, we are directly involved in the Plan-Do-Check-Action cycle of setting, monitoring and discussing the progress of our sustainability plans and targets on a regular basis.

The JT Group's efforts in sustainability have been highly evaluated by external parties, and we have been selected as a member of Dow Jones Sustainability Index Asia Pacific, which is one of the international indicators for evaluating corporate sustainability from three perspectives: economic, environmental, and social. In addition, we feel honored that CDP, the global environmental non-profit-organization, has named JT to its "Climate A List" as well as "Water A List" for the second consecutive year. In 2019 we formulated the JT Group Environment Plan 2030, in which we set targets, concrete initiatives, and milestones. We also endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in December 2020. The JT Group has been conducting multiple scenario analyses on climate change, and in accordance with these recommendations, we will further identify and disclose the risks and opportunities that climate change may have on the Group's business activities in the future. We believe sustainability initiatives are essential to support sustainable growth and development of society as well as the Group's long-term growth in business. We will further promote such initiatives and contribute to the Sustainable Development Goals (SDGs).

▶ Please see page 58 for more on sustainability and page 84 for corporate governance.

We believe the JT Group is now at its most important inflection point since its founding. One of my key roles as Group CEO is to lay the groundwork for the future JT Group's growth by anticipating changes in our operating environment and, to the extent feasible, taking decisive preemptive actions instead of waiting. As I mentioned, we have been steadily reconfiguring the tobacco business's operating model over the past three years to optimize Group-wide resource allocation. One outcome of this process was our decision to consolidate the international and Japanese-domestic tobacco businesses into a single unit. Seizing upon such self-catalyzed change as an opportunity for further growth, we will embark on a new chapter as a truly global company from 2022.
We are confident we can maximize stakeholder value through sustained profit growth driven by business investment based on the management principle encapsulated in our pursuit of the 4S model. The key to doing so is to earnestly engage with consumers, the stakeholder constituency at the heart of the 4S model. The JT Group will increasingly add value to keep rolling out new products and services that exceed consumers' expectations and to remain an essential company in the eyes of consumers, shareholders, employees and society.



Our history

The JT Group has achieved sustainable growth by globalizing and diversifying its businesses through both organic growth and M&A.

1970s and earlier

Origins of the modern Japanese tobacco industry

Japan Tobacco and Salt Public Corporation, under the authority of the Ministry of Finance, lays the foundation of the Japanese tobacco industry.

1949 Japan Tobacco and Salt Public Corporation is founded.

1957 HOPE (10) is launched as Japan's first domestically produced filter cigarette.

1969 Seven Stars is launched as Japan's first domestically produced charcoal filter cigarette.

1977 MILD SEVEN is launched.

1980s

Privatizing and creating the base of the current business portfolio

The public corporation privatizes under the name Japan Tobacco Inc., founding the tobacco, pharmaceutical and processed food businesses, which persist to this day.

1985 Japan Tobacco Inc. is established.

1985 The Business Development Division is established to promote new businesses. The division is later reorganized into the food and pharmaceutical businesses.

1988 JT is introduced as the Company's public communication name.

1990s

Growing to become the third largest global tobacco company in volume by acquiring the world's leading brands through M&A

By acquiring RJR Nabisco Inc.'s non-U.S. tobacco business, JT obtains competitive brands and global business foundation.

1992 JT acquires Manchester Tobacco Company Ltd. (U.K.).

1993 The Central Pharmaceutical Research Institute is established.

1998 JT acquires a majority stake in Torii Pharmaceutical Co., Ltd.

1999 JT acquires RJR Nabisco Inc.'s non-U.S. tobacco business, taking over the global brands of Winston and Camel.
- This realizes an exponential growth in the international tobacco business with sales volume expanding by over ninefold greater than the previous year.

1999 JT acquires Asahi Kasei Corporation's food business, including Asahi Foods and seven other subsidiaries.

2000s

Strengthening our position as a global tobacco company by accelerating our global expansion

By acquiring Gallaher Group Plc, JT further expands the international tobacco business and obtains diverse workforce while fostering financial base.

2007 JT acquires Gallaher Group Plc (U.K.), taking over the global brands of LD, Benson & Hedges and more.
- The sales volume of the international tobacco business increases by more than 50% compared to the previous year, making the international tobacco business the main profit driver of the JT Group.

2008 JT acquires a majority stake in Katokichi Co., Ltd. (currently TableMark Co., Ltd.) and Fuji Foods Corporation.

2010s

Providing new value by addressing increasingly diverse consumer needs and preferences

JT strengthens the international tobacco business through both geographical expansion driven by M&A and organic growth in the existing markets, and provides a wide range of product choices, including RRP (Reduced-Risk Products).

2013 MILD SEVEN is renamed MEVIUS.

2015 JT acquires E-Vapor company, Logic (U.S.).

2016 JT acquires Natural American Spirit's non-U.S. tobacco business from Reynolds American Inc. (U.S.).

2016 Ploom TECH is launched in Japan.

2016–2018 JT conducts tobacco business acquisitions, notably in the Philippines, Indonesia, Russia and Bangladesh.

2019 Ploom TECH+ and Ploom S are launched in Japan.

2020 Ploom S is launched in Russia, Italy and the U.K.

The three strengths underpinned by our history and accomplishments

Solid financial base

- Sustainable profit growth backed by a combination of organic growth and M&A
- Ability to generate stable cash flows underpinned by profit growth

Superior brand equity

- High brand equity through continuous investment in MEVIUS, our leading brand in Japan, as well as in Winston, Camel, LD and other global brands acquired through M&A
- Strong R&D and innovative product development capabilities

A diverse workforce

- A corporate culture that respects diversity and leverages it into the value creation process
- A Group that maximizes the synergies generated from diversity

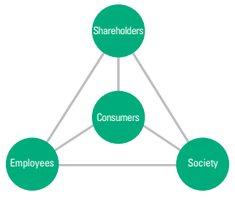
Our value creation process

Our management principle pursues the 4S model. This principle guides our efforts to achieve our vision by enhancing corporate value and creating social value. We provide a wide range of products and services through business activities leveraging our three strengths: a solid financial base, superior brand equity and a diverse workforce.

Our management principle

The 4S model

We strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, continuously working to exceed their expectations.



Our core capital

Financial capital

Sustainable profit growth and stable cash flows are backed by a combination of organic growth and M&A.

- Adjusted operating profit at constant FX.... **¥544.5 billion** (+5.5% year on year change)
- Total equity..... **¥2,599.5 billion**
- FCF..... **¥503.9 billion**

Intellectual capital

Strong R&D Capabilities

We possess a diverse portfolio of competitive brands and robust brand equity rooted in our ability to deliver high-quality, innovative products.

- R&D expenditures..... **¥60.8 billion** (Tobacco Science Research Center, Central Pharmaceutical Research Institute, etc.)
- We own **three of the top 10 highest-selling cigarette brands** in the world.

Human capital

Our corporate culture respects diverse values and generates synergy from a diverse workforce.

- Number of employees..... **58,300**
- Employee nationalities..... **Over 100**
- Certified as a Top Employer in ..... **64 countries**

Social and relationship capital

We have global business operations and a wide collaborative network spanning the value chain.

- Countries/regions where our products are sold ..... **Over 130**
- Countries where we operate..... **Over 70**
- Directly contracted tobacco leaf growers and tobacco leaf merchants..... **Over 76,000**

Manufacturing capital

Our optimal manufacturing system and active capital investment ensure superior quality and productivity. Our system provides markets with products in an efficient and timely manner.

- Capital expenditures..... **¥112.9 billion**
- Tobacco manufacturing bases..... **41 factories** (29 countries)
- Processed food manufacturing bases..... **32 factories** (all factories have achieved FSSC 22000 certification except one that began operation in 2020)

Natural capital

The natural environment is vital to our sustainable growth.

- Water resources..... **10,448 thousand m³ of water withdrawal** (2019)
- Forest..... **Planted 6 million trees**

Our measures to reduce our environmental impact ▶ P. 66

Our business activities and growth strategies

Business strategy

Achieve quality top-line growth
Strengthen cost competitiveness
Enhance business foundation

Strategies by segment

Tobacco ▶ P. 34
Pharmaceuticals ▶ P. 46
Processed Food ▶ P. 48



Our sustainability strategy

The JT Group's three absolute requirements

Respect for human rights
Improving our social and environmental impact
Good governance and business standards

Strategic focus areas for sustainability

Tobacco ▶ P. 72
Pharmaceuticals ▶ P. 80
Processed Food ▶ P. 81

Our products and services

Tobacco Business

Expanding our product portfolio to satisfy increasingly diverse consumer needs and preferences



- Cigarettes/FCT (fine cut tobacco)
- RRP (Reduced-Risk Products)
  - T-Vapor
  - E-Vapor, etc.

Pharmaceutical Business

Developing new, original drugs to save people around the world from disease



- Three key therapeutic areas
  - Metabolic diseases
  - Autoimmune/ inflammatory diseases
  - Viral infection

Processed Food Business

Realizing the future of dining in Japan through businesses that support our diet

- Frozen and ambient foods
- Seasonings
- Bakery products

The value we create

Corporate value

Achieving consolidated profit targets

Mid to high single digit annual average growth of adjusted operating profit at constant FX over the mid to long term

Improving shareholder returns

By realizing sustainable profit growth over the mid to long term through business investments

Social value

Contributing to the sustainable development of society through our business activities

We contribute most significantly to the following nine SDGs by achieving specific targets in each business's focus areas, such as providing products and services that exceed consumer expectations, investing in our people and building a sustainable supply chain.



VISION

To continue to be a growing global company that provides diverse value, unique to the JT Group.

Corporate governance and compliance supporting all of these processes ▶ P. 84

The external environment surrounding the JT Group ▶ P. 50

Our value chains

We are strengthening all of our value chains from R&D through sales in pursuit of the 4S model that encapsulates our management principle. Capitalizing on our core strengths – a solid financial base, superior brand equity and a diverse workforce – we are endeavoring to continuously create value by developing distinctive products and services.



Tobacco Business

	R&D	Procurement	Manufacturing	Marketing	Distribution/Sales
Priorities	• Innovate by strengthening R&D capabilities and continuously improve quality	• Sustainable supply of high-quality tobacco leaves • Maintain competitive prices and control costs more effectively	• Optimize production operations for stable manufacturing/supply of high-quality products	• Enhance equity of brands through effective communication with consumers	• Expand sales networks and market share through sales initiatives tailored to individual situation • Promote a broad range of localized, consumer-centric activities
Main initiatives	• Analysis of trends in market needs and product regulations that form the basis of R&D • Product innovation including tobacco leaf, blends, filters, packaging, etc. • Speedy development of competitive RRP (Reduced-Risk Products) through JT-JTI collaboration • Promotion of research on scientific evaluation of RRP and proactive disclosure of accumulated scientific evidence	• Increase the proportion of leaves procured from contracted tobacco leaf growers on our vertical integrated bases (in Africa, Brazil, etc.) • Enhance the sustainability of tobacco farming by helping tobacco leaf growers to improve productivity as well as taking initiatives to support their communities • Strengthening of relationships with tobacco leaf growers and leaf merchants through dialogue-based resolution of issues around Agricultural Labor Practices • Pursuit of improved efficiency through, e.g., better lot-size management in sourcing of non-tobacco materials • Improvement in responsiveness to changes in market prices and supply-demand fluctuations through, e.g., purchasing management that utilizes supply market intelligence	• Formulation of flexible production plans adaptable to manufacturing complexities due to increase in number of products • Thorough quality inspections based on advanced quality management systems • Business continuity preparedness against emergencies • Optimization of plant locations to enable product supply to each country in an efficient manner	• Appropriate allocation of resources in pursuit of brand equity growth, mainly among GFB (Global Flagship Brands) • Marketing activities that are tailored to individual markets and comply with local laws/regulations as well as self-regulatory principles • Promotion of two-way communication with consumers through use of digital platforms, including loyalty point programs and e-commerce for Japan market	• Apply most effective marketing initiatives suit for each markets, taking market context into account such as channel development, consumers and competitors • In Japan; – Improvement in consumer convenience through developing purchase areas in collaboration with major retailers – Improvement in consumer-experience value by appealing product benefits – Providing opportunities for consumers to enjoy tobacco through initiatives such as accommodating them with smoking environment

Pharmaceutical Business

	R&D	Manufacturing	Distribution/Sales
Priorities	• Develop innovative drugs	• Manufacture high-quality pharmaceuticals stably	• Conduct detailing activities responsibly
Main initiatives	• Improvement in R&D efficiency through concentration of resources in targeted disease domains • Promotion of efficient and expeditious clinical development through coordination among domestic and foreign R&D sites • Proactive pursuit of opportunities to out- and in-license compounds	• Formulation of guidelines to verify conformity between drugs' approved specifications and actual manufacturing processes • Continuation of annual inspections of contract manufacturing plants based on the guidelines	• Formulation of internal standards based on the guidelines on ethical drug detailing activities, issued by the Ministry of Health, Labour and Welfare • Thorough compliance with said standards through training of Torii Pharmaceutical's medical sales reps

Processed Food Business

	R&D	Procurement	Manufacturing	Marketing	Distribution/Sales
Priorities	• Develop high-value-added products that meet consumer needs and preferences	• Strengthen supply chain to enable sourcing of safe, high-quality ingredients	• Manufacture safe, high-quality food products	• Propose products and promote sales strategies in response to increasingly diverse consumer needs and trends	• Strengthen sales capabilities and disclose information conducive to consumer reassurance
Main initiatives	• Development of new products tailored to consumer needs based on market/competition research and analysis • Upgrading of products and addition of value through utilization of proprietary yeast and freezing technologies as well as development of new manufacturing processes	• Verification of ingredients' safety based on quality specification certifications submitted by suppliers • Monitoring of main ingredients' pesticide residue content and periodic inspections of ingredient production plants in accord with applicable laws/regulations and our own standards • Inspection of source farms' soil and water quality, verification of crop conditions, pesticide management checks and inspections of livestock and fish farms	• Certification of compliance with ISO 22000 or FSSC 22000 international food safety standard across all JT-affiliated plants and contract manufacturing plants globally (One of our factories, which started its operations in 2020 is scheduled to be certified in 2021) • Verification of end products' compliance with pesticide content and other safety standards through monitoring inspections • Reduction of contamination risk through establishment of and compliance with food defense guidelines	• Consumer-centric market analysis to develop product proposals that add new value • Effective sales promotion to boost product recognition among consumers • Enhancement of marketing/sales activities that prioritize profitable products	• Aggressive sales approach targeted at supermarkets, convenience stores and other food retailers to assure a variety in products and preferential display locations • Strengthening of communication with consumers through online disclosure of product information and labeling of products with their production location, main ingredients' place of origin and contact information for consumer inquiries/feedback • Improvement in safety visibility through traceability of inspection/audit results across the entire value chain from raw material sourcing through production, processing, distribution and sales

* For information on sustainability initiatives in the tobacco, pharmaceutical and processed food businesses' value chains, please refer to pages 72, 80 and 81, respectively.

Superior brand equity

We largely attribute our long history of success to three strengths: a solid financial base, superior brand equity and a diverse workforce. In conducting business activities, we leverage these three strengths as sources of competitiveness.

This feature highlights our superior brand equity, one of our three core strengths.

Tobacco

We have a broad portfolio of brands that meet diverse consumer needs globally. The nucleus of our brand portfolio is our GFB (Global Flagship Brands)–Winston, Camel, MEVIUS and LD–all of which are globally recognized for their superior quality. To gain mass consumer loyalty, we believe we must keep building more brand equity. We have been doing so worldwide through various approaches, most notably including our rebranding of MILD SEVEN as MEVIUS. In the RRP (Reduced-Risk Products) category, with devices under the Ploom brand, we offer HTS (heated tobacco sticks) in Russia, Italy and the U.K. while offering both HTS and Infused (infused tobacco capsules) in Japan's large RRP market. We also have E-Vapor and oral such as Logic and Nordic Spirit.





> Since its launch in 1977, MEVIUS has been a popular cigarette brand for over 40 years. Even my father was a MEVIUS smoker back when MEVIUS was still MILD SEVEN and it is also my beloved brand. We will continue to evolve the MEVIUS brand, keeping it in sync with diversifying needs and tastes to perpetuate its status as the preferred choice of smokers across multiple generations, so that it is the brand that always cuddles our consumers being in sorrow and in joy.



Reiji Yokoyama
Product & Brand Division,
Marketing Group, Tobacco Business Headquarters, JT

This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or vaping products or encourage smoking or vaping among consumers.

Processed Food

The processed food business concentrates on the frozen and ambient food, seasonings and bakery businesses, and we seek to provide consumers with safe, secure and delicious food, in the hope that they will choose our products for their loved ones. TableMark, one of the main frozen and ambient food business's companies, has a long history of innovation focused on consumer needs. It has been rolling out delicious new foods in rapid succession by revolutionizing production methods refined through constant technological innovation.



Tomoko Uozumi
Product Development Department,
TableMark Co., Ltd.

> Frozen foods offer time-saving convenience, the need for which is growing in tandem with the working-single and DEWK (dually employed with kids) populations. In 2020, we focused on developing time-saving products. I get a lot of fulfillment from creating products that free up time for consumers.



TableMark is fastidious about flavor also. To obtain the flavors it seeks, it has developed original production processes and installed a variety of specialty equipment. Its production process for frozen *udon* noodles, for instance, exactingly replicates an artisanal noodle-making method that yields firmly textured, eminently slurpable noodles that go down smoothly.

TableMark's core products include packaged cooked rice and frozen *okonomiyaki* in addition to frozen *udon*. In Japan, all three are ranked at the top of their respective segments by market share. Capitalizing on its proprietary production technologies and product development prowess, TableMark aims to keep incessantly developing new products that can be consumed safely.



TableMark's Frozen *Sanuki Udon*

TableMark had long sought to capture the delectability of authentic *sanuki udon* in a frozen food format. It succeeded with its frozen *sanuki udon*, which features robustly textured, translucent white noodles with a wheaty flavor/fragrance and silky smooth mouthfeel. TableMark developed the product with meticulous attention to detail across every single step from selecting ingredients to designing the production process, all so families throughout Japan could enjoy authentically delicious *sanuki udon*.



BUSINESS

The JT Group will pursue sustainable profit growth over the mid to long term, providing a wide range of products and services in each business.

This chapter explains the Group's growth strategy and operations driving the Group's value creation. It also includes the Group's financial policy, explained by the CFO, as well as the surrounding external environment and risk factors which influence its businesses.

028 Business Plan 2021

030 Message from the CFO

034 Business strategy/Business review

- Tobacco business
  - International tobacco business
  - Japanese-domestic tobacco business
- Pharmaceutical business
- Processed food business

050 Risk factors

054 Regulation and key laws

057 Litigation



Business Plan 2021

Every year the JT Group publishes a three-year rolling business plan, reflecting the changing operating environment, including economic trends, geopolitical risks and the competitive landscape. We will achieve sustainable profit growth by investing in our businesses, maximally leveraging our resources on a Group-wide scale and transforming ourselves even in a drastically changing operating environment.

Group profit target

Consolidated adjusted operating profit (AOP) at constant FX growth rate: mid to high single digit CAGR

Roles and targets of each business

Tobacco Business

The tobacco business, the core and driver of the JT Group's profit growth, aims to grow at a mid to high single digit CAGR over the mid to long term of AOP at constant FX.

Pharmaceutical Business/Processed Food Business

The pharmaceutical and processed food businesses aim to complement the JT Group's profit growth.

- Pharmaceutical business: Focus on R&D investments toward next-generation strategic products and maximize the value of each product
- Processed food business: Ensure sustainable profit increase through top-line growth

Operating environment outlook 2021-2023

Uncertainties are expected to increase due to COVID-19, in addition to changes in international political conditions, exchange rate fluctuations, and other factors.

- COVID-19 continues to affect the global economy, while economic recovery in all countries is forecast to be moderate
- Close monitoring of further changes in operating environment is essential despite limited direct impact expected from COVID-19 on the tobacco business in the mid term. Additionally, we assume regulatory tightening and periodic tax increases will continue

Combustibles: cash-generation source

– Industry volume to continue to decline and downtrading to accelerate, notably in mature markets
– Opportunities of profit pool increase through pricing

RRP (Reduced-Risk Products): pillar of future business growth

– Market size to continue to expand and competition to intensify

Tobacco Business: Redefine investment prioritization categories and strengthen the operating model

- With an eye on the long-term operating environment, we have redefined the investment prioritization categories to reinforce our competitiveness and profitability to achieve sustainable growth
  – We will prioritize management resources toward HTS (heated tobacco sticks) and combustibles
  – We will position E-Vapor, Infused (infused tobacco capsules) and oral tobacco (snus, nicotine pouches) as exploratory categories and adopt a more selective investment posture
- In order to undertake the aforementioned investments, we will strengthen the tobacco business's operating model. We will consolidate the existing international and Japanese-domestic tobacco businesses into one tobacco business (from January 2022)
- At the same time, we will strengthen our competitiveness in the Japanese market, the JT Group's most important market (transition to a new organization in April 2022)
  – Establish an organization structure to enhance consumer satisfaction
  – Ensure competitiveness and adjust the operating model in line with Japan sales volumes

▶ Please refer to Business strategy/Business review (P. 34) for more details.

Resource allocation policy

Resource allocation policy based on the 4S model

- Prioritize business investments*1 for sustainable profit growth in the mid to long term
- Strike a balance between profit growth through business investments and shareholder returns

Shareholder return policy

– Aim to enhance shareholder returns by realizing the Group's mid- to long-term profit growth, while maintaining a strong financial base*2
– Target a dividend payout ratio of about 75%,*3 a competitive level*4 in the capital markets
– Consider implementing a share buy-back program, mainly taking into account the Group's financial outlook of the respective year and mid-term capital needs

*1 Investment towards the growth of the tobacco business is our highest priority. Pursue growth of AOP at constant FX through quality top-line growth
*2 The Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities
*3 To be in the range of approximately ±5%
*4 We monitor the shareholder return trends of Fast-Moving Consumer Goods companies which have a stakeholder model similar to our 4S model and have realized strong business growth

We have revised our shareholder return policy for 2021 in accordance with our resource allocation policy, which remains unchanged.

▶ For more details, please refer to Message from the CFO (P. 30).

JT Group's approach to sustainability



- In order for the Group to achieve sustainable growth, it is essential for our business to contribute to the sustainable development of our society through our business activities
- Sustainability is at the heart of managing our business. Our sustainability strategy is formulated based on the 4S model, our management principle, and encompasses our materiality analysis
- To proactively address ESG (Environment, Social and Governance) issues, we have set out three absolute requirements for sustainability which apply across the Group, while each business has set out its own focus areas

▶ For more details, please refer to Sustainability strategy (P. 62).

Message from the CFO



Naohiro Minami
Representative Director and
Executive Vice President,
Chief Financial Officer

We aim to enhance shareholder returns by realizing sustainable investment-driven profit growth over the mid to long term while maintaining a financial foundation able to withstand major changes in the operating environment under the 4S model-guided resource allocation policy.

2020 Financial results

Consolidated adjusted operating profit (AOP) at constant FX, our preferred metric for assessing operating performance, grew 5.5%, driven by the international tobacco business's growth. This achievement is in line with our aspired target of mid to high single digit CAGR over the mid to long term in our Business Plan.

Revenue was down 3.8% year on year to 2,092.6 billion yen. Factors behind its decline include decreases in the Japanese-domestic tobacco business's cigarettes sales volume and RRP (Reduced-Risk Products)-related revenue; sales reductions in domestic Duty-Free and China businesses due to the impact of COVID-19; sales decreases in the processed food business's food-service products in the frozen and ambient food business, seasonings business as well as lower sales of the bakery business in the wake of a major COVID-19-induced demand contraction; and a reduction in the pharmaceutical business's overseas royalty income. We analyze the negative impact of COVID-19 on the top line as around 61 billion yen.

AOP was down 5.6% to 487.0 billion yen. The decrease was mainly attributable to the Japanese-domestic tobacco and processed food businesses in addition to adverse exchange rate movements in the international tobacco business.

Operating profit decreased 6.6% to 469.1 billion yen despite an increase in the sales of real estate mainly due to the former JT head office building's sale and the non-recurrence of year-earlier restructuring cost in the international tobacco business. These two incremental profit factors were outweighed by the non-recurrence of one-time revenue booked in 2019 by the pharmaceutical business on the termination of a domestic licensing agreement for six anti-HIV drugs.

Profit attributable to owners of the parent company was down 10.9% at 310.3 billion yen, largely as a result of the decrease in operating profit and higher financing costs.

Free cash flow (FCF) was 503.9 billion yen as a result of stable operating cash flow, even amid the COVID-19 pandemic, and a one-time cash inflow from the former JT head office building's sale.

Our response to COVID-19

In the first quarter of 2020, we augmented our liquidity, largely through commercial paper issuance, as a buffer against unforeseen circumstances arising from COVID-19. We issued the commercial paper while leaving a committed line of credit substantially undrawn. As it is unpredictable to forecast the future with the ongoing COVID-19 pandemic, we decided it would be prudent to maintain the undrawn credit-line capacity while sourcing capital by other means.

In sum, we are making decisions on how to manage our finances–either normally or more conservatively–based on prevailing and prospective conditions, including the existence of any structural changes afoot in the external environment with respect to capital raising. Additionally, our treasury division has made arrangements to expedite implementation following decision-making.
We have also provided financial support to key supply-chain partners during COVID-19, including increases in customers' credit limits and extension of payment deadlines.

Such measures resulted in a transient increase in credit risk exposure, but we have not incurred any material credit losses.

Financial policy: stability and flexibility

I will now explain our financial policy.
We believe financial stability and flexibility are equally important. We define the former as the ability to stay in business even when major risk events like economic crises occur; the latter as the ability to nimbly take advantage of attractive investment opportunities. We have adopted a financial policy that ensures our financial foundation is both stable and flexible enough to realize sustainable profit growth through business investment.

This policy is shaped by how we think about capital structure and raising capital, as explained below.
JT was established under the Japan Tobacco Inc. Act (hereinafter JT Act), not the generic Companies Act. The JT Act requires the Japanese government to always own at least a one-third equity interest in JT. If JT were to raise equity capital, one-third of the new shares must be issued to the government under the JT Act. JT consequently relies predominantly on debt financing from a financial-agility standpoint. While we have the option of improving our financial stability by refinancing through sale of treasury shares, we believe such an offering would be appropriate only if we are confident we can grow the JT Group's value enough to more than offset the resultant dilution.

Given the JT Act's constraints on the equity component of our capital structure, we ascribe critical importance to maintaining a manageable balance between assets and liabilities. We believe the key to doing so is to grow our assets while keeping liabilities at an appropriate level. The main lever by which we regulate the balance between assets and liabilities is cash flow. By boosting our cash-flow generation capacity, we aim to maintain or increase our debt capacity and use it to fund investments as efficiently as possible. We raise debt capital either from subordinated loans or through subordinated bond issuance by subsidiaries, depending on the capital market environment, to improve both our financial soundness and capital efficiency.

We ended 2020 with a debt/equity ratio of 0.38x and credit ratings of AA– (Standard & Poor's), A1 (Moody's) and AA (R&I), all of which we consider appropriate. We periodically perform credit-rating simulations internally. Such simulations involve estimating future operating cash requirements, modeling cash inflows from additional debt and acquirable assets and reviewing our shareholder returns policy and investment opportunities from a financial standpoint while also taking into account credit-rating impacts.

Resource allocation policy

Under this policy, in terms of allocating management resources, our policy is to place top priority on business investments that will lead to sustainable profit growth over the mid to long term and focus on striking a balance between shareholder returns and investment-driven profit growth.

As outlined in the JT Group history on page 18, we have made various business investments over the years, including M&A. In recent years, we have made a number of acquisitions to expand our brand and product portfolios and to enlarge our previously small footprint in Asia and Africa. We have been branching into emerging markets in the aim of growing along with their economic growth. Our pursuit of long-term growth through geographic expansion is sometimes faced with unforeseen circumstances like COVID-19. With the pandemic exacerbating volatility in emerging markets in particular, we believe we need to be more cognizant of various factors than in the past when expanding into emerging markets, including through M&A, over the next several years. While appropriately assessing such factors, we will seek investment opportunities conducive to the JT Group's growth. Additionally, the fledgling RRP category has grown substantially over the past few years, particularly in Japan. We are currently stepping up investment to lay the groundwork to grow our RRP sales. We intend to achieve sustainable growth by using cash generated by

combustibles to prioritize investments in the RRP category, especially HTS (heated tobacco sticks). While combustibles are our current source of earnings, we are counting on RRP as the pillar of our future business growth.

Shareholder return policy

Effective from 2021, we have revised our shareholder return policy in accord with our resource allocation policy of placing utmost priority on business investments and striking a balance between profit growth and shareholder returns.

From a business continuity perspective, maintaining a strong financial base is, more than ever before, a priority to withstand any major disruptions to the operating environment, such as those caused by Lehman shock or the more recent COVID-19 pandemic. Considering this, we revised our shareholder return policy, which, up until now, prioritized stable and sustainable dividend per share growth. From this year, the revised policy targets a dividend payout ratio of about 75% and aims to enhance shareholder returns by realizing mid- to long-term profit growth while targeting this dividend payout ratio. To do so, we will continue to pursue growth in adjusted operating profit at constant FX, which will contribute to the necessary growth in net income in the mid to long term, and ultimately enhance shareholder returns.

Resource allocation policy based on the 4S model

- Prioritize business investments*1 for sustainable profit growth in the mid to long term
- Strike a balance between profit growth through business investments and shareholder returns

Shareholder return policy

- Aim to enhance shareholder returns by realizing the Group's mid- to long-term profit growth, while maintaining a strong financial base*2
- Target a dividend payout ratio of about 75%,*3 a competitive level*4 in capital markets
- Consider implementing a share buy-back program, mainly taking into account the Group's financial outlook of the respective year and mid-term capital needs

*1 Investment towards the growth of the tobacco business is of our highest priority. Pursue growth of AOP at constant FX through quality top-line growth.
*2 The Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.
*3 To be in the range of approximately ±5%.
*4 We monitor the shareholder return trends of Fast-Moving Consumer Goods companies which have a stakeholder model similar to our 4S model and have realized strong business growth.

2021 earnings forecast

Next, I will explain our forecast's underlying assumptions about the impact of COVID-19.
The impact continues to heavily affect the global economy and our social lives. We currently do not have much clarity on when it will end. We assume national economies will gradually recover in 2021. In the tobacco and processed food businesses, we assume the impact of COVID-19 on demand will persist to some extent in 2021 but attenuate relative to 2020.

On a constant-FX basis, we are projecting 5.1% AOP growth driven partly by the Japanese-domestic tobacco business on top of continued strong growth momentum in the international tobacco business. We expect to grow in accordance to our Business Plan 2021 which continues to be - as articulated in our Business Plan in the previous year - to target a mid to high single digit CAGR growth over the mid to long term.

Revenue is expected to be flat year on year, with revenue growth in the Japanese-domestic tobacco and processed food businesses offsetting a revenue decline in the pharmaceutical business and the impact of projected adverse exchange rate movements in the international tobacco business.

We are forecasting AOP at 475 billion yen, a 2.5% decrease year on year. We expect the pharmaceutical business's AOP to decline and the international tobacco business's to be reduced by adverse exchange rate movements.

We are forecasting operating profit at 363 billion yen, a 22.6% decrease year on year. The main factors behind the projected decrease, in addition to the forecasted decrease in AOP, are a reduction in proceeds from the sales of real estate and anticipated costs associated with the initiatives to strengthen competitiveness in the Japanese-domestic tobacco business.
We are forecasting profit attributable to owners of the parent company at 240 billion yen, a 22.6% decrease year on year despite a projected reduction in financial costs net of financial income.

We are forecasting a free cash flow of 315 billion yen. Although we expect operating activities to generate stable cash flow again in 2021, we expect our FCF to shrink year on year as a result of increased investment due to revision of our investment plan in response to COVID-19 in addition to the non-recurrence of the 2020 cash inflow from the former JT head office building's sale.

2021 shareholder returns

As you may note in "Message from the CEO," we have redefined our investment priorities to better achieve sustainable profit growth. While pursuing steady growth in profits from combustibles, our current source of earnings, we will invest more intensively in the pillar of our future business growth, RRP, particularly HTS. Even after COVID-19, we expect the highly uncertain business environment to continue to impact earnings. However, we will continue to aim for growth in adjusted operating profit at constant FX through business investment. This growth in adjusted operating profit at constant FX, in turn, will contribute to mid- to long-term growth in net income.

On the other hand, there is a certain time lag before investments contribute to profit growth. Therefore, we believe that it is necessary to secure room for investment during this period as well. In light of these circumstances, we have revised our annual dividend forecast for 2021 to 130 yen per share, which exceeds the target dividend payout ratio of 75% as explained in the shareholder return policy. In order to avoid a substantial decline in dividends per share, we have set it at a level at which the dividend payout ratio will not exceed 100% and the dividend can be returned to our shareholders to the maximum extent possible, based on our resource allocation policy.

Going forward, by realizing profit growth through business investments, we will strive to strike a balance between profit and shareholder returns under the 4S model-guided resource allocation policy.

JT Group IR activities

Lastly, I will explain JT Group IR activities.
We disclose non-financial information, including management strategies, ESG information and updates on individual businesses, in addition to financial information like quarterly earnings reports in an appropriate and timely manner. We also proactively engage with shareholders and institutional investors.

Our IR team in Tokyo, where the JT Group head office is located, and the IR team in Geneva, where the JTI head office is located, meet individually with securities analysts and institutional investors to discuss the content of our earnings releases and other disclosures as well as ESG matters. In 2020, we held approximately 380 meetings. Together with our IR team, our Group CEO and I also take part in meetings with domestic and overseas institutional investors, including conferences sponsored by investment banks.

Although we have switched from in-person meetings to conference calls and online conferencing, we still meet individually with European, North American, Japanese and other Asian institutional investors, just like we did before COVID-19. Moreover, we participate in conferences held by brokers, both in Japan and overseas, to meet with institutional investors. Starting 2019, we have been holding ESG specific meetings and in 2020, we broadly expanded our ESG meetings overseas also, enabling us to engage with more investors. Lastly, we held our first individual investor-exclusive online briefing in 2020. There were approximately 1,800 investors participating in the program.

Feedback and opinions gathered from investors through IR activities are reported to all executive officers as well as relevant departments, in addition to the periodic reports to the Board of Directors. We endeavor to further improve our decision-making and oversight functions in response to feedback from capital markets.

Tobacco business

Top market players ranked by combustibles* market share

	Share of market (%)				
	2015	2016	2017	2018	2019
Philip Morris International Inc.	25.6	25.0	24.3	24.3	23.9
British American Tobacco Plc.	23.0	23.3	23.6	23.3	22.7
Japan Tobacco Inc.	16.0	16.3	16.1	15.7	16.2
Imperial Brands Plc.	7.7	7.5	7.6	7.4	7.4

Source: JT (2019 data)
* Including FCT (fine cut tobacco) in addition to cigarettes where available. The ranking excludes China National Tobacco Corp.

Top 10 countries by combustibles volume*

	(BnU)				
	2015	2016	2017	2018	2019
China	2,490	2,351	2,344	2,369	2,346
Indonesia	321	316	308	307	307
U.S.	273	266	255	243	228
Russia	293	279	259	235	219
Japan	182	174	152	134	125
Turkey	103	106	107	119	121
Germany	117	114	112	110	109
Egypt	86	90	93	96	99
India	88	85	81	83	87
Bangladesh	83	84	84	81	81

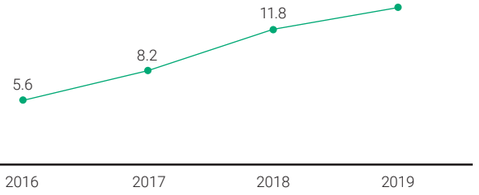
Source: JT (2019 data)
* Including FCT in addition to cigarettes where available.

JT Group's top-selling cigarette brands

	(BnU)				
	2015	2016	2017	2018	2019
Winston*	132	139	144	150	155
Camel*	51	52	53	54	57
LD	50	48	46	47	49
MEVIUS	17	18	18	16	16

Source: JT (2019 data)
* Excluding U.S. where Imperial Brands Plc. and British American Tobacco Plc. own Winston and Camel respectively.

RRP category value (USD BN)



Source: JT (2019 data)



Tobacco industry

Today's tobacco product market encompasses a diverse array of products. The best-known category is cigarettes. Other tobacco products include FCT (fine cut tobacco), cigars, pipe tobacco, oral tobacco, waterpipe tobacco and kretek cigarettes. In addition to these categories long familiar to consumers, RRP (Reduced-Risk Products) are a newer category that has been gaining popularity in recent years.

One of the RRP subcategories is E-Vapor. Consumers use the product by heating its nicotine-based liquid without using tobacco leaf. E-Vapor products have triggered a certain level of market presence notably in western countries. At its beginning, since it does not use leaf tobacco, E-Vapor was not regulated or taxed as tobacco products. However, countries have started to make regulatory/tax changes to account for this relatively new subcategory.

Another RRP subcategory is T-Vapor, which is gaining market presence mainly in the Japanese market. T-Vapor products contain tobacco leaf and creates a tobacco-enriched vapor by heating the tobacco without any combustion. In general, T-Vapor is regulated and taxed as other tobacco products. Among T-Vapor products, tobacco companies are focusing primarily on developing HTS (heated tobacco sticks). We expect HTS to further grow through innovation.

A third RRP subcategory is made of oral products, which enables consumers to enjoy the different flavors by placing a small pouch directly in their nose and mouth between their lip and gum. It has been growing in popularity mainly in the matured oral tobacco markets such as Europe and the U.S.

Global combustibles industry volume totals the equivalent of some 5.4 trillion units annually, representing a value of roughly US$700 billion.* The world's biggest cigarette market is China, which accounts for over 40% of global consumption, followed by Indonesia, the U.S., Russia and Japan.* In China, however, a Chinese state-owned enterprise has a near-monopoly over product manufacturing, distribution and sales.

Global combustibles industry volume* is declining. Nonetheless, the tobacco industry's profit-generating capacity structure remains robust. Even amid the current challenging environment, we expect the overall sales volume to continue growing during Business Plan 2021's term as well, mainly driven by a positive cigarette price/mix variance. This divergence between sales growth and shrinkage in the industry volume is expected to continue.

The RRP market, though smaller than the combustible market, has been growing year after year and we expect the growth to continue. The largest RRP markets include the U.S., Japan, Italy, South Korea, the U.K., Germany and Russia. Please be aware that the most successful RRP subcategory can be different from one market to another, depending on consumer preferences. The growth in HTS category is expected to continue to drive growth in RRP sales.

Excluding China National Tobacco Corp. (CNTC), a state-owned monopoly, the major global players in the tobacco industry are Philip Morris International, British American Tobacco, the JT Group and Imperial Brands. In addition to these four global majors, other key players in the RRP category include JuuL Labs, a U.S. company that sells E-Vapor products, and Swedish Match, a Swedish company which is focused primarily on oral products.

The JT Group's tobacco business is ranked third in the world (excluding CNTC) by shipment volume. The Group is operating in over 70 countries/regions while its products are sold in over 130 countries/regions. It owns strong brands, notably GFB (global flagship brands), that meet diverse worldwide consumer demands.

Following the global pandemic in 2020, the outlook for the tobacco industry as a whole has become increasingly uncertain. While the impact on consumer behavior will continue to persist to some extent, we expect COVID-19 will not have any material impact in the mid to long term. We will continue monitoring the changes in business environment as each country or region's condition differs and governments may raise taxes to fund fiscal spending in response to the impacts of COVID-19 on their economy.

* Based on 2019 data.

Fundamental strategy

We will operate our tobacco business, the JT Group's core and profit growth driver, to achieve mid to high single digit sustainable profit growth over the mid to long term of adjusted operating profit at constant FX.

Quality top-line growth

Strengthening RRP initiatives

The JT Group believes that RRP are beneficial to the consumer, to society, and to the Group's business. We have positioned RRP as the pillar of sustainable growth for the tobacco business, with resources to this area being given priority allocation going forward. We will focus on developing RRP that will be chosen by more consumers, and leverage innovation to broaden its portfolio of high-quality products, thus satisfying the changing needs of consumers. With regard to existing tobacco products, there has been no change to their importance as the foundation of our profits, and we will continue to make business investments with the aim of achieving sustainable growth.

Maintaining and increasing shares in the key markets through superior brand equity

Over the past years, the JT Group's tobacco business has grown its share in most of the key markets through superior brand equity; this performance is mainly the result of our outstanding brand portfolio.

In order to further grow market share, we will continue strengthening our brands, especially through consistent investments towards GFBs. Other local brands will receive selective investments to enable the JT Group to meet the unique preferences of the consumers in the diverse markets and regions where we are active.

Geographic expansion

Over the years, the Group has increased its presence as a leading global tobacco manufacturer through large-scale acquisitions, most notably RJR Nabisco Inc.'s non-U.S. tobacco business in 1999 and Gallaher Group Plc in 2007.

The geographical expansion achieved with these two transactions has been the main driver of the growth for over a decade. The success of these acquisitions, owing in part to the prompt post-merger integration within the Group's business, has reinforced our global business foundation.

With the aim of both entering new markets and expanding our presence in existing markets, we have continued to build a geographically balanced portfolio between high margin markets primarily existing in developed countries and rapidly growing markets primarily in emerging countries, through such measures as strengthening investment in existing businesses and acquiring external resources through acquisition or by taking equity stakes. Moving forward, the JT Group will continue to seek organic growth and further strengthen and expand its global business foundation. We will make balanced investments in our established markets and high potential markets. In addition, we also consider seeking and implementing growth opportunity through acquiring external resources as another important strategic option.

Strengthening cost competitiveness

The tobacco business will persistently pursue continuous cost efficiency improvement of its operations, in particular with respect to the global supply chain, with an emphasis on agility and efficiency without compromising quality. We will enhance our cost competitiveness by optimizing the global supply chain through various initiatives, including: vertical integration in global leaf procurement; unification of non-tobacco material standards; ensuring compatibility among suppliers; flexible procurement scheme and optimized material inventory management to pursue competitiveness in raw material costs.

Furthermore, we will also continue to reduce processing costs through a review of our manufacturing system and optimization of capital investment with the aim of improving productivity. At the same time, in order to improve our business continuity capability, we aim to establish a multi-sourcing system, optimize the distribution of manufacturing capacity through mutual utilization of our global manufacturing bases, and distribute manufacturing capacity in areas related to priority issues from the perspective of ensuring substitutability and decentralization of key functions.

Through the above measures, we aim to achieve cost efficiency without compromising on quality, further improve margins, and strengthen our ability to generate cash flow by optimizing working capital and investments.

Strengthening the business foundation

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

We are operating in over 70 countries/regions, with employees from more than 100 different nationalities working around the world, regardless of nationality, gender, or age. We take advantage of this diversity to maximize synergies while promoting collaboration. Based on the strong recognition that all corporate activities and results are generated by human resources, we intend to further advance the acquisition and development of global human resources.

The tobacco business management policy

Our tobacco business is the core driver of the JT Group's profit growth and aims to achieve sustainable profit growth over the mid-to long-term. It plays a key role in achieving our target of Business Plan 2021; mid to high single digit annual average growth of consolidated adjusted operating profit at constant FX over the mid to long term. To pursue this target, we will remain committed to a Consumer Centric approach. We will accelerate our efforts in both combustibles and RRP by reviewing and evolving our past ideas and initiatives from the aforementioned perspective.

In order to achieve our target, we will continue to position combustibles as a profit-generation source and RRP overall as a pillar of future business growth, but we have redefined our investment prioritization among categories to strengthen our competitiveness and profitability. We will prioritize management resource toward HTS and combustibles by mobilizing resources within the JT Group to provide products and services that exceed the needs and expectations of our consumers.

The highest priority for resource allocation is HTS, where intense competition is expected to continue. JT and JTI have been working together on the development of next-generation products in this category and will work together to launch and expand these on a global scale. Regarding business investments, over the past three years we focused on manufacturing capabilities. Going forward we have decided to strengthen investments in areas closer to our consumers, such as R&D, marketing, and digital capabilities. We plan to increase total investment in RRP compared to the past three years.



The importance of combustibles remains unchanged and we believe it will continue to be a driver of profit growth in the tobacco business. We will also work to increase profitability and grow our market share through effective investment in combustibles, which is a source of profit generation.

In order to achieve these goals, effective January 2022 we have decided to consolidate the existing the international tobacco business and the Japanese-domestic tobacco business into one tobacco business. In the past, we have reinforced the business foundation to build stronger competitiveness on a global basis through the initiatives such as the integration of Japanese and international R&D functions and RRP organizations, as well as the transformation initiative in the international tobacco business, which have brought us clear improvements. This consolidation will enable us to make the most of our global resources in terms of business operating model. This also boosts our competitiveness among the other industry players.

This will also establish an organization structure that enables us to provide products and services that exceed the needs and expectations of our consumers. We will challenge the competition as a single united organization. Meanwhile, in Japan, we will also be revising our organizational structure in response to the decrease in sales volume resulting from the decline in the industry volume, while ensuring that we remain competitive.

In addition, we expect to realize cost savings of approximately 40 billion yen, compared to 2019, for the entire tobacco business in 2023 when JTI's transformation and review of the business operation model in the Japanese market will be completed.

We aim to achieve our target, mid to high single digit annual average growth of consolidated adjusted operating profit at constant FX over the mid to long term, by providing products and services that exceed the needs and expectations of our consumers, through prioritizing management resource toward HTS and combustibles as well as strengthening our tobacco business management structure.

International Tobacco Business

> I am very confident that JTI will continue to deliver sustainable profit growth, investing behind both combustibles and HTS. This confidence is reinforced by the future opportunities arising from the consolidation with the Japanese-domestic tobacco business.

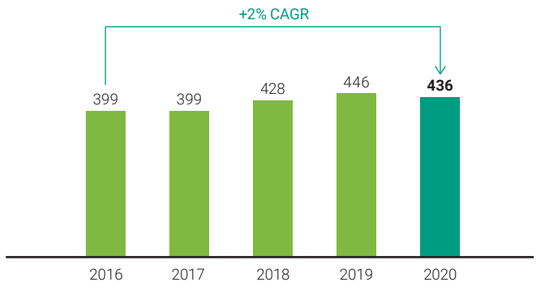


Eddy Pirard
Chief Executive Officer,
JT International S.A.

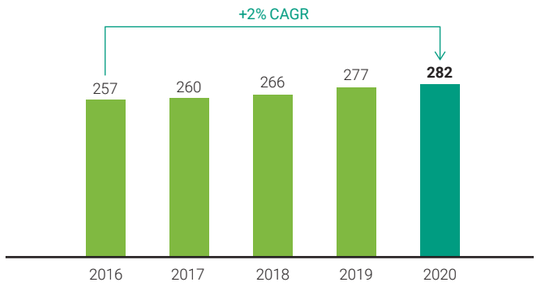
The consolidation of the tobacco businesses is scheduled for January 2022.
HTS (heated tobacco sticks)

2016-2020 performance

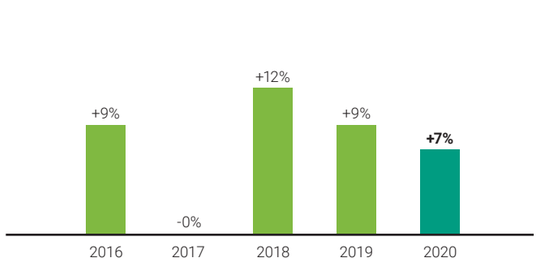
Total shipment volume - BnU



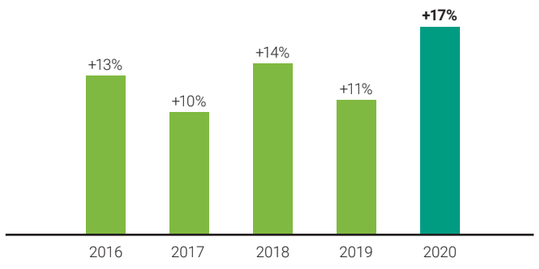
GFB shipment volume - BnU



Core revenue – YoY variance at constant FX, %



Adjusted operating profit – YoY variance at constant FX, %*



USD MM	2016	2017	2018	2019	2020
Reported	10,490	10,498	11,330	11,496	11,724
YoY variance	+2%	+0%	+8%	+2%	+2%

USD MM	2016	2017	2018	2019	2020
Reported	3,095	3,138	3,493	3,126	3,181
YoY variance	-5%	+1%	+11%	-11%	+2%

JTI outperformed industry volume over the last five years through continued market share gains driven by GFB (Global Flagship Brands) and acquisitions in markets that matter. This, together with solid pricing and cost discipline, enabled JTI to consistently grow currency neutral adjusted operating profit at a double digit rate.

* Adjusted operating profit at constant FX: Excluding 2017 one-time loss in adjusted operating profit at constant FX, %. The main indicator of our business performance is adjusted operating profit at constant FX. We use previous year's FX rates to evaluate our business performance excluding the forex impact

This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or vaping products or encourage smoking or vaping among consumers.

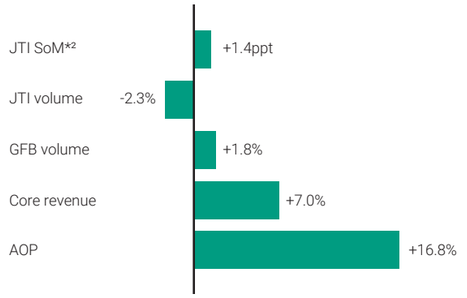
Results for the year ended December 31, 2020

2020 performance

Overview

2020 was JTI's tenth consecutive year of double-digit adjusted operating profit growth at constant FX, driven by solid share and pricing gains across its well-balanced geographic footprint. We estimate the negative impact of COVID-19 on the top line to be about 20 billion yen.

2020 performance*1



The Group's 4S model and the commitment and dedication of employees, who have been the cornerstone of JTI's growth since 1999, were key enablers in ensuring continued strengthening of business fundamentals during the pandemic.

top EMPLOYER GLOBAL 2021 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS *3

The sustained strategic investment behind the equity of GFBs, in both cigarettes and FCT (fine cut tobacco), was beneficial in capturing the redistributed industry volume across JTI's markets due to travel restrictions. 2020 was the sixth consecutive year of GFBs volume growth, with shipment of 5 billion additional units compared to 2019.



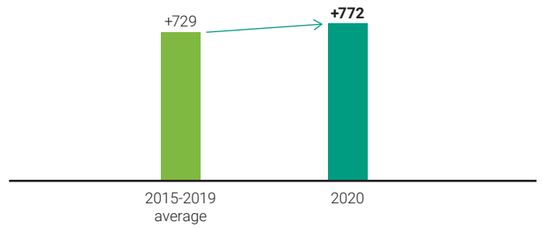
Price/mix

In 2020, JTI recorded another year of positive price/mix with contributions from all clusters.

Pricing gains were generated across our footprint, with the key markets of France, Russia, Taiwan and the U.K. significantly complemented by the contribution from other markets.

As a result, 2020 price/mix benefit was above JTI's five-year average, demonstrating the continued resilience of the tobacco pricing model.

JTI price/mix variance (USD MM)



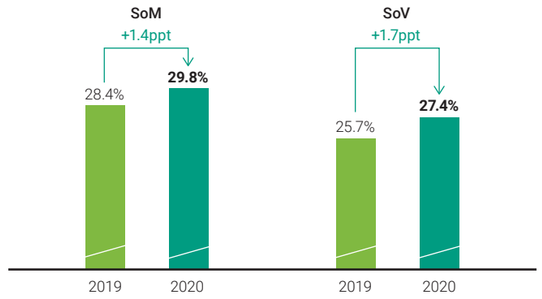
Share of market

Through continued market share gains in 2020, JTI once again outperformed the industry volume decline, which was broadly in line with historical trend.

Notably, JTI increased both its share of market (SoM) and share of value (SoV) in 27 of its top-30 markets.

The continued share growth was primarily driven by JTI's consumer centric approach, strategically positioning our brands across key product categories and price segments.

JTI share in top-30 markets



*1 2020 variance vs. prior year. Core revenue and adjusted operating profit (AOP) at constant FX
*2 Based on JTI's top-30 markets (Cigarettes + FCT)
*3 Global top employer: The international tobacco business has been certified as a Global Top Employer by the Top Employers Institute for the seventh consecutive year

Performance by cluster

In South & West Europe, total shipment volume increased by 2.2%, driven by strong market share gains in markets such as France, Italy, Spain and Switzerland and more resilient industry volume in several markets.

In North & Central Europe, total shipment volume increased by 13.5% driven by Austria, Germany, Ireland and the U.K. which benefited from market share gains and higher industry volume due to higher domestic purchases from travel restrictions.

In CIS+, total shipment volume decreased by 7.1%, due to unfavorable inventory movements in Russia and industry volume decline. Excluding unfavorable inventory movements, total shipment volume declined by 5.3%. Market share grew in Kazakhstan, Romania, Serbia and Ukraine.

In the Rest-of-the-World (RoW), total shipment volume decreased by 5.0%, due mainly to travel restrictions negatively impacting Duty-Free and lower industry volume in several emerging markets. Market share increased in Canada, Iran, the Philippines and Taiwan, among others.

In 2020, core revenue at constant currency increased in all clusters, driven by a positive price/mix variance in CIS+ and RoW and a positive volume and price/mix variance in the two European clusters.

Except for South & West Europe, currency neutral adjusted operating profit grew in all clusters fueled by top-line growth, as well as a decrease in travel and marketing expenses reflecting COVID-19 reality in the markets.

RRP (Reduced-Risk Products)

HTS

2020 marked the long-awaited international rollout of our HTS offer, combined with our Ploom S device, in Russia, Italy and the U.K.

This is in line with the group strategy to prioritize HTS, backed up by positive category development and higher gross margins than other RRP segments.

Our HTS leverage the strength of Winston and Camel brands in Russia and Italy, respectively. In the U.K., our HTS are sold under the new brand Evo.

In all launch markets, we created a seamless consumer journey using all touchpoints to walk adult smokers from discovery to purchase and ultimately brand advocacy.

As part of our execution, we connected the offline and the online environments, with physical point of sales being complemented by e-commerce and remote customer care.

HTS demands a new era of brand building to keep pace with consumer expectations. As a result, we keep evolving our operations making the best use of our consumer and digital data insights, using it in an agile way and pivoting when necessary to drive repurchase rates.



For example, we started distributing Ploom S and Winston sticks in Moscow from mid-March 2020. But rapidly, we rebalanced our commercial strategies towards digital as lockdowns were imposed as of early April. At the end of December, Ploom S reached a 2.6% share of the HTS category.

In Italy and the U.K., where our offering was introduced only in November in a limited number of point of sales in Apulia, Palermo and London, JTI registered positive feedback from consumers and increasing repurchase rates.

We are only at the beginning of this journey and we are still building our know-how and expertise with these new products. We will continue to monitor progress, embed our ongoing learning, and ramp up as we see appropriate.

E-Vapor and nicotine pouches

In line with the redefined group resource allocation strategy, we will adopt a more selective investment posture vis-à-vis E-Vapor and nicotine pouches, based on their scale and growth potential.

In E-Vapor, JTI operates both in the open-tank and closed-tank segments with the brand Logic. We are pleased by the adult consumer base built across different geographies and we will keep innovating in this category to satisfy adult consumers' evolving needs.

JTI is also present in nicotine pouches with the brand Nordic Spirit, which is sold in nine markets including Scandinavian countries, the U.K., Switzerland and Austria. Despite the small size of the category, we enjoy a leading position in the U.K. with a 70% share of segment.

One focus remains common across our RRP portfolio: the consumer centric approach, which is deeply rooted in our culture and in our doing since the introduction of the Group's 4S model two decades ago.



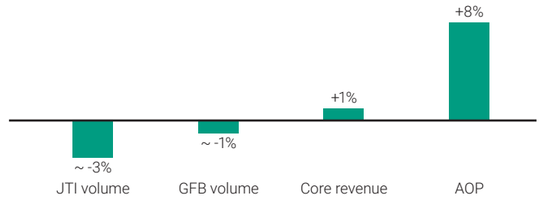
2021 outlook

The 2021 outlook for the international tobacco business sees our total and GFB shipment volumes outperforming the industry volume contraction, declining slightly more than 3% versus a minimum industry decline of 4%.

Core revenue at constant currency is expected to increase 1%, supported by strong share of market momentum and pricing, more than offsetting the impacts from the anticipated partial reversal of market mix benefits, and the larger than average industry volume decline in Russia due to excise taxes.

Currency neutral adjusted operating profit is forecast to grow 8%, driven by top-line growth and accelerated efficiencies from our Transformation initiatives. These are well on track despite the pandemic, with newly established Global Business Services centers in Warsaw, St. Petersburg and Manila already counting more than 800 employees.

2021 guidance*



In line with the group mid-term plan, JTI will continue investing behind both combustibles and HTS.
This posture will be reinforced by the future consolidation of the international tobacco and Japanese-domestic tobacco businesses. It will enable us to work even more as one team, prioritizing investments on a global basis and further improving our product offering to adult smokers around the globe.

These initiatives will strengthen our business competitiveness, paving the way for more years of sustainable growth.



* 2021 variance vs. prior year. Core revenue and adjusted operating profit (AOP) at constant FX

Japanese-Domestic Tobacco Business

Results for the year ended December 31, 2020

> The Japanese market is the source of roughly 30% of the JT Group's profit, and also the world's largest market for HTS. The market will remain our top priority even after the consolidation of the Group's international and Japanese-domestic tobacco business starting in 2022. We will prioritize investments in HTS to increase our market presence. To ensure this, we will make efficient investments in cigarettes, our priority business category, with more emphasis on financial returns.

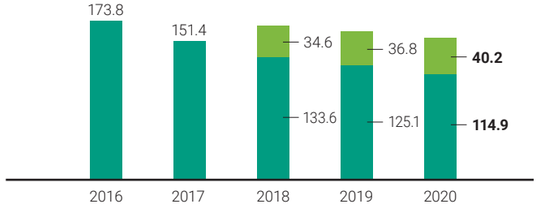
HTS (heated tobacco sticks)



Junichi Fukuchi
Chief Executive Officer of Japanese Tobacco Business, Tobacco Business Planning, Tobacco Business

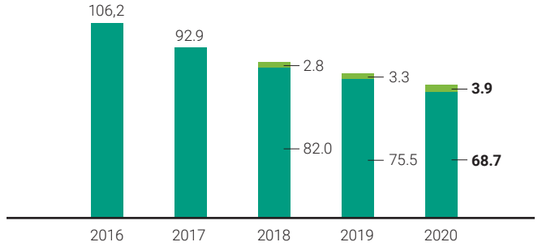
Business-related data

Industry volume* (BnU)

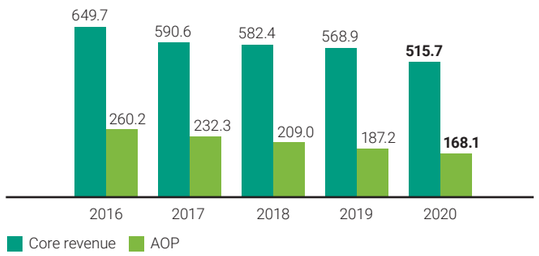


* JT estimate

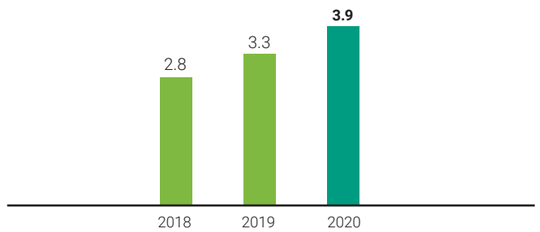
JT sales volume (BnU)



Core revenue and Adjusted operating profit (JPY BN)



JT RRP sales volume (BnU)



Notes
1. Cigarette industry volume and sales volume include Little Cigars since 2018
2. The data for RRP is published since 2018

Business environment and total tobacco industry volume

The total tobacco industry volume in the Japanese market in 2020 stood at 155.0 billion sticks (JT estimate) due to a natural decline trend, several tax hikes in recent years,* and tighter regulatory changes on smoking environment that impacted cigarettes despite growth in the RRP (Reduced-Risk Products) category. The overall RRP market size in Japan grew rapidly from 2016 to 2018, then maintained a gradual increase from 2019. In 2020, the market size is estimated at approximately 26% (shipment basis) of the total tobacco industry volume.

Japan is the world's largest market for HTS. The multi-year tobacco tax hikes have been conducted and planned since 2018 for the first time in Japan. Cigarettes have been subject to the tax hikes during 2018 to 2021 (the increase in 2019 was consumption tax only), while RRP has been subject to the increase during 2018 to 2022. As to regulation, the Health Promotion Law was fully revised in April 2020. However, the impacts of COVID-19 make it difficult to estimate the negative impact of the regulation on the total industry volume.

In April and May 2020, under the first state of emergency, total tobacco industry volume decreased due to the closure of smoking areas. However, it started showing robust growth after the emergency lifted. We believe more shifts on RRP is caused by environmental changes including the restrictions on non-essential outings as well as working from home.

* Tax hikes:
All tobacco products sold in Japan are subject to national tobacco tax, national special tobacco surtax, and regional tobacco tax. Cigarettes were subject to both national and regional tax hikes totaling 1 yen per stick in October 2018, October 2020 and in October 2021. Little cigars are taxed per gram of weight, which is considered equivalent to a cigarette stick. However, all cigars lighter than 0.7 gram have been considered 0.7 stick of cigarette for tax purposes since October 2020. From October 2021, all cigars under 1 gram will be taxed equivalent to a cigarette stick.

RRP was formerly classified for tax purposes as pipe tobacco and its weight converted to the equivalent number of cigarette sticks as the taxation unit. The category was then reclassified as "heated tobacco" in October 2018 and taxed in a new way based on its product weight and price. The transition period lies between 2018 and 2022, where the former calculation system will be incrementally reduced under the new system. In addition, under the Consumption Tax Act a 10% tax is levied on manufactured tobacco products, which is included in the standard retail prices (please see "Fact Sheets" for more details).

JT shipment volume

Due to the market environment dynamics, our cigarettes shipment volume decreased from 106.2 billion sticks in 2016 to 68.7 billion sticks in 2020. Since the price revision in October 2018, a downtrading trend has been growing, expanding the market share of the value and super value segment from the second half of 2019. Responding to the change in consumer needs seen in this trend, we have actively enhanced our value and super value segment product portfolio. We boosted our share in the segments to 44.2%, up by 13.1% year on year in 2020 by launching little cigars under the Camel brand in 2019. We also introduced the slim line MEVIUS brand at an affordable price in October 2020. The segments also grew to 16.6% of the total tobacco industry volume in 2020, up by 7.9% year on year.

Our core brands are MEVIUS, Seven Stars, Winston, Natural American Spirit and Camel. We maintain our position as the cigarette market leader through continuous investments in the sub-premium, premium and prestige segments to raise brand equity. In the value and super value segment we are taking prompt, necessary action to adapt to environmental changes.

In 2017 we positioned RRP as a pillar for future business growth. We have prioritized resource allocation in this category as well as strengthened its manufacturing capacity. We have steadily expanded our RRP portfolio, starting with nationwide sales of our devices for Infused (infused tobacco capsules), Ploom TECH in 2018, Ploom TECH+ with as well as our HTS, Ploom S in 2019. In July 2020, we launched Ploom S 2.0 nationwide as a result of overcoming the challenges of our existing RRP products, which we identified through direct communications with consumers. We also introduced Ploom TECH+ in Tokyo as well as at the online store in November. Our RRP shipment volume increased to 3.9 billion units in 2020 led by the enhanced portfolio, device upgrades and expansion of refill line.



This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or vaping products or encourage smoking or vaping among consumers.

Our performance

Core revenue for 2020 decreased by 9.3% year on year, to 515.7 billion yen, due to decreases in cigarette shipment volume, RRP-related revenue, and shipment volume of Duty-Free products despite a positive cigarette price/mix variance led by price revision. RRP-related revenue was down by 8.3% year on year, to 55.9 billion yen, mainly due to a decrease in sales of devices. We estimate the negative impact of the COVID-19 on the top line is about 30 billion yen.

Adjusted operating profit decreased by 10.2% year on year, to 168.1 billion yen, due to a decrease in the top line and an increase in RRP and digital marketing investment. These factors outweighed a favorable comparison of the impairment loss related to the infused tobacco capsule manufacturing machines accounted in the previous year and efficient cost savings despite the prolonged impact of the COVID-19.

Business Plan 2021

Business environment and total tobacco industry volume

We project that the total industry volume of Japanese-domestic tobacco will continue to have a steady low single digit decrease due to a natural decline trend and the impact of price revisions. The cigarette industry volume is expected to decrease as well as the total industry volume. On the other hand, the RRP market size will continue to gradually expand led by increased support from consumers as a result of regulatory changes and the products' potential to reduce the risks associated with smoking.

Redefining investment prioritization categories and strengthen the operating model

As set out in "The tobacco business management policy" on page 37, we redefined our investment prioritization categories. We consolidate the existing tobacco businesses into one tobacco business to optimize the Group's global resources, in order to prioritize our management resources on HTS, our key category, and combustibles. Our current international tobacco business and Japanese-domestic tobacco business will merge under a unified management system in 2022. The Japanese market remains our most important market, as it accounts for approximately one-third of the Group's profits and is the largest HTS market.



Enhancing of the organization structure in Japan

We will establish an organization structure to enhance consumer satisfaction, pursuing sustainable profit growth in the mid- to long-term in the Japanese market. We have been constantly reviewing our actions based on consumer centric principles. For example we launched CLUB JT,*1 and implemented call-center reforms. These initiatives result in increasing opportunities to directly communicate with consumers and enable us to quickly reflect consumer demands into RRP product development. To assure further efficient and effective communications with our consumers, we will continue enhancing our digital marketing. We will also strengthen our sales activities at the locations where consumers purchase and use our products, in order to address the locally-diversified needs of consumers in each region.

Meanwhile, we will also be revising our organizational structure in response to the decrease in sales volume resulting from the decline in the industry volume, while ensuring that we remain competitive. This includes optimization of administrative tasks in the sales department; closing some tobacco factories to eliminate unutilized manufacturing capacity; and optimizing leaf procurement footprint with downsizing of tobacco farms in mind. Following these, we will offer early retirement packages at the affected sites as well as voluntary retirement program.*2

To secure funds to invest in HTS, we will manage cost relentlessly and promote efficient spending practices that best suit the workstyles of the post-pandemic era to come.

*1 CLUB JT is an online platform introduced in March 2020 to establish quality two-way communications with consumers. Through online sales we flexibly respond to diversified consumer behavior. We also offer content that enhance consumer experience, including explanations on the characteristics of our products and showing locations of smoking areas. We are making effort to increase consumer contact points, while there are fewer opportunities for in-person communications under pandemic conditions.
*2 Please see "JT Group Announces New Operating Model Company Aims to Strengthen its Tobacco Business," released in February 9, 2021, for more details about the programs, including the start date.

2021 forecast

Early in the latter half of 2021 we plan to introduce a next-generation HTS device. This new device showcases not only offers significantly enriched vaping experience but also showcases improvements in basic specifications such as heating time. The evolution of the sticks has also been contributing to increase the product's vaping experience. We are also planning to expand our flavor portfolio to meet the diverse needs of our consumers, as well as to develop various features to enhance consumer experience by incorporating IoT functionality. The next-generation device will deliver greater value and we aim to increase our RRP shipment volume and gain market share within the category through active marketing initiatives both in-person and virtually.

Financial forecast

Core revenue is forecast to increase 0.8% year on year to 520 billion yen driven by a favorable cigarette price/mix contribution led by price revision and an increase in RRP shipment volume, partially offset by an unfavorable cigarette volume contribution. This also includes certain assumptions regarding partial recovery of the domestic Duty-Free business.

Adjusted operating profit is also expected to increase by 4.7% year on year to 176 billion yen driven by the top-line increase, partially offset by the strengthening of investment in the RRP category and year on year increase of indirect expenses, which was significantly lower in 2020 due to protracted COVID-19 disruptions.



Pharmaceutical Business

Results for the year ended December 31, 2020

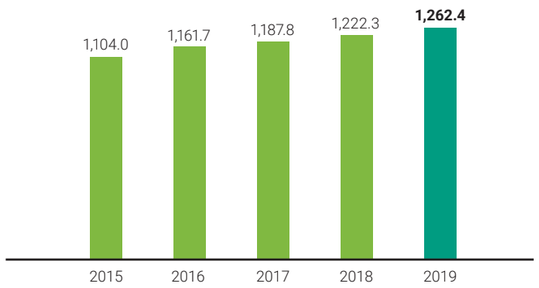
> We are committed to creating innovative, original drugs to support patients in the shortest time possible. We are proud to have received manufacturing and marketing approval for CORECTIM® Ointment 0.5%, for an indication of atopic dermatitis in Japan, and ENAROY® Tablets 2 mg • 4 mg, for the treatment of anemia associated with chronic kidney disease in Japan. We have been making steady progress in our R&D and will aim to contribute to sustainable profit growth.



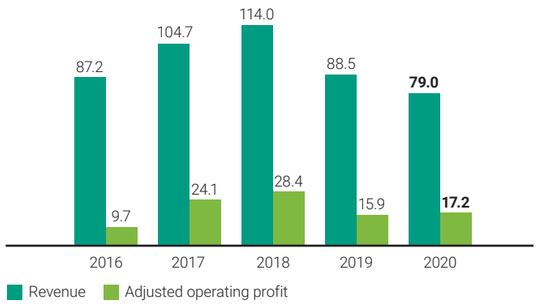
Muneaki Fujimoto
President,
Pharmaceutical Business

Business-related data

Worldwide pharmaceutical market* (USD BN)



Revenue and Adjusted operating profit (JPY BN)



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Industry overview

The global pharmaceutical market continued to grow, with an average annual increase of about 3.4% over the past five years, to US$1,262.4 billion 2019, up 3.3% year on year.* Increasing health awareness, population growth and development of public healthcare systems result in a higher demand for more advanced drugs. However, governments are strengthening their control on drug prices by holding back medical costs, due to the rapidly aging society and fiscal deficits.

In order to control medical care expenses, the Japanese government has been promoting the use of generic drugs, leading the generic drugs market to expand in the Japanese pharmaceutical market. Additionally, a drastic reform of the drug pricing system will lead to a gradual price reduction each year from 2021, creating challenges for the industry. The drug price reduction rate in April 2020 was 4.4% on average.

Our pharmaceutical business competes with not only numerous Japanese domestic companies, but also with foreign companies, including global mega pharma and start-up companies. We will continue to promote R&D and seek optimum timing to license out our compounds in order to accelerate our R&D and swiftly provide new drugs to patients around the world.

* Created based on IQVIA World Review Executive 2015-2019

Our performance

In 2020, our revenue decreased by 10.8% year on year mainly due to lower overseas royalty income. The income has been decreasing after reaching its peak in 2018 impacted by successor drugs. Adjusted operating profit grew by 7.6% year on year due to lower R&D expenditures marked by the completion of trials for the clinical development of the product for which an application has been filed for manufacturing and marketing approvals, as well as earnings growth in our subsidiary, Torii Pharmaceutical, which more than offset the top-line decrease. The business has not experienced any material impact on the top line from COVID-19.

In 2020, we steadily made progress in our R&D leading to continuous profit generation. We received manufacturing and marketing approval for two original drugs in Japan, which are exclusively sold by Torii Pharmaceutical.

- In-house development (2020 progress)
  - Entered the clinical trial stage:
    JTE-451 (RORγ antagonist/topical)- Phase 1 (Japan)
  - Manufacturing and marketing approved (Japan)
    CORECTIM® Ointment 0.5% (JTE-052/delgocitinib)
    ENAROY® Tablets 2 mg • 4 mg (JTZ-951/enarodustat)
    ▶ Please visit JTI.co.jp (Japanese only) for more details.

In January 2020, The JT Group signed an exclusive license agreement with Dermavant Sciences GmbH, a subsidiary of Roivant Sciences Ltd., for the development and commercialization of tapinarof, a topical, therapeutic aryl hydrocarbon receptor modulating agent (TAMA). We will continue to undertake similar efforts to acquire external resources.

Basic strategy

The role of the pharmaceutical business in the Group is to complement the JT Group's profit growth.

Our management policies in the pharmaceuticals business
- Focus on drug discovery capabilities
- Develop compound pipeline
- Enhance both in- and out-licensing activities

Our research and development is focused mainly on metabolic diseases, autoimmune/inflammatory diseases, and viral infection.

2021 forecast

Our revenue is forecast to decrease by 3.1% year on year mainly due to lower overseas royalty income, partially offset by an increase in revenue in Torii Pharmaceutical and an increase in one-time compensation gains from licensed compounds. Adjusted operating profit is forecast to decrease by 59.2% due to the decrease in revenue in addition to an increase in R&D expenditures following progress in compound pipeline.

We expect our business environment to remain challenging in 2021, as the downward trend in overseas royalty income continues. However, revenue losses will be partly balanced by solid Japanese-domestic sales by Torii Pharmaceutical of the new drugs, CORECTIM® Ointment 0.5% and ENAROY® Tablets 2 mg • 4 mg and revenue growth in allergen-related drugs, such as CEDARCURE® Japanese Cedar Pollen Sublingual Tablets and MITICURE® House Dust Mite Sublingual Tablets. We will continue aiming to contribute to sustainable profit growth.

Processed Food Business

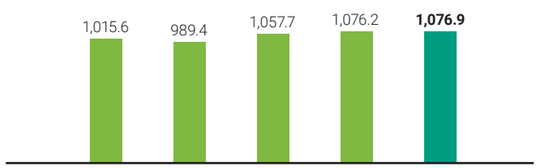
> We have a mission of delivering safe, high quality food to our consumers through our three businesses: frozen and ambient food, seasonings and bakery. With focus on frozen and ambient business, we strive to achieve quality revenue growth and aim to increase our contribution to the Group's mid- to long-term sustainable profit growth, while optimizing manufacturing capabilities and enhancing the profitable product portfolio.



Hiromasa Furukawa
Food Business

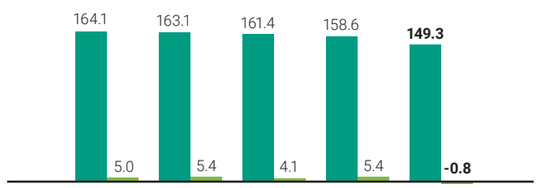
Business-related data

The Japanese frozen food market on a consumption basis (JPY BN)



Source: Japan Frozen Food Association

Revenue and Adjusted operating profit (JPY BN)



Market share: Frozen udon noodles

Ranking	Company	Share
1	TableMark	35.6%
2	KINREI	8.9%
3	Shimadaya	7.3%
4	NISSIN FROZEN FOODS	5.9%
5	SUNDELIC FOODS	3.3%

Source: Fuji Keizai Group (manufacturer ranking, 2019)

Market share: Aseptically packaged/prepackaged rice

Ranking	Company	Share
1	TableMark	28.5%
2	SATO FOODS	28.3%
3	Toyo Suisan Kaisha	16.8%
4	WOOKE	6.8%
5	Takano	3.0%

Source: Fuji Keizai Group (manufacturer ranking, 2019)

Industry overview

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

In 2019, annual consumption of frozen food in Japan increased 2.0% to 2,951,388 tons year on year, a record high. Domestic market size on a consumption basis, including imports, grew 0.1% year on year to 1,076.9 billion yen, exceeding one trillion yen for the third consecutive year.*

Additionally, in 2020 the pandemic encouraged people to stay home and work from home, resulting in more opportunities to eat at home. This led to demand growth in frozen food, as consumers value its preservation and convenience.

Our subsidiary, TableMark Co., Ltd., is competing against major players like Maruha Nichiro, Nichirei Foods, AJINOMOTO FROZEN FOOD and Nippon Suisan Kaisha as well as a multitude of mid- or small-scale producers, although we are starting to see gradual segregation of competition within the industry according to the product categories these competitors respectively own.

These competitors are not the only ones we need to keep an eye out on. We believe it is necessary to monitor trends in sales channels amid the expansion of private brand products by various distribution companies; and the reorganization of wholesale entities. We also need to be aware of the continuing risk of price fluctuations in raw materials due to global food shortages.

* Source: Japan Frozen Food Association (2019)

Our performance

The sales of our core products, notably frozen udon noodles and okonomiyaki (Japanese savory pancakes), are steadily growing despite the slightly downward trend in our core revenue. Adjusted operating profit remains at a same level in recent years except for 2018, when prices for raw materials and ingredients surged, and 2020, affected by the pandemic.

In 2020, COVID-19 impacted our core revenue, as it decreased by 5.8% due to the decline in sales related to significantly lower demand for food-service products within the frozen and ambient food as well as the seasonings businesses, in addition to the significant decline of demand and sales in the bakery business. On the other hand, sales of household products in the frozen and ambient food business increased due to stronger demand.

Adjusted operating profit decreased by 6.2 billion yen, due to the decrease in revenue, an increase in logistics costs in the frozen and ambient food business and an impairment loss of assets such as factories and shops in the bakery business, partially offset by improvements in product mix. COVID-19 is estimated to have negatively impacted the top line by about 11 billion yen.

Despite this challenging year, the JT Group remains in the top tier in the categories of frozen udon noodles and aseptically packaged/prepackaged retort rice.

Core strategies

Our processed food business operates based on the following core strategies in order to fulfill its role, which is to complement the JT Group's profit growth.

- Expand sales of priority products with original technology and strengthen our product development capabilities of high value-added products based on changing consumer demand
- Increase profitability through optimization in manufacturing capabilities
- Mitigate the impact of rising raw material costs and distribution costs

Our business primarily engages in frozen and ambient foods, notably frozen udon noodles, prepackaged rice and okonomiyaki; seasonings including yeast extracts and oyster sauce; and products for bakery chain outlets mainly in the Tokyo metropolitan area.

2021 forecasts

We expect the impact of COVID-19 will continue in 2021. Revenue is expected to increase 1.1% mainly due to the capturing growing demand of household products, and expansion of business activities focused on the prioritized channels in food-service products as well as further increasing the efficiency of bakery store operations.

Adjusted operating profit is forecast to increase by 3.8 billion yen year on year driven by the increase in revenue, efforts to improve profitability such as cost reduction, and a favorable comparison of an impairment loss of assets such as factories and shops in the bakery business.

We expect our business environment to remain challenging in 2021. We will aim to achieve quality top-line growth while flexibly and quickly taking various initiatives with making use of each business' strength, as well as strengthening the profitable product portfolio.

Risk factors

The JT Group is a leading global tobacco company, selling products in more than 130 countries/regions. The Group is also present in pharmaceutical and processed food businesses. Our operations are subject to various risks stemming from their attributes and exogenous changes, among other factors.

We identify risks that could inflict losses on us and closely monitor events that could affect our operations. We take measures to prevent the materialization of the risks and mitigate the impact in case risks are materialized.

We have established an integrated system for identification and management of all of these risks and promote risk management with the following four steps: 1) risk identification, 2) risk assessment, 3) planning to address risks and 4) progress monitoring of the plan.

The risks enumerated below are not all-inclusive. Other risks exist that could affect our operations and/or financial results.

This following discussion of risk factors should be read together with the forward-looking statement disclaimer next to the table of contents on the cover page.

1 Large or repeated tax increases

Tobacco products are subject to tobacco taxes or other similar taxes in addition to sales tax or VAT. Some countries, including Japan, have been raising tobacco taxes or discussing tax increases from a fiscal and/or public health standpoint. Additionally, VAT rates generally tend to increase over time. Our policy with respect to tax increases is to raise prices to pass through the tax increase to consumers, taking into account not only the tax increase's magnitude but also the price elasticity of demand for tobacco products. In addition to this, measures to bolster the top line and improve cost-efficiency are also taken to mitigate the financial impact due to tax increases. Most governments have adopted a reasonable approach to taxation, recognizing that large or repeated tax increases may end up reducing tax revenues. In some instances, however, past tax increases have materially affected our business in certain markets.

Risk description and potential impact

Large or repeated increases in taxes on tobacco products tend to lead to reduced consumption of and/or increased illicit trade in tobacco products. They may also induce consumers to switch to lower-priced products. They consequently could result in reductions in our unit sales, revenue and/or profits.

Main measures to address risk

- Promote understanding among relevant authorities that large or repeated tax increases may be counterproductive with negative impact from decline in tax revenue due to decreased demand or increase in illicit trade.
- Optimize product portfolio for adaptability to changes in consumer preferences and behavior.
- Strengthen and expand our global business foundation as well as expand number of continuously profitable markets to avoid overdependence on profits from a few markets.
- Further improve cost-efficiency to ensure adequate profitability.
- Set prices appropriately to minimize tax increases' impact in affected markets.

2 Growth in illicit trade

Illicit trade is a problem for not only the tobacco industry but society as a whole. It harms the tobacco industry by diverting demand from law-abiding businesses. Its potential societal harms include reduction in government tax revenues, increased organized crime and adverse health consequences due to poor production quality or inadequate post-production quality controls. Together with the rest of the tobacco industry, we continue to endeavor to eradicate illicit trade, particularly cigarette smuggling and counterfeiting.

Illicit trade tends to grow following large or repeated tax increases. Additionally, regulations on cigarette ingredients and packaging may facilitate illicit trade by making cigarettes easier to counterfeit and illegitimate products harder to detect.

Risk description and potential impact

Growth in illicit trade results in decreased demand for legitimate products and may reduce our unit sales, revenue and/or profits. Costs incurred to combat illicit trade may also weigh on profits. Additionally, because of reasons including the fact that counterfeit products are of low quality, circulation of such products may undermine trust in legitimate products and, in turn, impair the value of both the brand and brand owner.

Main measures to address risk

- Take action to eradicate illicit trade in cooperation with governments, regulatory authorities and law enforcement agencies.
- Do business only with reputable parties in accord with stringent compliance policies.
- Engaging with consumers to deepen their knowledge of negative impacts in purchasing illegitimate products.

Cooperation with authorities toward eradication of illicit trade

Two of our subsidiaries, JT International Holding B.V. and JT International S.A., have entered into a cooperation agreement with the EU and EU-member countries to address the illicit trade problem.

Under the terms of the agreement, signed in 2007, the two subsidiaries agreed to contribute US$50 million annually in 2007-11 and US$15 million annually in 2012-21 to support programs to combat contraband/counterfeit goods in the EU and EU-member countries.

We have taken the initiative to introduce a tobacco product tracing system called Track and Trace, which has been operated for over a decade as a part of our compliance program. In recent years, certain countries/regions have legally mandated use of similar tracing systems. We comply with such regulations also.

▶ Please see Tobacco Business: Regulatory environment and illegal trade (P. 77) for more details.

3 Tightening tobacco regulations

The tobacco industry is subject to many regulations, most notably on sales promotion activities (including advertising). Regulatory developments may affect our operations and/or financial results.

For example, we may incur incremental costs in complying with product regulations on ingredients and packaging. Such regulations could also lead to growth in illicit trade to the potential detriment of our law-abiding, above-board businesses. Additionally, if stricter regulations are imposed on communications with consumers, they may preclude effective sales promotion activities and, in turn, adversely affect top-line growth.

As a responsible company, we comply with the laws and regulations of every country/region in which we operate. We believe laws and regulations should rightfully differ from one country to another as a reflection of the countries' respective legal systems, cultures and social conditions. We pursue constructive dialogue with governments and regulatory authorities to encourage reasonable, unbiased regulation of tobacco products.

Risk description and potential impact

Imposition of stricter regulations on sales promotion activities could undermine top-line growth strategies' effectiveness by depriving us of opportunities to grow brand equity. Under certain circumstances, additional costs may occur in order to comply with regulations, resulting decreasing in our unit sales.

Main measures to address risk

- Expeditiously collect accurate information to learn of regulatory developments.
- Pursue constructive dialogue with governments and regulatory authorities to encourage reasonable, unbiased regulation that fulfills its intended objective.

▶ Please see Regulation and key laws (P. 54) for more details.

4 Competition

We are engaged in fierce competition with global industry markets.

Since Japan liberalized imports of tobacco products in 1985 and eliminated import tariffs on cigarettes in 1987, competition in the Japanese market has intensified year after year in the wake of our competitors' aggressive sales promotions, diversified smoker preferences and, more recently, rapid growth in the RRP (Reduced-Risk Products) market.

In overseas markets, we have been expanding our operations through M&A, including acquisitions of RJR Nabisco Inc.'s non-U.S. tobacco business and Gallaher Group Plc, in addition to organic growth. As a result of such acquisitions, we compete with both global tobacco companies and local players with strong footholds in their respective markets.

Market shares fluctuate in response to various factors, including regulatory changes, shifts in smoker preferences/behavior and local economic conditions. Market shares are also prone to short-term fluctuations in response to one-off events such as competitors' new product launches and accompanying sales promotion campaigns.

Risk description and potential impact

Market share fluctuations may affect our financial results. Additionally, markets in which we operate sometimes become embroiled in price competition due to events such as a brand repositioning or a price cut in pursuit of market share gains. This may negatively impact our profit margins in individual markets.

Main measures to address risk

- Optimize product portfolio by offering products that meet consumers' needs and changing preferences/behavior and by achieving strong brand positioning in every price segment.
- Strengthen sales capabilities and conduct effective sales promotions.
- Further improve cost-efficiency to ensure profitability.

- Strengthen and expand our global business foundation as well as expand number of markets, which are capable of continuously generating profit, to avoid overdependence on profits from a few markets.

5 Country risk

To realize long-term growth, we have continued to expand our earnings foundation through M&A, new markets entry and organic growth in existing markets, mainly in our tobacco business. Such geographic expansion has been accompanied by increased exposure to country risk. If political, economic or social turmoil were to occur in a market in which we operate, our operations and/or financial results may be affected.

Risk description and potential impact

Political instability, economic recession, social unrest or other such events could disrupt our operations in the market in question. If so, our unit sales, revenue and/or profits may decrease.

Main measures to address risk

- Collect and monitor information in relation to country risk of the countries/regions where we operate, so as to keep the business operation stable.
- Strengthen and expand our global business foundation as well as expand number of continuously profitable markets to avoid overdependence on profits from a few markets.

6 Currency risk

Our operations' global scope exposes us to currency risk.

While we prepare our consolidated financial statements in Japanese yen, our overseas subsidiaries prepare their financial statements in various other currencies, including the Russian ruble, euro, pound sterling, Taiwanese dollar, U.S. dollar and Swiss franc. Changes in such foreign currencies' exchange value against the yen affect our reported earnings. In addition, in our international tobacco business, JT International Holding B.V. consolidates its foreign subsidiaries' financial statements and such performance data are affected by changes in exchange rates between U.S. dollar and other local currencies used by those foreign subsidiaries. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We hedge this risk with foreign-currency debt, a portion of which is designated as net-investment hedges.

Many of our subsidiaries engage in transactions in currencies other than their own reporting currency in the normal course of business. They hedge such transactions in the aim of mitigating the associated currency risk but they cannot completely avert it.

Additionally, gains or losses on the sale or liquidation of subsidiaries that were acquired in a transaction denominated in a non-yen currency and impairment losses recognized against such subsidiaries are affected by changes in the acquisition currency's exchange value against the yen between the acquisition date and the date of the sale, liquidation or impairment.

Risk description and potential impact

Our consolidated financial results are affected by changes in other currencies' exchange value against the yen. The international tobacco business's financial results, the reporting currency for which is the U.S. dollar, are affected by changes in other currencies' exchange rate against U.S. dollar. Subsidiaries' transactions in currencies other than their respective reporting currencies are also subject to currency risk.

Main measures to address risk

- Mitigate currency risk by hedging with foreign-currency debt or other suitable instruments, in line with the hedging policy for foreign exchange, which is established after comprehensively considering factors including the current status of foreign exchange rates.

7 Pandemics

Our businesses operate in a number of countries/regions worldwide and pandemics could detrimentally impact on our operations. COVID-19 has resulted in global economic downturn/recession and unprecedented changes in way of living. We closely monitor the situation, including consumption and demand trends at each of our businesses in the mid to long term. The pandemic has not caused any material impact on our business operations, however, any pandemic in the future, not only COVID-19, could have a potential impact on our financial results.

Risk description and potential impact

Pandemics could have detrimental impact on our operations and financial results through, for example, a downturn in the global economy and changes in the way of living.

Main measures to address risk

- Implement prevention measures against pandemics, such as work-from-home capability and hygiene management in the office, so as to prevent infection and ensure the safety of our employees and their family members.
- Establish a stable supply chain by ensuring the continuity of manufacturing operations with the enforcement of safety measures, such as hygiene management, as well as dealing with multiple suppliers.

8 Unfavorable litigation developments

We are being sued for damages due to smoking, marketing of tobacco products and exposure to secondhand smoke. There are lawsuits involving smoking-related health claims pending against JT Group companies, including suits where we may be found to have indemnity obligations under the agreement whereby we acquired RJR Nabisco Inc.'s non-U.S. tobacco business. We cannot predict the outcome of any current or future lawsuits.

Additionally, we may be sued on grounds other than smoking-related health claims. For example, we could be sued on a product liability claim if some product-quality problem were to arise.

Risk description and potential impact

If a lawsuit is decided against us, we may bear significant compensation liability for damages, and/or incur other consequences, that could adversely affect our financial results. Additionally, critical media coverage of the ongoing lawsuits against us could make the public less tolerant of our products and trigger a strengthening of public regulation for smoking. Such media coverage could also lead to more such lawsuits against us and potentially litigation expenses.

Main measures to address risk

- Establish an internal and external coordination scheme and swiftly act on information gathering of litigation claims as well as reporting to managements and relevant functions.
- Continue to appropriately defend against litigation claims in coordination with external legal counsel.

▶ Please see Litigation (P. 57) for more details.

9 Natural disasters

Our operations may be disrupted by natural disasters such as earthquakes, typhoons and floods. Our financial results could be adversely affected by consequences of natural disasters, such as damage to our employees, suppliers, public transportation, distribution service and sales channel: utilities disruption and decrease in demand for our products.

To minimize natural disasters' impact on our operations, we have adopted a Business Continuity Plan, the scope of which includes global supply-chain optimization.

Risk description and potential impact

Natural disasters could disrupt not only our own operations but also any of our value-chain partners' operations. Such disruptions could adversely affect our financial results.

Main measures to address risk

- Establish manufacturing systems in various locations and back-up systems such as reserve power installation to ensure a stable product supply.
- Periodically review the business continuity plans and revise them as warranted.
- Conduct initiatives such as disaster preparedness drills and foster a disaster-preparedness mindset among employees.

10 Climate change

Climate change ensuing from global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change and biodiversity loss. Those impacts could raise issues such as change in environmental conditions of our key raw materials including tobacco and disruption in our supply chain. This may adversely affect our manufacturing operations and financial results through deterioration in quality and increase in price/sourcing cost of those raw materials.

Additionally, in transition to a net zero carbon society, aiming to mitigate climate-related impact, carbon taxes on energy generated from fossil fuels may be raised, which could increase operating cost and adversely affect our profit.

Risk description and potential impact

Climate change could adversely affect our operations and/or value chains and, in turn, our financial results. Transition to a net zero carbon society could result in increased operating cost and adversely affect our financial results.

Main measures to address risk

- Conduct climate scenario analysis in line with the TCFD Recommendations, identify potential climate-related impact on the Group more accurately, and take adequate action to mitigate the impact.
- Reduce greenhouse gas emissions across our value chain, so as to mitigate climate-related impact on society.
- Take measures described in "9. Natural disasters" to address natural disasters that may intensify due to climate change.

▶ Please see Improving our environmental impact (P. 66) for more details.

Regulation and key laws

Tobacco Business

Regulation in overseas markets

The tobacco regulatory environment has been becoming increasingly stringent since the WHO Framework Convention on Tobacco Control (FCTC) took effect in February 2005.

The FCTC's objective is to "reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke." The FCTC covers price and tax measures to reduce tobacco demand, non-price measures to reduce tobacco demand (e.g., protection from exposure to secondhand smoke, regulation of tobacco products' contents and emissions, regulation of tobacco product disclosures, regulation of tobacco products' packaging and labeling, regulation of tobacco advertising, promotion and sponsorship) and measures to reduce the supply of tobacco products (measures to prevent, e.g., illicit trade in tobacco products and sales of tobacco products to minors). The Japanese government ratified the FCTC in June 2004.

While the FCTC requires its signatory countries to develop, implement, periodically update and review national tobacco control strategies, plans and programs, it leaves to the discretion of each country the specifics of national regulations' content, scope and methods. The FCTC's governing body, the Conference of the Parties (COP), has been meeting regularly since the FCTC first took effect. The COP is a forum for ongoing discussions among FCTC-signatory countries on issues such as formulating FCTC Article-specific guidelines and protocols (which must be separately ratified or otherwise agreed to by the parties).

Among FCTC-signatory countries, Russia, one of our key markets, enacted a comprehensive tobacco control law in February 2013 and phased it in from June 2013. The law restricts retail sales locations and point-of-sale displays of tobacco products; prohibits advertising, sales promotions and sponsorship; sets minimum retail prices; bans smoking in public; and combats illicit trade in tobacco products.

The EU revised its July 2001 Tobacco Products Directive (TPD) effective May 2014. The revised TPD tightened restrictions on tobacco product packaging and labeling, added new regulations on tobacco product additives and E-Vapor products and included measures to address illicit trade also. EU-member countries have implemented regulations associated with the revised EU TPD.

Australia mandates generic packaging of tobacco products under its Tobacco Plain Packaging Act, which took effect in December 2012. The law prohibits tobacco packaging from bearing logos, brand images, promotional text or anything else except the product name printed in a standardized font and color. Plain packaging regulations have since been adopted elsewhere, including in France and the U.K. A number of other countries are exploring the possibility of following suit or have already decided to follow.

In relation to RRP (Reduced-Risk Products), the U.S. and European countries are starting to establish new guidelines and frameworks for scientifically assessing reduction in health risks associated with smoking. Tobacco makers have been stepping up activities to obtain official certification of risk-reduction benefits. Some countries have applied existing tobacco product regulations to RRP while others have newly adopted separate regulations. The U.S., for example, banned the sale of certain flavored E-Vapor cartridges in February 2020. With a global regulatory consensus yet to take shape, regulatory treatment of RRP varies widely among markets/countries.

Regulation in Japanese market

Tobacco product sales and promotional activities in Japan are regulated under the Tobacco Business Act (TBA), related laws/regulations and voluntary industry standards. One regulatory requirement is that advertisements and product packaging must carry a cautionary statement about the health implications of consuming tobacco products.

The mandatory cautionary statement's wording was revised when the TBA's enforcement ordinance was amended in November 2003. All tobacco products sold in Japan since July 2005 have carried the revised cautionary statement. Additionally, tobacco product advertising guidelines (the "Advertising Guidelines") issued by the Minister of Finance pursuant to the TBA's Articles 39 and 40 (on the cautionary statement and regulation of advertising, respectively) were revised in March 2004 to conform with the amended TBA enforcement ordinance.

The Tobacco Institute of Japan (TIOJ) has set voluntary standards for tobacco product advertising and sales promotions. We comply with these standards together with all other TIOJ members. The Fiscal System Council established a labeling sub-subcommittee under its tobacco business subcommittee in February 2016. The sub-subcommittee studied best practices with respect to the Advertising Guidelines and reported its findings to the tobacco business subcommittee in June 2016. Following further deliberations by the tobacco business subcommittee, recommendations on revising advertising and cautionary statement regulations were published on December 28, 2018. The TBA enforcement ordinance, the Advertising Guidelines and some related directives were amended on June 14, 2019, in accord with the recommendations. On the same day, the TIOJ revised its voluntary standards. In addition to revising its standards on tobacco products, the TIOJ set new standards on T-Vapor tobacco products, non-tobacco T-Vapor products (tobacco-heating devices), tobacco-related business activities, and TV advertising to promote better smoking etiquette.

The revised standard for the cautionary statement on tobacco product packaging changed the cautionary statement's wording, enlarged the area occupied by the cautionary statement by a minimum of 50% and added new content consistent with the latest scientific knowledge, all effective from July 1, 2020. Revisions to the TIOJ's advertising voluntary standard included measures to more effectively shield minors from tobacco product ads, including online, and new restrictions on point-of-sale ad's size and display methods.

In July 2018, the Health Promotion Act (HPA) was amended to better prevent unwanted exposure to secondhand smoke in facilities frequented by the public. The amended HPA classifies facilities into three categories: Class-1 facilities (e.g., schools, hospitals, government offices), Class-2 facilities (restaurants, offices, factories and other facilities not in either of the other two categories) and facilities intended for smoking (e.g., public smoking lounges, bars and other establishments that cater to smokers, tobacco shops that permit smoking on premises). At Class-1 facilities, on-site smoking is prohibited unless the facility has an outdoor smoking area that meets certain requirements. At Class-2 facilities, indoor smoking is prohibited unless the facility has a separate smoking room that meets certain requirements. Additionally, restaurants that meet certain requirements may permit smoking throughout their premises. At facilities intended for smoking, indoor smoking is allowed. We recognize public places that allow smoking are going to decrease in number under the amended HPA, which fully took effect from April 1, 2020. While it is difficult to predict smoking environment changes in detail, we expect our financial results to be affected to some extent.

Regulatory impacts on our operating performance

While the future content of laws, regulations and industry guidelines on smoking, tobacco products and tobacco product marketing, sales promotions, packaging and labeling is impossible to accurately predict, we expect the regulations discussed above to expand in scope and/or new regulations (including municipal regulations) to be imposed in Japan and overseas markets in which we sell products.

We are supportive of reasonable and appropriate regulation of tobacco, but if tobacco regulations like those described above are tightened or if we are not afforded enough time to adequately adapt to such regulatory tightening, our financial results may be adversely affected by contraction in tobacco product demand, loss of market share and/or increased regulatory compliance expenses.

Tobacco Business Act

In Japan, designated tobacco product distributors (sellers of self-imported tobacco products) and tobacco product wholesalers must register with the Minister of Finance; tobacco product retailers must be licensed by the Minister of Finance. Our tobacco products and tobacco products imported by a designated distributor may be sold by retailers only at prices approved by the Minister of Finance. Retailers' pricing requests are mandatorily approved by the Minister of Finance unless deemed inimical to consumers' interests.

When purchasing domestically grown tobacco leaf, we are required by the Tobacco Business Act to annually enter into purchase agreements with the growers. Such agreements must specify the planted acreage by tobacco variety and purchase prices by tobacco variety and grade. We are obligated to purchase the grower's entire tobacco crop produced pursuant to such agreements, excluding any portion not suitable for manufacturing tobacco products. Before entering into any such agreement, we confer with the Leaf Tobacco Deliberative Council (LTDC), a body comprising representatives of domestic growers and tobacco market experts approved by the Minister of Finance, about total acreage to be planted and tobacco leaf pricing. We are required to honor the LTDC's opinions. Like many other agricultural crops, tobacco leaf costs more to produce in Japan than overseas. The prices we pay for domestically grown tobacco leaf (before re-drying) are roughly three times higher than re-dried foreign-grown tobacco leaf prices.

Japan Tobacco Inc. Act

JT was established pursuant to the Japan Tobacco Inc. Act (the "JT Act") to manufacture, sell and import tobacco products. Under the JT Act, the Japanese government must always own at least one-third of our total issued shares (excluding any non-voting share classes*1). The Minister of Finance must approve any offerings of newly issued stock or subscription rights to shares and any issuance of stock, subscription rights to shares or bonds cum subscription rights to shares in conjunction with a stock swap. In addition to manufacturing, selling and importing tobacco products and operating businesses incidental thereto, we are permitted by the JT Act to engage in other businesses as required to fulfill our purpose and subject to the Minister of Finance's approval. Other matters requiring the Minister of Finance's approval include appointment/dismissal of directors, executive officers and Audit & Supervisory Board

members, amendments to our Articles of Incorporation, appropriations of capital surplus (excluding appropriations to rectify an accumulated deficit), mergers, split-ups and dissolution. We are also required to submit a statement of financial position, statement of income and business report to the Minister of Finance within three months of every fiscal year-end.

The Reconstruction Financing Act*², which took effect on December 2, 2011, directed the government to reassess state involvement in the tobacco industry under the Tobacco Business Act by March 31, 2023, and to explore the possibility of divesting its JT shareholdings.

*1 Defined as classes of shares with no right to vote on any resolutions at general meetings of shareholders.
*2 The Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake.

Self-regulation of marketing

In addition to complying with the regulations of every country in which we operate, we also operate in accord with our own Global Marketing Principles (GMPs), four principles based on our recognition of the importance of responsibly marketing tobacco products. Our GMPs include not marketing to minors and not encouraging anyone, including adults, to start smoking or dissuading anyone from quitting. We believe that preventing minors from smoking is an issue that requires society-wide engagement. We are pursuing various initiatives to address this issue in coordination with governments and concerned organizations in addition to appropriately operating in accord with our GMPs.

▶ Please visit JTI.co.jp (Japanese only) for more details.

Pharmaceutical Business

Pharmaceutical R&D, manufacturing, sales and marketing are stringently regulated in Japan and major overseas markets. Additionally, regulatory authorities globally have been reviewing new drug applications (NDA) increasingly rigorously in recent years in response to a growing imperative to ensure drug safety. Given the need to demonstrate safety in larger sample sizes over sufficiently long timeframes, clinical trials are growing in both scale and duration. Meanwhile, with required NDA documentation being internationally standardized both qualitatively and quantitatively, drug companies now commonly use a single set of data available in multiple countries for drug development, a practice that increases development efficiency and reduces costs.

In Japan, pharmaceutical manufacturing and sales are regulated by the Ministry of Health, Labour and Welfare (MHLW) and/or prefectural authorities under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (the "Pharmaceutical and Medical Device (PMD) Act"). The PMD Act requires companies that manufacture and sell pharmaceuticals to be licensed in every prefecture in which they operate and to renew those licenses every five years. Additionally, every pharmaceutical manufactured or sold in Japan must be approved by the MHLW.

Japan's National Health Insurance (NHI) program maintains a drug formulary and sets official drug prices. NHI is planning to radically reform drug pricing. The planned reforms include annual drug price revisions, paring-down of the list of drugs qualifying for premium pricing intended to incentivize drug discovery and reduce off-label drug use, and tiered reductions in long-listed drug prices based on generic substitution rates.

Processed Food Business

Our processed food business is regulated as a food product manufacturer and distributor, mainly under the Food Safety Basic Act, Food Sanitation Act and Food Labeling Act.

The Food Safety Basic Act, enacted and effective from 2003 with the purpose to ensure food safety and protect consumers, charges food companies with a responsibility to implement safeguards necessary to ensure food safety from a scientific standpoint through risk control, assessment and communication at each stage of their entire supply chains. The Food Sanitation Act aims to keep food and beverages free of hygienic hazards and protect the health of consumers. It requires food companies to acquire knowledge and technology, verify ingredient safety, inspect their facilities, and otherwise act diligently to fulfill their responsibilities to ensure the safety of their food products, additives, utensils, containers and/or packaging. As part of the revision in 2018, additional requirements such as hygiene management in line with the HACCP (Hazard Analysis and Critical Control Point) are in place. The Food Labeling Act, aiming to uphold consumer interests and contribute to make food production to support protection/promotion of health of consumers, sets labeling standards for food products offered for sale, including with respect to allergen content, shelf life, ingredients and place of origin. Food companies are required to label their products in compliance with the standards.

In addition to meticulously complying with these and other applicable laws and regulations, our processed food business is working to upgrade our safety management from four standpoints: food safety, food defense, food quality and food communication, so that it can provide consumers with safe and quality food products with which consumers can feel secure.

Litigation

JT and/or some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco products or exposure to tobacco smoke. There are lawsuits involving smoking/vaping and health-related cases pending in which one or more members of the JT Group are named as defendants or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s non-U.S. tobacco business. In addition, JT and/or some of its subsidiaries are also defendants in lawsuits other than the smoking/vaping and health-related cases.

There are ten ongoing health care cost recovery cases in Canada pending against JTI-Macdonald Corp. (hereinafter referred to as JTI-Mac), our Canadian subsidiary and JT's indemnitees (RJR Nabisco Inc.'s affiliates), brought by Canadian provinces. In addition, there are 8 pending class actions in Canada where plaintiffs are seeking damages for harm allegedly caused by smoking of cigarettes. Damages claimed in some of these cases reach sums in the multi-billion-dollar range. We will continue to take all appropriate actions to defend such claims vigorously and believes there are a number of valid defenses.

On March 8, 2019, JTI-Mac filed for protection from its creditors under Canada's Companies' Creditors Arrangement Act (CCAA). The Ontario Superior Court granted the CCAA application on the same date and extended the protection in favor of JTI-Mac. All the Canadian matters against JTI-Mac referred to herein have been stayed by the court order. JTI-Mac carries on business in the ordinary course under the CCAA.

In recent decades, numerous, large-scale, smoking and health-related cases have been brought against tobacco product manufactures in the U.S. and some of the cases initially resulted in verdicts with massive damage awards. We are not defendants in any of these lawsuits, nor are we subject to any indemnity claims with respect to them. The JT Group's U.S. tobacco business does not include the business that it acquired from RJR Nabisco Inc. in 1999, as well as the Natural American Spirits' non-U.S. business that it acquired from Reynolds American Inc. group in January 2016.

There are ongoing litigations in the U.S. alleging health effects associated with E-Vapor use and harm caused to consumers by misleading representations and advertising for which plaintiffs are seeking damages and/or demanding health warnings against E-Vapor manufacturers in the U.S. One such case has been brought against a number of E-Vapor manufacturers including JT subsidiaries. This is in its early stages. We believe that we have valid grounds to defend this claim and intend to do so vigorously.

Even now, the scale of the JT Group's U.S. tobacco business remains small. Hence, we believe that litigation in the U.S. will not materially affect its businesses in the near future.

Please see "Contingent Liabilities" of our Consolidated Financial Statements' "Contingencies" note for major lawsuits to which JT and some of its subsidiaries are named as defendants.

To date, JT Group have never lost a case or paid any settlement award in connection with smoking/vaping and health-related litigation. However, the Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the JT Group and payment of substantial amount of monetary compensation could materially affect its financial performance. Moreover, regardless of the results of these lawsuits, critical media coverage may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance. Apart from smoking/vaping and health-related ones, the JT Group also may become the defendant in further litigation. When any problems arise on the Group's product quality, this will lead to a claim seeking profit liability. Such litigation cases may negatively affect its business performance or manufacture, sale and import and export of its products, should their outcomes prove unfavorable.

SUSTAINABILITY

The JT Group is working on various sustainability initiatives as a responsible member of society. This chapter introduces the focus areas set for each business segment based on the materiality analysis. Also, the CSO discusses the Group's sustainability initiatives to support the Group's growth strategy for sustainable value creation.

060 Our material issues

062 Sustainability strategy

064 Three absolute requirements for sustainability

- Respect for human rights
- Improving our social and environmental impact
- Good governance and business standards

068 Investing in people/Health and safety

072 Focus areas by business segment

- Tobacco business
- Pharmaceutical business
- Processed food business

082 Interview with the CSO



Our material issues

Sustainability is at the heart of managing our business. Our sustainability strategy is formulated based on the 4S model, our management principle, and encompasses our materiality analysis. We contribute to the related SDGs through our business activities and initiatives.



To help the JT Group to grow, and to build a sustainable future as a member of the society in which we operate, we have identified a list of high-priority material issues. Our materiality is based on the JT Group's management principle, the 4S model. In 2015, we performed a materiality assessment covering the entire Group for the first time, selecting material issues through interviews with our internal and external stakeholders.

▶ Read more about our materiality assessment process on JT.com.

Since 2015, we have continued to listen to our stakeholders and adapted our materiality according to the changing external business environment.

In 2020, we focused on the following key issues across the entire JT Group.

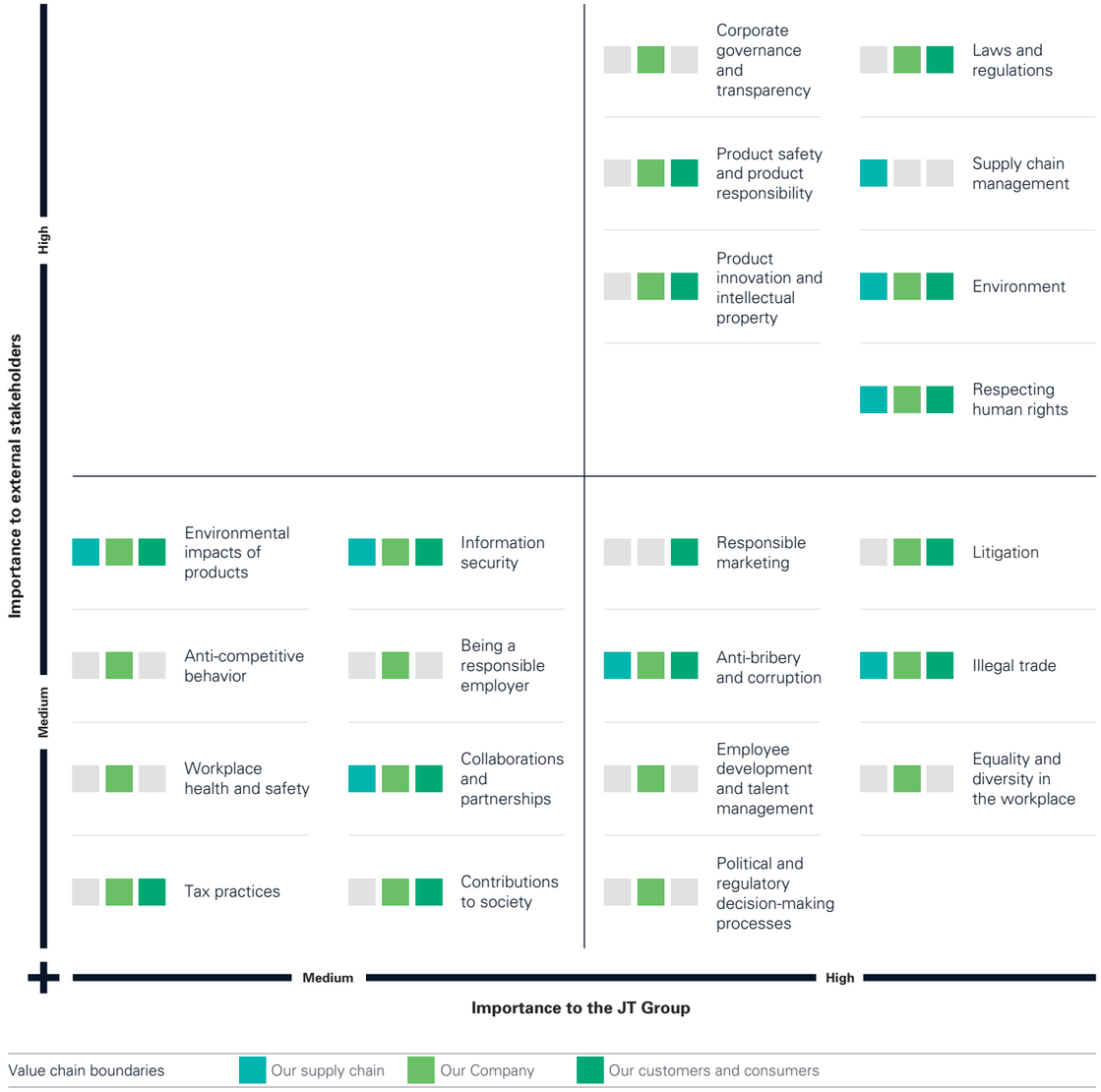
- **Environment:** (a) Supporting the TCFD (Task Force on Climate-related Financial Disclosures) and (b) the appropriate use and responsible disposal of materials, including plastics, used in our products and packaging.
- **Investing in people:** Equality and diversity in our workplace.

The COVID-19 pandemic obviously also had a major impact on our approach in 2020. From the onset of the global crisis, we have prioritized the safety of our employees and their families, and all of our other stakeholders. We have taken many different steps, such as strengthening **occupational health and safety** measures to protect our employees and to mitigate potential disruption to our consumers and partners. We have kept our business running by expanding existing systems such as remote working and flexible hours, and implementing **"New Ways of Working."** The JT Group will continue to support the communities where we operate in any way we can.

In the tobacco business, which is our core business, we will strengthen our investments in **RRP (Reduced-Risk Products)**, the pillar of our future business growth, while realizing steady profit growth through RMC (Ready-Made Cigarettes). We will continue to work on "product innovation" as a material issue to continue to provide new value to our consumers.

The business environment surrounding the JT Group will continue to evolve rapidly in 2021 and beyond. We will carry out periodic materiality assessments, reviewing and updating the priorities as necessary to ensure that they remain relevant and up-to-date.

The JT Group's materiality



Sustainability strategy

The JT Group's sustainability strategy is based on the 4S model, our management principle, and encompasses our materiality analysis. It encourages us to look beyond our usual planning cycle period and think about the longevity of our business, the future of our planet, and the society we live in. The foundations of our sustainability strategy, which apply across the Group, are as follows.

Three absolute requirements for sustainability

Respect for human rights

We are committed to respecting human rights across our global operations and value chains, as expressed in the JT Group Human Rights Policy.

▶ P. 64



Improving our social and environmental impact

We are committed to protecting the environment and making a positive difference wherever we operate.

▶ P. 65-67



Good governance and business standards

We are committed to promoting transparent, fair and timely decision-making that carefully considers the respective interests of consumers, shareholders, employees and the wider society.

▶ P. 86-103



Tobacco business sustainability strategy

We have selected the following four focus areas for the tobacco business, which is our core business. We have set **11 specific targets** for the focus areas and have been reporting on progress since 2019. In 2020, we set a new target relating to the appropriate use and responsible disposal of materials, including plastics, used in our products and packaging.

Focus areas	Aspirational goals
Products and services	We will be a total tobacco company offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.
People	We will be the employer of choice by investing in people.
Supply chain	We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.
Regulatory environment and illegal trade	We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.

Pharmaceutical business sustainability strategy

The mission of our pharmaceutical business is to create innovative, original drugs to support patients in the shortest time possible. In view of this mission, in 2019, we selected the following three focus areas. We set **five specific targets** for these focus areas and this is the first time we are reporting on our progress towards achieving the targets.

Focus areas	Aspirational goals
Products and services	We will create innovative, original drugs to support patients in the shortest time possible.
People	We will strive to nurture talent development which enables us to create first-in-class (FIC) drugs.
Product safety and responsibility	We will strictly comply with all relevant laws, regulations, and industry standards in order to deliver safe drugs to patients.

Processed food business sustainability strategy

Our mission in the processed food business is to deliver safe, high-quality products to consumers. In 2019, we selected the following three focus areas. We set **eight specific targets** for these focus areas and this is the first time we are reporting on our progress towards achieving the targets.

Focus areas	Aspirational goals
Products and services	We will continue to provide high-quality, technology-driven products in response to our customer's needs, to satisfaction and trust.
People	We will ensure workplace safety for our employees, while continuously investing in people who can contribute to enhancing corporate value.
Supply chain	We will reduce social and environmental impacts and continue to deliver safe products to consumers.



Contributing to the SDGs

The JT Group supports the Sustainable Development Goals (SDGs) adopted by the United Nations. Through our business activities, the JT Group will contribute to the SDGs related to our business and its environment. We have mapped related SDGs against our initiatives for sustainable business, and identified the nine SDGs to which our business can best contribute.

▶ Read more on JT.com.



Respect for human rights

We respect human rights across our value chain and recognize the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The JT Group Human Rights Policy follows the framework provided by the UN Guiding Principles on Business and Human Rights.



Our approach and progress

Embed

We are working hard to embed human rights thinking in our corporate culture and to improve employees' understanding of the human rights implications of business decisions. To do this, we provide regular training and continuously share information about human rights and the JT Group Human Rights Policy.

Identify and prioritize

We conduct Human Rights Impact Assessments to identify and assess actual and potential human rights risks. In line with the UN Guiding Principles, these assessments focus on the greatest risk to people, both within our own Company and through business relationships with our suppliers, from farm to store. As a result of the assessments, we aim to address the identified risks of rights-holders, meet our stakeholder expectations on respecting human rights, and mitigate against the overall risks to people and the business.

Conducting human rights due diligence – through Human Rights Impact Assessments – is part of our corporate responsibility to prevent adverse impacts on people and ensure that the highest standards of behavior are upheld within our business and value chain. To achieve this, we are committed to assessing 100% of our high-risk countries by 2025, in our tobacco business. We have also conducted due diligence in our processed food business, including high-risk countries identified such as China and Thailand, and our pharmaceutical business.

▶ Read more about our progress on JT.com.

Respond

We develop action plans to address issues identified through Human Rights Impact Assessments and self-assessment questionnaires. These plans drive improvements and integrate human rights into our existing management processes in a consistent manner. The plans have defined responsibilities, clear timelines for implementation, and key performance indicators to monitor progress.

▶ Read more about our findings from Human Rights Impact Assessments.

Putting people first

Protecting human rights was a vital element of our Group-wide response to the COVID-19 pandemic. We followed the structured guidance for companies provided by the UN Development Program Human Rights Due Diligence and COVID-19 Rapid Self-Assessment for Businesses.

For many of our employees and contractors, working-from-home is not an option, because they work in factories, sales & distribution, and other field-based jobs. So, we put in place stringent measures to ensure they can work safely. When making key decisions, we always took care to involve those directly impacted. For example, in locations where conditions allowed a return to the office, individuals could decide whether they deem it is safe to return based on the new safety measures in place.

▶ Read more about our response to COVID-19 on page 10.

Improving our social impact

For our Group to grow sustainably, it is vital for us to contribute to the sustainable development of our society. Our community investment policy determines a common goal across the JT Group: "To contribute to the development of inclusive and sustainable communities." We believe that everyone should have the opportunity to participate in society, and that inclusive societies are better for business. In line with our community investment policy, and as a responsible local community member, we recognize the value of nature, society, and human diversity, and work with a wide range of stakeholders to resolve social issues.



Our focus areas

Through long-term partnerships with local and international organizations, we have around 500 community investment programs in 66 countries. Based on global and local needs, these programs help communities to become more inclusive, sustainable, and resilient. We focus on three specific issues:

1. Reducing inequalities, e.g., helping underprivileged people gain access to food and education.
2. Improving community resilience in disaster-prone areas, e.g., providing access to clean water.
3. Protecting the environment, e.g., replanting trees with the help of our employees.

In 2020, in spite of COVID-19 restrictions, we implemented 417 programs to reduce inequalities, 53 programs to improve community resilience, and 34 programs to protect the environment globally.

Our contribution to communities in 2020

Our community investment programs continued throughout 2020, with some adaptations due to the COVID-19 pandemic. Throughout the year, our communities needed specific support, so we had to think beyond our practices and find new ways to respond to their needs.

▶ Read more about our response to COVID-19 on page 10.

Measurement and evaluation

Our work is highly rated by external agencies, including the Dow Jones Sustainability Indices (DJSI), which recognizes us as the industry leader in "corporate citizenship and philanthropy," with a perfect score of 100. To measure the social impact of our work, we use the Business for Societal Impact* framework provided by Corporate Citizenship.

* Global standard in measuring and managing a company's social impact

BUSINESS FOR SOCIETAL IMPACT
CORPORATE CITIZENSHIP

Our target

Between 2015 and 2030 we will invest US$600 million to help make communities inclusive and resilient, with our employees contributing 300,000 volunteer hours.

▶ Please see page 69 for more details on our progress towards our targets.

Total: **49.5** (US$ MM)

- US$ **43.9 MM** in cash
- US$ **4.5 MM** in management costs
- US$ **0.7 MM** in employee volunteer hours
- US$ **0.4 MM** in kind

19,199
hours volunteered
(includes volunteering during working hours only)

551
organizations supported

Note: The above data is 2020 preliminary result. We applied the average exchange rate for 2020 (US$ 1= 106.76 yen).

▶ Learn more about our community investment activities on JT.com.

Improving our environmental impact

Climate change and other environmental issues are of increasing societal concern. Our operations impact the environment through resource usage, emissions, and waste generation, as do most industries. The environment also has a direct impact on our business. As a global organization, we recognize that we have a key role to play in reducing our impacts in own operations and across our value chain.

Our sustainable business practices allow us to conserve resources, reduce waste, manage costs, and meet the growing consumer demand for eco-friendly products.

Read more about our approach in the JT Group Environment Policy.



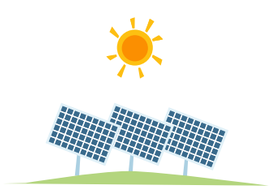
The JT Group Environment Plan 2030

Our JT Group Environment Plan 2030 sets objectives and targets to address our key environmental risks and opportunities across three focus areas: Energy and Emissions, Natural Resources, and Waste. Our greenhouse gas emission reduction target was approved as a science based target (SBT) by the Science Based Targets initiative (SBTi).

The JT Group Environment Plan 2030 includes qualitative and quantitative targets. Read more about our progress toward quantified targets here.* You can also read about our environment-related activities and our progress toward our qualitative targets on JT.com.

* In the second quarter of 2021, we will replace the 2019 data with the 2020 figures.

Energy and emissions



Natural resources



Waste



Improving sustainable product packaging and material use

To further reduce the environmental impacts of waste associated with our operations and products, we will reduce the environmental impact of our products and packaging through:

- Design solutions
- Facilitating responsible collection and disposal
- Consumer awareness and education

More specifically, we will reduce our packaging (including plastic) and ensure that the remaining is 88% reusable or recyclable by 2025, rising to 100% by 2030. In total, recycled content will account for 20% of our tobacco business packaging by 2025.

JT Group environment management

In our more complex operations, we align our approach to environmental management with internationally recognized standards – ISO 14001 and ISO 50001.* In our smaller and less complex operations in Japan, we have implemented our own "JT Green System," which promotes a simple and consistent approach.

* ISO 14001 and ISO 50001 are the internationally recognized standards for environmental management systems and energy management systems, respectively. These standards do not prescribe absolute performance requirements. Rather, they provide us with a framework to help build effective management systems that deliver continual improvement in environmental and energy performance.

Endorsing the TCFD recommendations

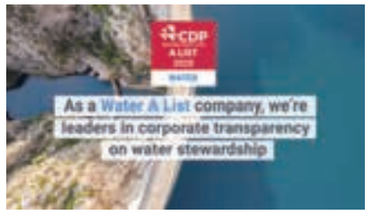
The potential for financial impact associated with climate change is now well known. As a result, concern is growing about the mid- to long-term impact of climate change on business operations and financial market stability. With this in mind, we have been conducting climate scenario analysis since 2019.

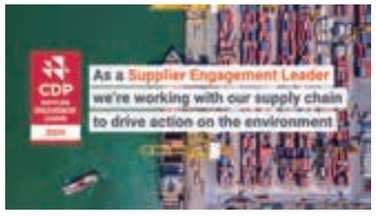
In December 2020, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). During the next stage, we will further develop our scenario analysis and improve our governance framework for this process. We will continue to use the results of the analysis to enhance engagement with our stakeholders and corporate value. Read the results of our first round of analysis on JT.com.

Selected CDP "A List" for Climate and Water, and Supplier Engagement Leader for the second consecutive year

For the second year running, we achieved a place on CDP's prestigious "A List" for tackling climate change and acting to protect water security. We are also recognized as a global leader for engaging our supply chain on climate change. This marks our second recognition for CDP Supplier Engagement Leader following 2019.







We are delighted to be included in the CDP's "Climate A List" and "Water A List" for the second consecutive year. This clearly reflects our continued efforts to reduce our environmental footprint and our transparency in disclosing information. We are also pleased to announce that we officially endorsed TCFD's recommended approach to scenario analysis.
The climate-related risks and opportunities we identify through this process will help us to make our business strategy even more resilient and optimize the way we disclose the information.

Kazuhito Yamashita
Member of the Board, Chief Sustainability Officer

Investing in people

Our sustainability journey is dependent on the skills and spirit of our employees and people in the communities impacted by our business. We will create positive impacts through our business.



The JT Group human resources management philosophy

We believe that highly skilled and talented people form the foundation of a company's success and contribute to real sustainable growth. In light of this, the JT Group proactively takes steps to secure long-term engagement and employee satisfaction.



Attracting and developing talent

Today's business environment is evolving rapidly, and COVID-19 adds additional pressures. It requires flexibility and the adoption of new skills, such as remote ways of working.

We have implemented various global and regional learning programs. In these unprecedented times, we supported employees as they navigated new digital learning platforms and courses. We constantly invest in our employees, including at a managerial level, to ensure they flourish in their careers.

Our commitment to talent development is seen in the fact that we recruit existing employees to fill open positions. Our internal hire rate has now been above 90% for more than six years, and in 2020, 91.5% of employees were internally promoted.

Another priority for us is ensuring that we are chosen by the best talent – particularly from Generation Z,* as this group represents a growing proportion of our new hires and their unique skills will help drive innovation in the JT Group.

Our international tobacco business launched its first global internship competition "Make It Bright" in 2019, in which students from 17 countries pitched ideas for positive change to our business. In 2020, we expanded this initiative across 30 countries, reaching 41 million students around the globe. More than 8,000 registered for the competition. The local winning teams competed in virtual global finals to win a six-month paid global internship in 2021.



* Generation born after the late 1990s.

Employee engagement

We carry out a Group-wide Employee Engagement Survey every three years, plus additional surveys at a regional or departmental level. The feedback we receive from employees helps us to understand our strengths, progress, and areas for improvement. It also helps us to maintain our reputation as a top employer.

Our tobacco business

	Aspirational goal	Target	Progress
Employer of choice	We will be the employer of choice by investing in people.	We will be a certified employer of choice every year in at least 60 countries by focusing on talent management, rewards, and empowerment.	We were certified as employer of choice in 67 countries (64 with Top Employer and 3 with other local employer certifications). In addition, 11 countries hold more than one certification.

Diversity and inclusion

Establishing a diverse and inclusive workplace is a top priority for us, so that all of our employees can enjoy their work and perform to the best of their abilities. We respect different backgrounds and values, such as age, gender, self-identification, sexual orientation, disability, ethnicity, religion, and nationality, as well as experience and expertise. We believe this brings a rich mix of viewpoints and perspectives, which can inspire new ideas, lead to solutions to complex issues, and drive our business forward. These efforts have also been recognized outside the company. Learn more about our external recognition on page 182.

New Ways of Working (N-WOW)

Recognizing that different people have different working styles and needs, we promote a workplace environment that allows all employees to fulfill their potential.

Flexible working

We have a long-standing corporate culture of encouraging flexible hours and remote working across the Company. Fortunately, these practices enabled most of our office-based employees to seamlessly work from home soon after the COVID-19 outbreak began in January 2020. In Japan, we introduced full-time flexible working and no-limit remote working in February 2020. These new ways of working will continue beyond the end of the pandemic. In our international tobacco business, our office-based employees in over 70 locations have been working from home.

▶ Learn more about our response to COVID-19 on page 10.

Working parents

In 2020, we launched a new family leave policy for our international tobacco business, which came into effect in January 2021. The policy grants 20 weeks of paid family leave, regardless of gender, sexual orientation, age, or location, when an employee becomes a parent via natural birth, surrogacy, or adoption.

JT has been certified as a childcare-supporting company (in Japanese) by the Japanese Ministry of Health, Labour and Welfare.

Gender equality – women in leadership

One of our commitments is to promote gender equality in the workplace. To further empower women, we hold workshops for top management and line managers, as well as training and seminars for female employees. Our new Group-wide target, specifically representation of women in leadership, is to reach 25% by 2030. We find it desirable that this should be more than 40% over time.

LGBT+ Inclusion

Supporting our LGBT+ employees is vital for us to create a more equal JT Group, in which everyone is empowered to be themselves. All our job vacancies in our international tobacco business are now published on myGwork, a global networking hub for LGBT+ professionals and graduates. We have made positive progress in our Japanese operations too, achieving the highest-ranking Gold status in the PRIDE Index 2020 for the fifth consecutive year.

The JT Group community investment

Our community investment programs contribute to the sustainable growth of societies while providing valuable volunteering opportunities for our employees.

	Aspirational goal	Target	Progress
Community investment	We will be the employer of choice by investing in people.	Between 2015 and 2030 we will invest US$600 million to help make communities inclusive and resilient, with our employees contributing 300,000 volunteering hours.	Since 2015, we have invested US$349 million in our communities and employees volunteered 138,548 hours on company time.

▶ Learn more about our community investment activities on page 65.

Note: "Investing in People" is also a strategic focus area for our pharmaceutical and processed food businesses.

Investing in people: Health and safety

Our approach

Our employees have the right to be protected from work-related injuries and illnesses, and it is our responsibility to provide a safe working environment. We align our health and safety standards with ISO 45001 (OHSAS 18001) and always meet or exceed legal requirements.

When our standards are stricter than local laws, we require our local offices to comply with our standards. The scope of our standards extends beyond our employees, covering contractors as well as visitors to our operations.

In 2020, responding quickly and effectively to the COVID-19 pandemic was a priority. We have taken considerable measures to ensure the safety of all employees and their families, and all of our other stakeholders, while mitigating the potential disruptions to our consumers and partners.

Learn more about our response to COVID-19 on page 10.



Three pillars of safety

Our safety programs are based on three fundamental pillars: safe workplaces, safety competence, and a Group-wide culture where the safety of our people always comes first. The highest risks across the JT Group are driving vehicles, riding motorcycles, and working with machinery, as well as slips, trips, and falls.

To mitigate these risks and prevent injuries, we conduct risk assessments throughout the whole supply chain. This enables us to identify hazards, implement appropriate measures, and ensure that our approach helps us to protect our employees. We also focus on raising awareness among employees and thoroughly embedding our safety culture in our day-to-day work.



In some countries with poor infrastructure and traffic management, our people are more at risk of being involved in road traffic accidents.

We have been implementing a motorcycle safety program in countries with a high vehicle accident rate (Zambia, Malawi, and Tanzania) since 2016. This has led to a 50% reduction in work-related injuries.

In 2019, we rolled out a new driver safety policy and implementation guidelines across our international tobacco business. Focusing on driver behavior, the new guidelines require local offices to conduct a risk assessment to identify high-risk drivers. They must also send periodic progress reports and action plans. In 2020, we completed a Driver Safety Compliance Assessment. The results showed that our markets comply with 80% of our global guidelines on average.

Considering the growing number of female employees, the policy also includes maternity protection for female drivers. Between 2019 and 2021, 30,000 employees will take a driver training course.

Ensuring the same standards around the world

As part of our drive to expand the business geographically, we have made acquisitions in new markets. Most of these acquired businesses operate in developing countries, with a raft of societal and economical challenges. We recognize this and feel responsible for improving the working environment. That's why we introduce our policies firmly and immediately after each acquisition. We also visit the sites and support local managers to ensure that our policies are endorsed and embedded across the Group.

We take a systematic and risk-based approach to acquired businesses from the outset. The Health and Safety team conducts a risk assessment for potential new countries to check whether their standards meet ours. Following an acquisition, we support local offices to identify key risks, develop and implement 18-month action plans, and align policies with our standards.

Towards a better workplace

We care deeply about employee well-being because we want our employees to feel comfortable and motivated every day. We run a variety of well-being programs across the Group, such as ergonomic assessments and ensuring general occupational hygiene.

To design these programs, we gather well-being data from our local offices. In 2018, we expanded our data scope by introducing new rules requiring all local offices to report their occupational health cases to our headquarters. This will allow us to understand our global risks and develop a consistent approach to them, while strengthening our existing protection measures.

Local managers are responsible for investigating reported issues and identifying the causes. If the issues are attributed to the work or workplace, we take appropriate measures immediately to protect employees' well-being and prevent recurrences.

In Japan, we focus on mental health and preventing life-style-related diseases such as diabetes. We encourage employees to attend stress management sessions and individual consultations with doctors. Following the onset of COVID-19, these meetings took place via video call, and we also offered online exercise programs. Both measures were designed to support our employees' optimum health.

Our programs have had a positive impact on employee productivity and the absenteeism rate in Japan, which has recently been below 1%.

We are pleased to announce that JT was named as a "White 500" company for the fifth year running. This award is presented by Japan's Ministry of Economy, Trade, and Industry. It recognizes large enterprises that are making outstanding progress towards better well-being among their employees.

Health and safety performance in our tobacco business

	Aspirational goal	Target	Progress
Zero Injuries	We will be the employer of choice by investing in people.	In line with our vision of zero workplace injuries, we will reduce injury rates by 25% by 2023 and 50% by 2030. (Baseline year: 2015).	Recordable injury rate* declined 58.9% from 0.72 in 2015 to 0.30 in 2020.

		2015	2016	2017	2018	2019	2020
Recordable injury rate	Employees	0.72	0.64	0.67	0.50	0.49	0.30

* Recordable injury rate = recordable injuries/200,000 hours worked. Some data from newly acquired business has been excluded, as newly acquired business needs 18 months to integrate the JT Group Health and Safety Standards.

▶ Learn more about our health and safety performance at JT.com.

Products and services (RRP)

We continue to strongly believe that alternatives to traditional combustible products are a key way of offering consumers reduced-risk potential. Between 2018 and 2020, we invested 100 billion yen in RRP (Reduced-Risk Products), and we plan to invest further in the coming years.

We also believe that it is vital to focus on innovation and listen to consumers' needs. We have partnered with startups and incubators to give emerging technologies and ideas the opportunity to reach our R&D centers.

In 2020, we launched our Ploom S product offerings in Russia, Italy, and the U.K. with a positive response from consumers.



Our key T-Vapor products in 2020







This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or vaping products or encourage smoking or vaping among consumers.

RRP Attributes

SOCIAL CONSIDERATION



No smoke smell

CONVENIENCE



Easy to use



Minimal maintenance



Continuous use

▶ Read more about our RRP portfolio at JT.com.

JT Science: an online resource for all

JT Science is a valuable online resource for both scientists and non-scientists. Our mission is to inform, educate, and collaborate with anyone interested in learning about the science behind RRP – from consumers to scientists and the regulatory community. While it is still too early to understand the long-term health effects of RRP, –factors including the elimination of combustion and the fewer toxicants found in the vapor, suggest there is potential for them to reduce the risks associated with smoking. That's why we're committed to ensuring that all our RRP fulfill this potential.

To realize the full potential of RRP, we follow the research process below.

RRP Development and assessment: A six-step journey



▶ Read more about our research on the JT Science website.

RRP supply chain

We have established a dedicated supply chain for our RRP, building strong supplier partnerships that support business expansion and meet the demands of our increasingly sophisticated portfolio.

In 2018, we opened an e-liquid (E-Vapor) production facility at our manufacturing site in Gostkow, Poland. We then further boosted our in-house production in 2019 by bringing into service a new Ploom product plant at the same location. These new facilities enable us to keep up with the demand for e-liquids containing nicotine, tobacco capsules, and tobacco sticks in expanding markets across the world.

Responsible recycling and disposal schemes

We take our responsibility for the environment very seriously, providing consumers with advice and support to conveniently and safely recycle or dispose of our products.

Ploom return scheme in Japan

In 2019, we collected around 400 kg of used Ploom devices, capsules, and cartridges by introducing convenient collection boxes at around 300 shops selling Ploom in Tokyo.

This program was a significant extension of a 2017-2018 pilot scheme, in which we sent out collection boxes to more than 250,000 people. In 2020, this program was expanded to include the tobacco industry and we continue to be one of the participating companies.

The sustainability of our products at every stage of their life cycle is important to us. In addition to RRP, read more about some of our latest, other initiatives in the international tobacco business:

- Minimizing Winston packaging plastic waste in Germany
- #IGiveAButt campaign, for the responsible disposal of cigarette butts in the U.K.
- Nordic Spirit — Sustainably made nicotine pouches

▶ Read more on JT.com.

	Aspirational goal	Target	Progress
RRP	We will be a total tobacco company, offering consumers an even greater choice of products by focusing on quality, innovation, and reduced-risk potential.	We will lead in providing the widest range of consumer choice in the RRP category.	At the end of 2020, we offered a choice of 6 tobacco vapor offerings (T-Vapor) and/or 5 types of e-cigarettes (E-Vapor) in 27 countries.

▶ Read more about our targets on the JT Group's tobacco business sustainability strategy.

Building sustainable supply chains

Maintaining a well-managed supply chain is essential for the sustainability of our business. To ensure the highest levels of sustainability and integrity at every stage, we work in close cooperation with all of our suppliers. These include both those from (a) the leaf supply chain and (b) suppliers of "non-tobacco materials, other products and services."



Our leaf supply chain

We manage our leaf supply chain through a supply chain due diligence process that takes into account social, environmental, and economic impacts. Since 2019, we have committed to specific targets tackling greenhouse gas emissions, forestry, and Agricultural Labor Practices (ALP). These targets are explained later in this section.

▶ Read more about our Leaf Supply Chain Due Diligence.

Leaf suppliers

We source tobacco through two supply models which are either directly contracted growers or third-party leaf merchants. These two models each supply approximately 50% of the total volume.

In 2020, we worked with more than 76,000 directly contracted growers in Bangladesh, Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. Contracting leaf growers directly enables us to produce a customized crop, while improving growers' productivity, leaf quality and leaf integrity. The direct contracting model also allows us to maintain verifiable provenance and traceability of leaf supply.

At the same time, contracting from third parties is essential to maintain a flexibility of leaf supply. Through our ALP program, we work closely with these suppliers and support them in meeting our standards.

Agricultural Labor Practices (ALP)

Our ALP are based on the International Labour Organization's conventions and recommendations. The program consists of three pillars: tackling child labor, respecting worker rights, and ensuring workplace health and safety.

As part of our approach to continuous improvement, the ALP program allows us and our suppliers to identify challenges on farms and improve growers' labor and agricultural practices.

Our Agronomy Technicians carry out observations on the ground, and report through our online leaf portal. We regularly review and act on these findings. We require our third-party leaf merchants to agree to the same ALP standards before we enter into a contractual agreement, and we track ALP implementation reports yearly.

Addressing child labor

Following our robust approach to Supply Chain Due Diligence process (SCDD), we extended the assessments to farming communities. One of the key human rights issue we aim to address as a priority is child labor. Through our flagship program ARISE – Achieving Reduction of Child Labor in Support of Education – we have been committed to tackling child labor in our tobacco growing communities since 2011. The program is forging real sustainable change by placing children into formal education and implementing robust solutions to prevent child labor.

In 2020, we introduced a new governance model for ARISE, transferring ownership of the program to the representatives of subsidiary's local offices in countries where we grow our tobacco. These representatives are now responsible for managing local partnerships, assessing projects, and implementing activities at a local level.

We also set up a new advisory committee, consisting of relevant stakeholders in our international tobacco business, external partners, and other experts. The purpose of the committee is to ensure the smooth implementation and development of the program by identifying issues relating to child labor in the leaf supply chain and other operations.

These changes will allow us to maximize efficiency, strengthen our relationship with growers, and harmonize the program with other relevant community projects.

Moving forward, we will embed the ARISE program within the "Respond" element of our SCDD process: Identify, Prioritize, **Respond**, Measure, Communicate and Report. We will also integrate data requirements for child labor into our existing leaf monitoring system, Leaf Point.

▶ Read more about the ARISE program.



Working together

Our international tobacco business is one of seven global manufacturers on the Sustainable Tobacco Program (STP) Steering Committee. Since 2019, we have been working with third-party leaf merchants, external subject matter experts, and various organizations on STP development. One of the key themes of the STP is "Human and Labor Rights." We carried out pilot self-assessments on this subject in 2020, and the first on-site STP reviews are planned for 2021.

Supporting and communicating with growers in 2020

When COVID-19 struck, we quickly had to adapt our conventional practice of visiting growers at regular intervals to include alternatives, such as providing technical support via phone or video call, instead of face-to-face. Where appropriate, we did continue to visit our growers in person, following all of the relevant health and safety guidelines set by the World Health Organization (WHO) – for example by wearing masks, using hand sanitizer, and keeping a safe social distance. We also took additional safety measures, such as installing partitions and checking visitors' temperatures at our leaf buying stations in Japan, and strictly managing grower movement and attendance at all our buying stations.

In our international tobacco business, we launched a new online tool for processing grower contracts remotely, supported growers with selling their crop in a timely manner; and we helped to print and distribute COVID-19 educational materials in tobacco-growing communities.

Protecting our employees and their families, our tobacco growers and their communities will always be one of our top priorities. We will continue to make every effort to sensitize communities to COVID-19 preventive measures, working in partnership with local governments and other organizations.

Our non-tobacco materials, other products and services

We are just as committed to following social and environmental due diligence in our non-tobacco materials, other products, and services supply chain. All of our suppliers are required to comply with our Supplier Standards.

Supplier screening

Our Group-wide supplier screening process ensures that we apply enhanced due diligence. Prior to entering into a commercial relationship, our key suppliers go through a detailed qualification and selection process, including screening and onboarding. This process allows us to learn more about the supplier and understand any gaps versus our standards and requirements. In particular, it highlights any potential risks relating to compliance, human rights, environment, and health and safety.

If any risks are identified through this process, we offer support and collaboration on how to mitigate the risks and make necessary improvements. We follow progress on a yearly basis and, if there is no improvement after an agreed duration, we may consider terminating our relationship with the supplier.

In 2020, we revised the JT Group Supplier Standards into a global, Group-wide Supplier Standards, reflecting an increase in transactions with overseas suppliers. We have been embedding these standards into all requests for proposals and contracts, to ensure that all of our suppliers are aware of our requirements.

In our international tobacco business, we are currently working on enhancing the reporting and monitoring tool, in order to have a more robust system in place by 2021.

In our Japanese-domestic tobacco business, we also launched a new supplier database listing suppliers' D-U-N-S® Numbers* for efficiency purposes.

* "D-U-N-S® Number" is a unique nine-digit identifier for businesses. This number identifies a company as being unique from any other in the Dun & Bradstreet Data Cloud.

Supply chain aspirational goal and targets

	Aspirational goal	Targets	Progress
ALP	We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain.	We will implement our ALP program in all sourcing countries by 2025. **1.** 100% of our supplying entities to report on ALP **2.** 100% of tobacco leaf volumes to be covered by ALP	In 2020, 87% of our supplying entities reported against ALP. [58% of our directly contracted growers and 92%*1 of our leaf merchants were covered by ALP; leaf merchants data come from reporting entities only and excluding India and China.*2] 76% of our volumes were covered by ALP.
Supplier screening		We will screen all key suppliers against environmental, social, and governance criteria by 2023.	At the end of 2020, 64% of our key suppliers were screened against ESG criteria.*3

*1 The decrease from 98% in 2019 to 92% in 2020 is due to new suppliers reporting, who have not implemented ALP yet.
*2 Introducing ALP in China and India is challenging due to the way the market is structured in these countries. For instance, the third-party leaf merchants do not have direct contracts with growers e.g. in India flue-cured tobacco is sourced via auction floors. We are working with leaf merchants to establish a tailor-made approach on how to run a leaf supply chain due diligence.
*3 The decrease from 67% in 2019 is due to "key supplier" definition change, resulting in increased number of key suppliers, however total number of suppliers screened has increased.

Reducing our environmental impact in the tobacco supply chain

▶ Read more about our targets on "Greenhouse gas emissions," "Water and waste" and "Forestry" in "Environment and our operations."

▶ Read more about our programs and initiatives in our international tobacco business.

Regulatory environment and illegal trade

Regulatory environment and illegal trade is one of the four pillars of our tobacco business sustainability strategy and a key focus area for us. We believe in fair and balanced regulation, which gives adults the freedom to make informed choices, and we proactively engage in public policy debate. We also help governments to combat illegal trade, which poses numerous challenges for society and our business some of which have been exacerbated by the COVID-19 pandemic.



Optimizing the regulatory environment

We value and support the freedom for adults to make informed choices. We play our part by being transparent about our products, and ensuring that all consumers understand the associated risks when deciding whether to use our products or not. That's why we are transparent about our positions on smoking and health. It is also why, no matter what we do, we adhere to the five core principles that define our attitude to smoking. We also work in a highly regulated operating environment, and we monitor regulatory trends in order to anticipate future changes in regulation and prepare for the implementation of those changes well in advance. This is done in line with our tobacco principles, so that we go above and beyond our obligations.

▶ Read more about our views on specific regulatory topics on JTI.com.

In 2020, we engaged openly and transparently in public policy debate and made our views known to regulators, NGOs, and other relevant stakeholders in the countries where we operate. We responded on regulatory issues of concern to society and business, such as RRP (Reduced-Risk Products), the reduction of the impact of certain plastic products on the environment, and the ban on characterizing flavors. We also participated in public discussions around good governance, anti-illegal trade, better regulation, transparency, and sustainability.

Global Tobacco and Nicotine Forum 2020 (GTNF)

We took part in the virtual Global Tobacco and Nicotine Forum (GTNF), a key international conference where experts such as those from public health, academia, government, and members of the tobacco/nicotine industries gathered to discuss the future of tobacco and nicotine industry. Our representatives participated in the six sessions and talked about the issues of illegal trade, regulatory environment, sustainability of tobacco industry, as well as diversity and inclusion. We also set up a virtual exhibition booth that presented in more details the issue of illegal trade, its underlining causes and consequences to the economy and society at large.

	Aspirational goal	Target	Progress
Engagement	We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade.	We will always protect our ability to participate in public policy debate with the aim to achieve balanced regulation that meets societal concern and supports business growth.	During 2020, we engaged openly and transparently in public policy debate and made our views known to regulators, NGOs and other relevant stakeholders in the countries where we operate.

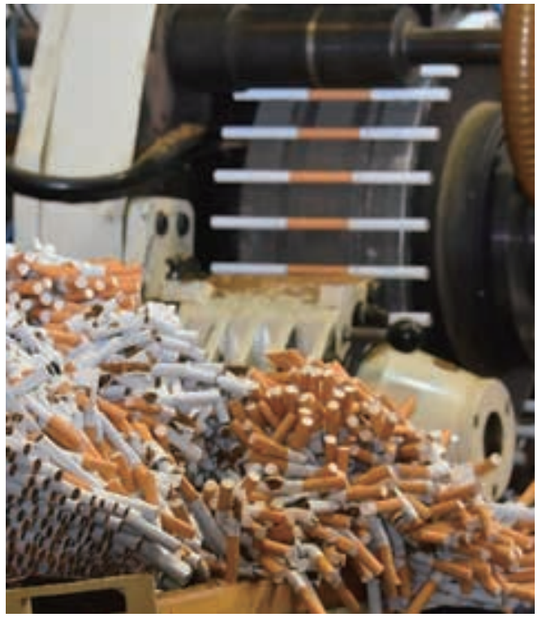
▶ Read more about our views on regulation and the latest regulatory developments in the industry at JT.com.

Tackling illegal trade

Illegal trade fuels modern slavery, organized crime, and terror groups. It causes harm to society and consumers, as uncontrolled products circumvent regulations and quality controls, and undermines legitimate tobacco businesses. Tackling illegal trade is a top priority for us, and our Anti-Illicit Trade team is recognized as the industry leader in this area.

This global team supports our long-term, sustainable future by protecting our business and reputation — as well as our consumers and society — from criminal elements.

Working in partnership with our markets and law enforcement, the Anti-Illicit Trade team secures our supply chain and assists law enforcement in removing illegal tobacco from the marketplace. It maintains a robust dialogue with governments and law enforcement agencies on the threat of illegal tobacco through public-private partnerships and provides counterfeit awareness programs for law enforcement, globally.



Progress in 2020

In 2020, our Anti-Illicit Trade team provided 1,117 intelligence reports to law enforcement agencies, leading to the seizure of more than 3.22 billion illegal cigarettes. Based on our information, law enforcement raided more than 60 counterfeit tobacco factories and storage locations.

As a direct result of our work to tackle illegal trade, notified seizures of counterfeit products in the EU have remained consistently high over the past five years (over 97% of products seized are counterfeit). During the same period, notified seizures of our own genuine products in the EU have decreased by 88%, thanks to our markets' efforts in securing our supply chain, with the support of the Anti-Illicit Trade team. Both the EU and the U.K.'s HM Revenue and Customs recognized us as an industry leader in the fight against illegal trade.

A responsible approach

In tackling illegal trade, the JT Group complies with all laws and regulations while fulfilling its obligations under the European Union Cooperation Agreement, signed in 2007.

This means supplying tobacco products only in volumes that correspond with the legitimate demand of the intended market of retail sale. Our international tobacco business has developed a global methodology to assist market authorities in taking a consistent and accurate approach to annual legitimate market demand (LMD) calculations. Our markets perform these in conjunction with their annual plan, creating a proactive supply chain control mechanism to make sure that planned sales volumes are in line with LMD, and ensuring our compliance.

Compliance also means the implementation and operation of our Track and Trace program, which helps us to track the movements of products along the supply chain, supporting our supply chain analysis. The program has been an important element of our compliance policy for more than a decade, firstly as a self-regulation measure and later to meet legal requirements in a growing number of jurisdictions.

As with all other regulations, we make every effort to comply with these obligations, while limiting any negative impact on our business operations. We also firmly believe that the fight against illegal trade can only be effective if measures such as Track and Trace are implemented along with proper enforcement by authorities and sanctions for those involved in illegal trade. Governments must also implement further measures to address products which will, by nature, escape those obligations, such as counterfeits or illicit whites.*

* "Illicit whites" refer to tobacco products manufactured legitimately but without any product flow control measures afterwards, and smuggled and sold in another market.

The perfect storm

The current global pandemic is causing turmoil across the world. Against this backdrop of global social upheaval, organized criminals are planning ways to exploit public anxiety and profit from the trade in illicit goods and other products, including personal protection equipment. From experience, we know that any decline in affordability fuels a trade in illicit or counterfeit products, particularly where this runs parallel to tax increases designed to boost public finances.

Nowhere is this truer than when it comes to the illegal tobacco trade, which is underpinned by criminals who want to make money and consumers seeking to save money. The current crisis creates the conditions for a "perfect storm" that will find some consumers inadvertently, and others willingly, consuming greater amounts of illegal tobacco product from organized criminal groups.

Regulatory changes may further exacerbate the situation. For example, during the early stages of the pandemic, a number of governments chose to outlaw the sale of alcohol and tobacco products. In South Africa, this prohibition drove huge growth in illegal tobacco networks, which could cost hundreds of millions of U.S. dollars in lost government revenues.

Read more about our approach to tackling illegal trade, the impact of COVID-19, and global trends at JTI.com.



	Aspirational goal	Target	Progress
Illegal trade	We will ensure the Company is included in policymaking leading to fair and balanced regulation and enhance our partnerships with governments to combat illegal trade.	We will engage in dialogue with law enforcement agencies, with the goal to exchange intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.	In 2020, our Anti-Illicit Trade team provided 1,117 intelligence reports to law enforcement agencies, and advised 859 law enforcement officers on counterfeit recognition.

Other key wins in 2020

- Over 3.22 billion illegal cigarettes seized thanks to intelligence reports provided by our team to law enforcement.
- There was a 62% decrease in seizures of our genuine products resulting from our efforts to ensure the security of our supply chain.

Pharmaceutical business

Our pharmaceutical business aims to create innovative, original drugs to support patients in the shortest time possible. We are committed to the research and development of world-class, innovative drugs.

In view of this mission, in 2019, we selected three focus areas and set five specific targets for these focus areas. This is the first time we are reporting on our progress towards achieving the targets. Read more here.



Products and services

Aspirational goal
We will create innovative, original drugs to support patients in the shortest time possible.

As this business has a direct impact on human health and life, we not only strictly comply with all laws, regulations, and industry standards, but are also guided by a strong sense of ethics and responsibility. This is particularly the case in areas such as clinical trials and promoting drugs, as well as animal experiments and managing chemical substances. In 2020, we spent 25.2 billion yen on our research and development activities.

People

Aspirational goal
We will strive to nurture talent development which enables us to create first-in-class (FIC) drugs.

We strictly adhere to specific processes to ensure that our pharmaceutical business activities are always carried out in a responsible and appropriate way. We provide e-learning to help employees understand the importance of drug safety and quality assurance. All of the employees in our pharmaceutical business complete a mandatory e-learning course every year. We also have an internal educational activity to foster employees' ethical awareness and sense of responsibility towards saving patients.

Product safety and responsibility

Aspirational goal
We will strictly comply with all relevant laws, regulations, and industry standards in order to deliver safe drugs to patients.

We have developed our own guidelines on how to conduct annual inspections to ensure that our production methods fully comply with government recommendations. We began implementing these inspections in selected factories in 2017 and no issues were identified. Since 2018, we have been steadily expanding the scope and now it covers 100% of our contracted factories. We will continue to operate these guidelines.

We also have our own standard on the ethical promotion of prescription drugs, based on the guidelines on sales information provision activities by the Ministry of Health, Labour and Welfare. Medical Representatives of our subsidiary company Torii Pharmaceutical Co., Ltd. provide and gather information on pharmaceutical drugs to/from medical professionals appropriately, and regularly participate in training programs to ensure adherence to these guidelines. Through internal communication, we provide relevant and detailed information to our Medical Representatives to keep them up to date with the latest guidelines.

▶ Read more on JT.com.

Processed food business

In the processed food business, we seek to provide safe and delicious food for consumers, in the hope that they will choose our products for their loved ones. We will continue to aim to be highly evaluated by our customers through the world of food, which is the source of our lives.

In view of this mission, in 2019, we selected three focus areas and set eight specific targets for these focus areas. This is the first time we are reporting on our progress towards achieving the targets. Read more here.



Our business operations and sustainability

To deliver safe, high-quality processed food for consumers, we have established four priorities to ensure that food safety is deeply embedded within our operations. This helps us to ensure that our business makes a positive impact on society and the environment, today and in the future, by delivering safe and sustainable food products.

Food safety standards

We make sure that all of our factories* are certified to the global food safety standard FSSC 22000. FSSC 22000 is recognized by the Global Food Safety Initiative (GFSI), the food industry's global body for promoting food safety management. All the factories contracted to manufacture frozen food products on our behalf have been certified to the food safety standard ISO 22000 or FSSC 22000, as an assurance of food safety.

We also work with multiple independent advisors, who have helped to develop our approach to food safety since 2008. External expertise enables us to provide our employees with a greater awareness of new developments and important topics in the field of food safety and/or quality control. In order to ensure food safety, we have introduced a system that records information about our products at every stage of the process, from the raw materials and production to processing, distribution, and sales. This means we can retrace our product to any point, if necessary.

* One of our factories, which started its operations in 2020, is on track to receive this certification. It will be in 2021.

Food defense practices

Food defense is about protecting our manufacturing processes and products from intentional contamination. We apply robust food defense guidelines across the supply chain, both in our own factories and our contracted factories, which are referred to during our annual audits. We are continuously strengthening our food defense mechanisms. We are working on further utilization of factory cameras and enhancement of our drug management system both in our own factories and our contracted factories.

Enhancing food quality

Food quality control is an essential element of our daily operations. Along with quality improvement efforts on factory floors, we ensure that all of our employees receive training through customized e-learning materials. We also listen to our consumers' suggestions for improving product quality, and swiftly share these with our factories and operations.

Further food communication

We are always willing to provide details about our food products. We respond to consumers' requests for information and disclose the precise factory where food products were made, or the country of origin of the main ingredients. We understand the importance of listening to consumers, and have introduced a new online tool to share consumer feedback with all of our employees. We will continue to embed and reinforce this consumer-centric approach throughout our operations.

▶ Read more on JT.com.

Interview with the CSO



Kazuhito Yamashita
Director and Senior Vice President
Chief Sustainability Officer,
Compliance and General Affairs

Ari Kubota
JT Sustainability
Management Division
Interviewer

(Kubota) Looking back at 2020, how would you characterize the year?

(Yamashita) With the outbreak of COVID-19, 2020 was a year like no other. To prevent the spread of the pandemic, we made the safety of our employees a top priority by implementing thorough health and safety measures to ensure business continuity. While the effect of the pandemic has proven to be limited for the JT Group, severe damages were inflicted on society. We have provided support to our local communities around the world in countries where we operate. For example, in Japan, we extended emergency aid to local authorities and local groups in need. We then organized support to sectors affected by the prolonged effect of the pandemic such as restaurants and eateries as well as people in need, while also extending our support to essential workers.

(Kubota) Please discuss your role as CSO and the evolution of our organization in pursuing sustainability.

(Yamashita) It is essential to contribute to the sustainable development of our society through our business operations. Our business is underpinned by the 4S model, our management principle. As a member of the Board and CSO of the company, it is my role to look to the future and to drive sustainability management across our Group.

In 2015, we identified material issues relevant to the JT Group and to our stakeholders, to achieve sustainable growth. The JT Corporate Governance Policy was established in 2016. Then, to build on our past sustainability initiatives and to evolve further, in 2019 we reshaped our organizational structure and established our sustainability management division. In the same year, a Senior Vice President responsible for sustainability was appointed, and we set out our sustainability strategy for the whole Group.

During 2020, we regularly organized online forums, providing opportunities for the heads of our business divisions to discuss sustainability initiatives within the Group. With the start of this forum, we set out an organizational framework to discuss Group-wide sustainability issues and extended support to our business functions, so that they can pursue their respective sustainability strategies. We are also set to pursue risk management, with enterprise risk management playing a pivotal part.



(Kubota) What are the characteristics of the Group's sustainability strategy?

(Yamashita) Firstly, there are universal sustainability issues that are important to all companies. Good governance is one. Improving social impact or environmental impact are other good examples of universally important sustainability issues.

We then have material issues that are unique to our tobacco business. For example, tobacco leaf is the vital raw material for our Group, and maintaining a sustainable supply chain is paramount to us. We also operate in markets where human rights may be at risk. Having initiatives in place to ensure that human rights are respected is another key issue for our Group. Likewise, tackling illegal trade or dealing with tobacco regulation are other important issues for our tobacco business, the core business of the JT Group.

The effect of COVID-19 on our tobacco business is at present somewhat limited. By taking strict safety precautions throughout our value chain, we were able to deliver our products to end consumers. I am very grateful that we were able to do so during this difficult time and that our consumers appreciated the value of our products. At the same time, I realize that tobacco is a controversial product. Our mission is to offer consumers an even wider choice by focusing on quality, innovation, and reduced-risk potential. We will continue with an even greater focus on developing RRP (Reduced-Risk Products).

It goes without saying that investing in people is critical to sustaining all these initiatives. Our pharmaceutical business and processed food business have made "investing in people" a key focus area. While the Group-wide sustainability issues are the same across our Group, each business has chosen a specific focus area, which reflects the specific characteristics of the industry in which they operate.

(Kubota) Please describe the progress made in 2020 and the challenges ahead.

(Yamashita) In our tobacco business, this will be the second year that we will report our progress on the sustainability KPIs. For our pharmaceutical and processed food business, this will be the first time. I am pleased to announce our new Group-wide target for diversity and inclusion, specifically representation of women in leadership. Our target is to reach 25% by 2030 and we find it desirable that this should be more than 40% over time. As part of the JT Group Environment Plan 2030, targets have been made for the appropriate use and disposal of materials used in our products and packaging. Our tobacco business has also set its target in this area. Moreover, I am very pleased to announce that we officially endorsed the TCFD recommendations, representing significant progress for this year.

In 2020, we were included in the CDP's "Climate A List" and "Water A List" for the second consecutive year. Our Group has also been selected as a member of DJSI Asia Pacific for the seventh consecutive year, retaining the second position in the tobacco sector as we did last year. I am delighted that our initiatives are recognized by external rating agencies.

For 2021, we will be looking at updating the JT Group's material issues, bearing in mind the effect of COVID-19 and the longer-term changes that the pandemic will impose on our society. We are in uncertain times with the prolonged effect of the pandemic; nevertheless, we will strive to embed sustainability into the root of our business, involve all members of the Group and work towards a sustainable future for our society and for our business.



(Kubota) What does "inclusiveness" mean to the JT Group?

(Yamashita) Inclusiveness is a concept advocated by the SDGs. It is about leaving no one behind and envisioning an inclusive, better future. It is the key element in the field of community investment and a concept that is pivotal as we strive to improve our social impact. Inclusiveness goes beyond the benefits of community investment – it is also about proactively initiating projects.

A good example is a community clean-up campaign that we have run in Japan since 2004. The project is called "Pick up the litter and you will love your city." We wanted to raise awareness for problems associated with public littering through a rubbish collecting initiative. It originally started as a cigarette butt cleaning exercise undertaken by our own employees and later evolved into a community-wide clean-up campaign. At present, local authorities, schools, volunteers, and committee members of local events and associations take part in the exercise. The campaign is run in various cities and places throughout Japan, even where our Group is not directly involved in the operation.

It is important that as we drive forward these new initiatives, we continue to cultivate, nurture and facilitate awareness around inclusiveness within communities, leaving no one behind. If we can unite everyone around the desire for these initiatives, we can be a strong force. In the long run, we can build a legacy. Eventually, it becomes a part of the culture embedded into our society. I hope we can promote and facilitate more examples of active inclusiveness like these.

GOVERNANCE

Enhancement of corporate governance is a high management priority for the JT Group as it works continuously to make improvements.

This chapter provides an overview and outlines our initiatives to enhance the Group's governance, which supports all of our business activities, setting out a framework for transparent, fair, timely and bold decision-making to pursue the 4S model. Read also the interview with an Outside Director to learn more about the JT Group's governance from an objective standpoint.

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Interview with the Outside Director

Corporate governance is the foundation of the JT Group's corporate management. Based on that belief, to enhance supervisory function and raise management transparency, JT employs the outside-director system and appoints as directors people who can help increase its corporate value based on their affiliation with its management principle. Yukiko Nagashima, whom we feature here, is one such person, working as a JT outside director since 2019. She has a plethora of experiences and extensive knowledge in business startups and corporate management as well as corporate audits. We asked her to discuss the salient features of JT's corporate governance, and its future challenges.



> As an outside director, I support the continuous evolution of the JT Group amid disruptions in our daily lives.

Yukiko Nagashima
Outside Director

Operation and effectiveness of the Board of Directors

2020 was your second year as an outside director. What impressions do you have about the JT Board of Directors (hereinafter Board), discussions in its meetings, and how the Board operates?

I think the Board fully discusses agenda items that are thoughtfully selected. When going through each item on the agenda, we all consider the promises we've made to our stakeholders, as stated in our management principle, mid-term and current plans, and the like. The IR division regularly shares the latest market evaluations of the Company as well as the status of competitors and markets. These reports prepare us for meetings with clear understanding of the latest market evaluations and external environment. We make the most of these background information to deepen our discussions. I believe that such practices increase the effectiveness of the Board. Based on the 4S model, we work to continuously evolve in order to be able to adapt to change.

What is your opinion on the assessment of the JT Board's effectiveness?

The assessment of Board effectiveness has been improving in terms of taking in outside opinions and objectivity. I have participated in the assessment for the past two years. This time, the assessment was conducted about a month earlier than last time. I think this came out of efforts to quickly connect the results with our Plan/Do/See initiative, before moving on to the next necessary actions.

In addition to the improvement of speeding up assessment for greater effectiveness, the questions themselves changed. Assessing Board effectiveness is not just a formality, and the questionnaire has become more specific leading to real improvement in the quality of Board meetings. In addition to numerical assessment, the reasons for each assessment must be written in detail, providing the Board with insight for specific solutions to a given issue.

Coping with the pandemic

A major change we experienced in 2020 was the spread of COVID-19 and its impacts. What sort of discussions did you pursue in the Board meetings to cope with this change?

The overall impact of COVID-19 and related operational challenges were reported to the Board at an early stage of the pandemic, and their contents became more specific over time. I understand that we've become more precise about – looking from the employee and consumer standpoints – whether we are actually doing what we are supposed to be doing. Beyond dealing with the financial effects on operations, from the early stages, we worked to secure the safety of employees and established a system for precise supplier surveys concerning impact and support. We also looked into the best ways to deliver our products to consumers despite the adverse operating environment daily. I think what we have done were very convincing for our shareholders as well.

To secure the functioning of the Board, the meetings have been held mainly online since April 2020. Did this change in operation lead to any other changes?

We've had no problems at all with deliberating agenda items online. That said, in online meetings we've lost opportunities for exchanging information not directly related to the agenda during breaks and lunches, as we had when meeting in person. Those were precious opportunities for outside people like me to better understand the reality of JT businesses and management actions, so I thought it might be important in the remote-work environment to create opportunities for us to obtain peripheral information and essential understanding of the issues, in other words, opportunities for supplementary communication.

For example, if there were opportunities for free dialogue, separate from the agenda of the Board meetings, to talk with executive officers or get input from them on mid- and long-term issues, that would help outside directors better understand JT and increase our contribution to even better Board performance.



Future of the Board of Directors

What challenges do you think will the Board face in the future?

I would not necessarily call it a challenge, but I believe that it is our ability to respond to evolution that will become even more important in the future. I think the Board must enhance its functions of support for and over sight of those initiatives made by the executive officers. I used the term “evolution” rather than “change,” because I want to give this a positive spin and use it as an opportunity to further move up swiftly from our current position.

As is evident in the progress of digital transformation, DX for short, during this pandemic, there has been what we might call disruptions in our daily lives or major short-span shifting of what we have taken for granted, something I have actually witnessed. CLUB JT* is an example of DX. The state of management that decides how JT can best offer which value in which way to satisfy dynamically changing consumer preferences is important, as is the state of the organization to carry forward those initiatives to achieve our goals. In adapting to evolution, I think the true key to winning competition is how we define our challenges for that. Personally, I want to further deepen my understanding of the competitive environment and, from the oversight side, positively stimulate the executive side, while enhancing the supervisory role of the Board.

* CLUB JT is an online platform for high-quality two-way communication between JT and consumers. Refer to Our response to COVID-19 (P. 10) for the JT Group’s DX initiative, including CLUB JT.

Diversity of the Board of Directors

What do you think of the Board in terms of diversity?

JT is a corporation that sells mainly tobacco products which are not necessities for everybody worldwide, so I think it’s good to have directors who deeply understand the cultural backgrounds and differences of each market in advising the executive officers. I think the JT motto, “Caring for your moments,” encourages the acceptance of values that may differ from person to person. I think each of us needs a base that helps us express our individual uniqueness, in other words that allows us to be not the same as everyone else.

Masato Kitera, who will soon become an outside director, has many years of experience abroad, and I look forward to him bringing those differences to the Board.

How are you applying your strengths to the Board?

I have about seven years of experience managing a listed company, which was subject to audit, in the Japanese market. In corporate management, we sometimes decide to accept conflicting elements depending on the specific situation at a given time. In terms of this kind of management responsiveness, I can say I have developed a rule of thumb. At Recruit Co., I developed a knack for evolution as we went through situations where only change would assure survival or, more simply, the flexibility to change. In addition I’ve been a member of Recruit’s Audit & Supervisory Board, and as such I follow rules of thumb for presenting checkpoints to the Board. Through my experience of disrupting a successful model to create something new, I learned that after every peak comes a decline. I state my opinions at the Board meetings to consciously encourage a kind of sustainable management, for instance, preparing a new product on a different line rather than the same one.

Succession Planning

What type of people do you think JT needs for management in the future?

To ensure sustainable growth and to grow corporate value in an uncertain operating environment, the ability to globally manage the organization and lead its people is a must for any corporate executive. Given that, the Advisory Panel on Nomination and Compensation is discussing the future need for a remuneration plan designed to build a management team that makes the Company a winner in global competition. JT introduced a new executive remuneration plan in 2020, but to make it truly effective we have to discuss the pay levels needed to attract talented people and ways to appoint foreign nationals as directors. In times of complex, abrupt change, an executive succession plan is increasingly important for a corporation.

Message to the JT Group

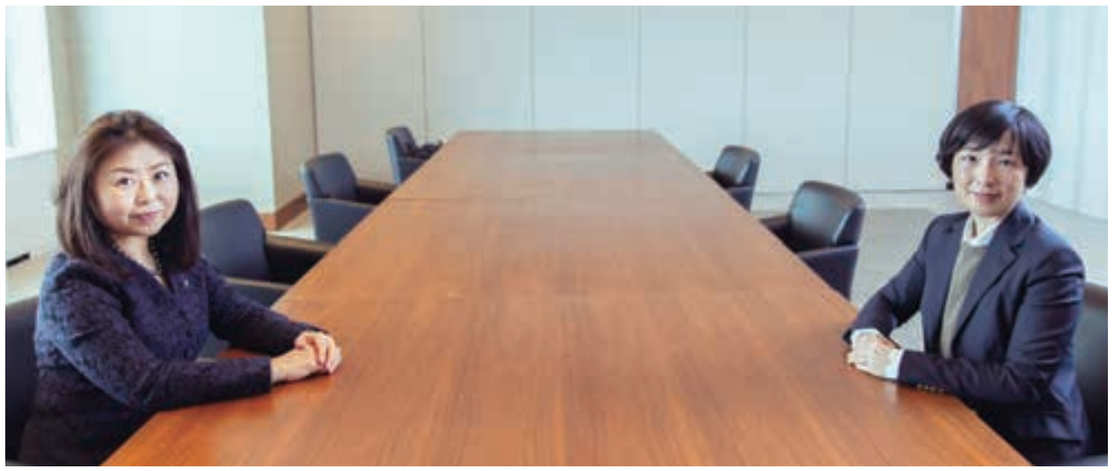
From your standpoint as an outsider, how can the JT Group change to be a better company?

I think the most important thing is to nurture a culture that is free of the fear of failure. Even failure can be an asset if it results from what truly resourceful employees, those who love and are committed to the business, have done as their best.

For the consumers who are at the heart of the 4S model, bold, quick change when necessary is important, too. I think it will be good if I can encourage the Company to change for consumers at lightning speed, effortlessly.



Note: This interview was conducted in the middle of January 2021. Yukiko Nagashima, the Outside Director and the interviewer, Keiko Nishimura, JT Media & Investor Relations



Corporate governance

Corporate governance structure

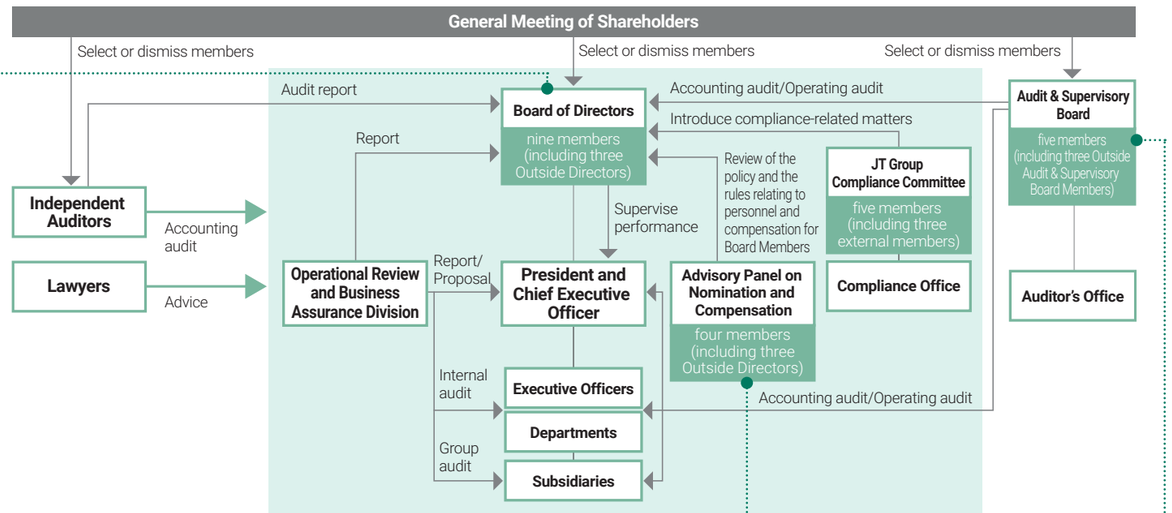
Basic policy

The JT Group believes that corporate governance is a framework for transparent, fair, timely and decisive decision-making in pursuit of the 4S model, JT's management principle. Pursuing the 4S model means striving to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these key stakeholder groups, and exceeding their expectations wherever we can.

We have established the JT Corporate Governance Policy in recognition that improvement in corporate governance is conducive to sustainable profit growth and corporate value over the mid to long term, benefits our stakeholders and, in turn, helps to move the economy and society forward. We will endeavor to continuously enhance our corporate governance as a key management priority.

▶ Please visit our website for more on the JT Corporate Governance Policy.

Our corporate governance system (As of March 24, 2021)



met 13 times with 100% attendance rate in 2020

Board of Directors

Our Board of Directors is responsible for setting JT Group management strategies, making decisions on important matters and overseeing all operations. To effectively fulfill its roles and responsibilities, the Board is constituted as follows.

- The Board may have as many members as necessary and appropriate, up to a maximum of 15. It comprises diverse professionals with a high sense of ethics and integrity as well as knowledge, experience and skills.
- The Board includes at least two independent outside directors with qualifications conductive to the Company's sustainable profit growth and corporate value.

The Board meets once a month as a general rule, and meets promptly whenever necessary. The Board makes decisions on matters requiring Board approval under the Companies Act, including important business plans, material asset divestments and acquisitions, material borrowings, large contracts and other important matters. To exercise oversight of operational execution, the Board requires its members to report at least once a quarter on the state of operational execution.

met 4 times with 100% attendance rate in 2020

Advisory Panel on Nomination and Compensation

The Advisory Panel on Nomination and Compensation was established on March 20, 2019 as a voluntary advisory arm of the Board of Directors. It merges the former Meeting for Talent Development and Compensation Advisory Panel's respective functions into a single entity. Its purpose is to render the Board's decision-making more objective and transparent and upgrade the Board's oversight functions. Its specific roles include supporting the growth of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of executive directors; and reporting the results of the deliberation on remuneration of directors and executive officers. Chaired by JT's non-executive chairperson, the Panel has four members, three of whom are independent outside directors, and meets at least once a year. In 2020, the Panel met to review proposed resolutions on executive remuneration to be voted on at the Ordinary General Meeting of Shareholders (hereinafter the Annual General Meeting), to review remuneration levels, to review executive candidates and to deliberate on candidates for Board of Directors nominations.

met 13 times with 100% attendance rate in 2020

Audit & Supervisory Board

The Audit & Supervisory Board conducts operational and accounting audits as an independent body serving the interests of shareholders. It has five members, three of whom are outsiders, who all have experience in such fields of corporate management, law, finance, accounting. To fulfill their duties, Audit & Supervisory Board members have the authority to compel reports from directors, executive officers and employees; seek injunctive relief against illegal acts of directors; represent the Company in any litigation between the Company and a director; and appoint and dismiss an independent auditor. The Audit & Supervisory Board reports the results of its operational oversight and accounting audits to the Annual General Meetings in the form of audit reports. Any director or executive officer who learns of any fact that is or potentially could be materially detrimental to the Company must report the fact and any other important matters regarding the Company's operations to the Audit & Supervisory Board. Audit & Supervisory Board members may attend Board of Directors meetings and other important meetings. Directors and others respond promptly and appropriately to Audit & Supervisory Board members' requests for important documents, investigations and reports. Internal auditing and compliance staff share information and otherwise cooperate with Audit & Supervisory Board members.

Rationale behind current governance regime

We are strengthening objective and impartial management oversight functions by positioning an independent and fair Audit & Supervisory Board that appropriately oversees the job performance of executive officers and members of the Board (hereinafter directors).

We have built an effective corporate governance regime under the Audit & Supervisory Board's oversight. It includes the JT Group Compliance Committee and an Advisory Panel on Nomination and Compensation, both established voluntarily. The former has outside experts serving in key roles; the latter is predominantly comprised of independent outside directors. We have also streamlined our Board of Directors and expedited operational execution by delegating authority to executive officers.

We continuously seek to improve corporate governance and increase management transparency and objectivity through, for instance, appointment of an additional outside director and outside Audit & Supervisory Board member in 2019. Through such measures, we settled upon our current corporate governance regime as we believe it functions effectively with respect to operational execution and oversight.

Initiatives to upgrade corporate governance

Measures to strengthen advisory function	Measures to optimize decision-making process and enhance oversight function	Measures to promote efficiency of operational execution
Set up the Compliance Committee in 2000	Streamlined the Board of Directors in 2000	Delegated a part of authority to executive officers in 2001
Set up the Advisory Committee*1 in 2001	Reinforced authority delegation to executive officers in 2000, 2008, 2011	
Set up the Compensation Advisory Panel*2 in 2006	Implemented new positions for outside directors in 2012	
Set up the Advisory Panel on Nomination and Compensation in 2019		

*1 Disbanded on June 30, 2014
*2 Consolidated into Advisory Panel on Nomination and Compensation on March 20, 2019

Evaluation of Board of Directors' effectiveness

We annually evaluate our Board of Directors' effectiveness through a multi-step process. First, all directors and Audit & Supervisory Board members complete a self-assessment questionnaire with regards to factors including the Board's operations, oversight function and dialogues with shareholders and investors. Second, the Board's administrative staff interview the directors and Audit & Supervisory Board members individually to delve deeper into their questionnaire responses, and compile the evaluation results. Lastly, the Board reviews and analyzes the self-assessment results in the aim of further improving its effectiveness.

We take advice from external consultants for drafting the questionnaire and analyzing the results in order to ensure objectivity and further improve the evaluation process.

The evaluation items are as follows.

Board's operations	Composition (ratio between inside and outside members; diversity), Performance (frequency; stringency of agendas; pre-meeting briefing), Support & Coordination (coordination among directors, Audit & Supervisory Board members and internal auditing department; utilization of committees; information-sharing outside the Board), Discussion (fair and swift decision-making in line with our management principle; unrestricted discussion), etc.
Oversight function	Reporting methods on business operations, Risk management system, Increase of the awareness of compliance, Process of determining the executives' remuneration, Succession planning, etc.
Dialogues with shareholders and investors	Sharing opinions from shareholders and investors, Optimization of dialogue methods, etc.

The Board effectiveness evaluation for 2019 yielded generally positive results across all evaluation items. It confirmed that the Board is functioning not only effectively but increasingly so. On the other hand, the evaluation identified areas where further improvement is warranted, including the Board's operation for further increase in effectiveness and information-sharing to improve the quality of Board decision-making. In addition to these issues, we have incorporated the influence of the COVID-19 pandemic on our business and worked on making the following improvements throughout 2020.

- Increased effectiveness and efficiency regarding the operations of the Board in and thereby its overall effectiveness of the Board
  - Held detailed pre-meeting briefings on material matters and enhanced deliberations and discussions.
  - Utilized online meetings and digitalized discussion materials and meeting minutes.
- Carried out closer information-sharing for better quality decision-making by the Board.
  - Shared enriched information on the following matters:
    - Updates on material measures concerning mid- to long-term strategies
    - Business conditions in important countries and regions
    - Updates on dialogues with shareholders and investors
    - Sustainability strategies of the JT Group and each business sector and their progresses, results of external evaluations, etc.
    - Impact of COVID-19 on our employees and each business, our countermeasures and updates

The 2020 Board effectiveness evaluation results similarly provided generally positive feedback and exhibited improvements in the categories mentioned above – effectiveness and efficiency of the Board as well as closer information-sharing. In 2021, we will continue to pursue improvements required for the issues listed below, in order to constantly enhance the Board's effectiveness.

Key issues	Our action plans going forward
Quantitative and qualitative maintenance and increase in communication among directors (considering less face-to-face opportunities due to the pandemic)	Further discuss, exchange opinions, and share information on updates on material measures concerning mid- to long-term strategies; updates on each stakeholder in pursuit of the 4S model; and corporate governance
Further in-depth discussions on corporate governance	

Succession planning

We place priority on fostering successive generations of executives who will manage our future operations, expanding our pool of executive candidates and improving its quality.

To develop a steady stream of highly skilled, highly qualified leaders capable of excelling in the global arena, we aim to upgrade our executive development program, succession plan and succession planning process with input from both external consultants and the independent outside directors on our Advisory Panel on Nomination and Compensation. Senior management, having our CEO at the core, are deeply involved in selecting executive candidates and supporting their growth.

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

As one example, our JT-Next Leaders Program, launched in 2013, aims to continuously cultivate young executives who will spearhead the JT Group globally. It is open to employees in their 30s or younger, including new recruits not yet officially onboarded. Applicants are screened objectively based on the integrated assessment with internal/external opinions, such as human assessment, 360-degree survey and interviews with executive officers. We preferentially support the successful applicants' personal growth on a Group-wide basis over multiple years. Through such programs, we are expanding our talent pool from the bottom up age-wise as we continue to pursue reinforcement of our human resources.

Our policy pertaining to listed subsidiary's governance

We have a publicly listed subsidiary, namely Torii Pharmaceutical Co., Ltd. (hereinafter Torii), in light of the management benefits of owning a subsidiary, including capital market discipline. Another motivation is for Torii to acquire increased competitive advantage in its business through factors, such as credibility building and recruitment of excellent human resources, both of which are important in the pharmaceutical business.

Together with Torii, we have built an integrated value chain to collaborate efficiently with each other. Specifically, we conduct R&D while Torii handles manufacturing, sales and promotional activities. From a Group-wide perspective, we continue to optimize our pharmaceutical business model and deepen collaboration between JT and Torii by, for instance, having consolidated all R&D and clinical development functions into JT.

In regard to owning a listed subsidiary, we believe it is an indispensable prerequisite for the subsidiary to maintain independence in terms of management and to duly protect its minority shareholders' interests in order for, not only the subsidiary, but also for the Group to grow in value. Therefore, we are striving to build an appropriate governance regime for Torii as a listed subsidiary.

We have instituted the Group's Responsibility and Authority Regulations as an internal decision-making regulations. Torii has opted to adopt these regulations, thereby gaining autonomy in terms of decision-making authority. Such autonomy ensures its independence as a listed subsidiary. Additionally, Torii is upgrading its governance regime's effectiveness by transiting to a majority-independent Board of Directors, which was approved at its Annual General Meeting of Shareholders on March 26, 2020.

Our policy pertaining to strategic shareholdings

We manage our strategic shareholdings appropriately. Our ownership policies and voting standards for strategic holdings of listed equities are as follows.

- We own equities as strategic shareholdings only when we determined it is beneficial to our sustainable profit growth and to increase corporate value in the mid to long term.
- Our Board of Directors examines all shareholdings each year to determine whether they are appropriate in terms of their objectives, as well as whether risks and benefits are commensurate with the capital cost.
- We appropriately sell equities that are no longer considered beneficial to hold as a result of this examination.
- We exercise our voting rights upon comprehensively determining the purpose of possession and potential detriments to the stock value of the subject company.

Executive remuneration

Executive remuneration policy

In order to achieve sustainable profit growth and increase of company value over the mid to long term by pursuing the 4S model, our management principle, the Advisory Panel on Nomination and Compensation reviews and provides advice on the policy, framework and calculation method for remuneration of our directors and executive officers in response to inquiries of the Board. The Panel also monitors whether our executive remuneration level is reasonable.
Based on the recommendation of the Advisory Panel on Nomination and Compensation, the key policy for our executive remuneration is as follows:

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

Process for determining executive remuneration

The amount of remuneration for our directors is benchmarked based on third parties' surveys of remuneration of directors, taking into account the remuneration levels of major domestic manufacturers that are expanding overseas with the similar size and profits. Specifically, after benchmarking the base salary level of the directors of peer companies and the percentage of variable remuneration for annual bonuses and mid- to long-term incentives, the amount of remuneration for each director is decided by a resolution of the Board of Directors, based on the deliberations of the Advisory Panel on Nomination and Compensation and within the maximum remuneration approved at the Annual General Meeting. The remuneration of Audit & Supervisory Board Members is also benchmarked in the same way, and is determined by deliberation among the Audit & Supervisory Board Members within the maximum remuneration approved at the Annual General Meeting.

Composition of executive remuneration

Remuneration for the directors also serving as executive officers

Remuneration for the directors also serving as executive officers (hereinafter eligible directors) comprises "base salary," "executive bonus," "restricted stock remuneration plan" and "performance share unit plan" as they are responsible for the achievement of assigned annual targets through their day-to-day management. On a 100% grant basis, the composition of executive bonus and performance share unit remuneration will be as per the following illustration.

	Base salary	Short-term inventive	Mid- to long-term incentive	
Ratio*1	Base salary Approx. 33~42%	Executive bonus Approx. 31~35%	Restricted stock remuneration*2	Performance share unit (PSU)*2
			Approx. 25~33%	
Payment method	Cash		Shares	Shares & cash*3

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

Remuneration for the directors who do not serve as executive officers (excluding outside directors)

Remuneration for the directors who do not serve as executive officers is composed of "base salary" alone and excludes performance-linked remuneration, as they are responsible for monitoring the execution of mid- to long-term growth strategy in addition to supervision of business and corporate activities.

Remuneration for the outside directors

Remuneration for the outside directors is composed of "base salary" alone and does not include performance-linked compensation to ensure their independence.

Remuneration for the Audit & Supervisory Board members

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

Components of executive remuneration

Base salary

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

Executive bonus

Executive bonuses for eligible directors will be paid as monetary remuneration reflecting the performance of the fiscal year. Adjusted operating profit at constant FX and profit for the year will be the key performance indicators (KPI), respectively weighted at 75% and 25% in calculating the amounts of executive bonuses. Both of the KPIs form the foundation of the sustainable profit growth and shared value with the shareholders. Performance-linked payout will be based on the KPI achievement in the range of 0% - 200%. In case the Company acknowledges that an act of certain wrongful behavior has been done by a director who is a recipient of the bonuses, a part of the received bonuses is subject to return to the Company.

Restricted stock remuneration plan

Restricted stock remuneration plan is designed to further enhance the shared value in the mid to long term between the eligible directors and the shareholders. Eligible directors receive monetary compensation claims every fiscal year towards restricted shares and the eligible directors will receive the allocation of the Company's common share by paying all of the monetary compensation claims in kind in accordance with the resolution of the Board of Directors (the allotment will be made from the treasury shares). The Company will enter into an agreement with the eligible directors with regards to the allotment of the shares. Although the restriction period is 30 years, in cases where any eligible director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Board of Directors, from a position as director or any other positions separately specified by the Board of Directors during the restriction period, the transfer restrictions will be removed on the allotted shares.

In case the Company acknowledges certain wrongful behavior that the Board of Directors sets and any other illegal acts have been done by a director who was allotted restricted stock remuneration during the restriction period, all or a part of the allotted shares are acquired by the Company without any compensation.

Performance share unit plan

The Performance share unit plan is a performance-linked stock compensation system that aims to strengthen the shared value with shareholders, to enhance the company value over the mid to long term and to commit to achieving business results over the mid-term. Performance share unit plan offers monetary remuneration claims and cash to the eligible directors, who serve in their positions during the first year of the performance evaluation period, as a performance-linked stock compensation. The amount of such remuneration is determined largely by performance target attainment rates during rolling three-year performance evaluation periods, coinciding with our rolling three-year management planning horizon. Attainment rates for each performance evaluation period are determined following a review by the Advisory Panel on Nomination and Compensation. As a general rule, eligible directors receive the cash and monetary claims after the end of each performance evaluation period. Eligible directors will receive monetary remuneration claims towards the purchase of the Company shares and will receive the Company's common shares (the allotment will be made from the treasury shares). Profit for the year has been set as a KPI for the performance share unit plans starting in 2020 and 2021, performance-linked payout will be based on the KPI achievement in the range of 0% - 200%.

In case the Company acknowledges certain wrongful behavior that the Board of Directors sets and any other illegal acts have been done by a director during the performance evaluation period, the director is disqualified from receiving all or a part of the cash and monetary claims that are planned to be paid.

Total amount of remuneration in 2020

Category	Total amount (JPY MM)	Total amount by its component (JPY MM)					Number of persons
		Base salary	Executive bonuses	Stock option grants	Restricted stock remuneration	Performance share unit	
Directors (excluding outside directors)	1,193	504	438	30	188	33	6
Audit & Supervisory Board members (excluding outside members)	88	88	—	—	—	—	2
Outside executives	135	135	—	—	—	—	6
Total	1,416	727	438	30	188	33	14

Notes:
1. The amount of executive bonuses in the above table is the amount expected to be paid.
2. The amount of stock option grants in the above table is the amount booked as expense for 2020. The Company abolished the stock option grants plan and introduced restricted stock remuneration plan & performance share unit plan in accordance with the resolution at the 35th Annual General Meeting held on March 19, 2020.
3. The amount of performance share unit in the above table is the amount booked as expenses for 2020.

Management structure

Directors and Members of the Audit & Supervisory Board

Nine Directors (including three Outside Directors)

As of March 24, 2021

The Directors marked with * are also the Group's Executive Officers.



Yasutake Tango

Chairperson of the Board

Date of birth: March 21, 1951
Term of office:
2 years from March 2020
Number of shares held: 19,400

April	1974	Entered the Ministry of Finance Japan (hereinafter the Ministry)
October	2006	Director-General of the Financial Bureau, the Ministry
July	2007	Deputy Vice Minister, the Ministry
July	2008	Director-General of the Budget Bureau, the Ministry
July	2009	Administrative Vice Minister, the Ministry
December	2010	Corporate Auditor, The Yomiuri Shimbun Holdings
December	2012	Special Advisor to the Cabinet
June	2014	Chairman of the Board of the Company (Current Position)
June	2015	Outside Director, The Ogaki Kyoritsu Bank, Ltd. (Current Position)
June	2020	Outside Director, Audit & Supervisory Committee Member, Mitsubishi UFJ Trust and Banking Corporation (Current Position)

Significant Concurrent Positions Outside the Company
Outside Director, The Ogaki Kyoritsu Bank, Ltd.
Outside Director, Audit & Supervisory Committee Member, Mitsubishi UFJ Trust and Banking Corporation

Reasons for appointment
Mr. Tango has been chairperson of the Board of Directors since June 2014. He possesses abundant knowledge and experience on topics that include corporate governance, gained through diverse networking throughout the public and private sectors and through his important positions as Administrative Vice Minister of the Ministry of Finance in his longstanding experience in ministries and bureaus. As he currently serves as chairperson of the Board, chairperson of the Advisory Panel on Nomination and Compensation, and chairperson of the JT Group Compliance Committee, we believe his broad outlook and high standing in his field are indispensable for the JT Group to better its corporate governance going forward.



Mutsuo Iwai

Deputy Chairperson of the Board

Date of birth: October 29, 1960
Term of office:
2 years from March 2020
Number of shares held: 31,600

April	1983	Joined the Company (Previously, Japan Tobacco and Salt Public Corporation)
June	2003	Vice President, Corporate Planning Division
July	2004	Vice President, Corporate Strategy Division
June	2005	Senior Vice President; and President, Food Business
June	2006	Member of the Board; Senior Vice President; and President, Food Business
June	2008	Senior Vice President; and Chief Strategy Officer
June	2010	Member of the Board; Senior Vice President; Chief Strategy Officer; and President, Food Business
June	2011	Member of the Board, Japan Tobacco Inc. Executive Vice President, JT International S.A.
June	2013	Senior Vice President; and Chief Strategy Officer
January	2016	Senior Vice President; and President, Tobacco Business
March	2016	Representative Director and Executive Vice President
January	2020	Member of the Board
March	2020	Deputy Chairperson of the Board (Current Position)
June	2020	Outside Director, Benesse Holdings, Inc. (Current Position)

Significant Concurrent Positions Outside the Company
Outside Director, Benesse Holdings, Inc.

Reasons for appointment
Mr. Iwai has been the deputy Chairperson of the Board since March 2020. He had been a driver of the tobacco business, our core business, with his vigorous execution of the operation backed by accurate decision-making, as the representative director and executive vice president, despite volatile operating environments. In addition, his broad and deep knowledge and insights cultivated through wide-ranging experience both in Japan and overseas, in areas such as the food business and Corporate Strategy, contributes to stronger oversight functions in the JT Group and to strengthening the relationships with stakeholders. Therefore, we believe his knowledge and insights are indispensable for the JT Group to better its corporate governance going forward.



Masamichi Terabatake*

Representative Director and President, Chief Executive Officer

Date of birth: November 26, 1965
Term of office:
2 years from March 2020
Number of shares held: 77,800

April	1989	Joined the Company
July	2005	Vice President, Secretary's Office
July	2008	Vice President, Corporate Strategy Division
June	2011	Senior Vice President; Chief Strategy Officer; and President, Food Business
June	2012	Senior Vice President; and Chief Strategy Officer
June	2013	Member of the Board, Japan Tobacco Inc. Executive Vice President, JT International S.A.
January	2018	President and Chief Executive Officer
March	2018	Representative Director and President, Chief Executive Officer (Current Position)

Significant Concurrent Positions Outside the Company
Chairman and Managing Director, JT International Group Holding B.V.

Reasons for appointment
Mr. Terabatake has been President and Chief Executive Officer of the JT Group since January 2018 and was also named Representative Director in March of the same year. He has utilized his extensive experience and knowledge, as well as strong leadership in relation to global business management, into a range of duties such as the planning and execution of management strategies both in Japan and overseas, and the execution of the business of the international tobacco business as Executive Vice President of JT International S.A., which has been the Group's growth driver. We acknowledge that his extraordinary insights and wider vision, together with his enhanced reforming capabilities, are indispensable for the management of the Group going forward.



Naohiro Minami*

Representative Director and Executive Vice President, Chief Financial Officer

Date of birth: January 21, 1964
Term of office:
2 years from March 2020
Number of shares held: 31,700

April	1986	Joined the Company
December	2005	Controller
July	2010	Deputy Chief Financial Officer; and Controller
June	2012	Senior Vice President; Chief Financial Officer; and Controller
July	2012	Senior Vice President; and Chief Financial Officer
January	2018	Executive Vice President
March	2018	Representative Director and Executive Vice President (Current Position)

Significant Concurrent Positions Outside the Company
Supervisory Board Member, JT International Holding B.V.

Reasons for appointment
Mr. Minami was appointed Executive Vice President of the JT Group in January 2018, and has been Representative Director and Executive Vice President since March of the same year. He has fully leveraged the wide-ranging and deep knowledge in the field of accounting and finance that he cultivated during his service as Controller as well as Senior Vice President and Chief Financial Officer, to play a key role in the management of the Group and contribution to its growth. We consider that his accurate decision-making and strategic thinking based on his diverse experience make a contribution to maintaining and broadening the management foundation that supports the expansion of the Group's business. His skills are indispensable for driving the Group's management going forward.



Kiyohide Hirowatari*

Representative Director and Executive Vice President

Date of birth: November 11, 1965
Term of office:
2 years from March 2020
Number of shares held: 28,500

April	1989	Joined the Company
July	2010	Vice President, Legal Division
June	2012	Senior Vice President; Chief Legal Officer; and Vice President, Legal Division
July	2014	Senior Vice President; and Chief Legal Officer
January	2015	Senior Vice President; Head of Tobacco Business Planning Division, Tobacco Business
January	2017	Senior Vice President, Human Resources
January	2018	Executive Vice President
March	2018	Representative Director and Executive Vice President (Current Position)

Reasons for appointment
Mr. Hirowatari was appointed Executive Vice President of the Company in January 2018, and has been Representative Director and Executive Vice President since March of the same year. He utilizes his leadership and wide-ranging knowledge in such areas of corporate law, business management and Human Resources, which he developed during his term in diverse and important roles, (including Senior Vice President, Chief Legal Officer; Head of Tobacco Business Planning Division, Tobacco Business and Senior Vice President, Human Resources) to maintain a foundation for the JT Group's sustainable growth and to formulate strategies. We believe that his keen insight and decision-making, cultivated from knowledge and experience in a broad range of fields, are indispensable for the Group's management going forward.



Kazuhito Yamashita*

Director

Date of birth: February 4, 1963
Term of office:
2 years from March 2020
Number of shares held: 20,100

April	1986	Joined the Company
May	2007	Vice President, Corporate, Scientific & Regulatory Affairs Division, Tobacco Business
July	2009	Vice President, Corporate Affairs Division, Tobacco Business
June	2010	Senior Vice President; and Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business
January	2015	Senior Vice President; and Head of China Division, Tobacco Business
January	2019	Senior Vice President, Compliance, Sustainability Management and General Affairs
March	2019	Member of the Board and Senior Vice President (Current Position)

Reasons for appointment
Mr. Yamashita has been our director and Senior Vice President since March 2019. He has focused on promoting social and environmental issues and on the expansion of the overseas business through his roles as Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer and Head of China Division. He has leveraged his wide-ranging experience and knowledge to contribute to establishing an environment conducive to the Group's business. We believe his leadership and the broad knowledge are indispensable for the sustainability management that will form the foundation of the Group's sustainable growth going forward.



Main Kohda

Outside Director
(Independent Outside Director)

Date of birth: April 25, 1951
Term of office:
2 years from March 2020
Number of shares held: 0

September	1995	Started independently as Novelist (Current)
January	2003	Member of Financial System Council, the Ministry of Finance Japan
April	2004	Visiting professor, Faculty of Economics, Shiga University
March	2005	Member of the Council for Transport Policy, the Ministry of Land, Infrastructure, Transport and Tourism
November	2006	Member of the Tax Commission, Cabinet Office, Government of Japan
June	2010	Member of the Board of Governors, Japan Broadcasting Corporation
June	2012	Outside Director of the Company (Current Position)
June	2013	Outside Director, LIXIL Group Corporation
June	2016	Outside Director, Japan Exchange Group, Inc. (Current Position)
June	2018	Outside Director, Mitsubishi Motors Corporation (Current Position)

Significant Concurrent Positions Outside the Company
Novelist
Outside Director, Japan Exchange Group, Inc.
Outside Director, Mitsubishi Motors Corporation

Reasons for appointment
Ms. Kohda has been our Outside Director since June 2012. We have benefited from her in-depth knowledge of international finance; her broad experience gained from serving on government committees and similar positions; and her deep insight and objective point of view that she has demonstrated through her activities as a novelist being reflected in the management of the JT Group. She has worked tirelessly to supervise our business execution from a fair and independent standpoint. She has also contributed enormously to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors and the Advisory Panel on Nomination and Compensation of the Group. We believe her wide-ranging experience and broad knowledge are indispensable for our management going forward.



Yukiko Nagashima

Outside Director
(Independent Outside Director)

Date of birth: April 4, 1961
Term of office:
2 years from March 2020
Number of shares held: 0

April	1985	Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.)
April	2006	Corporate Executive Officer, Recruit Co., Ltd.
January	2008	President and Representative Director, Recruit Staffing Co., Ltd.
October	2012	Corporate Executive Officer, Recruit Holdings Co., Ltd.
June	2016	Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)
April	2018	Standing Audit and Supervisory Board Member, Recruit Co., Ltd. (Current Position)
March	2019	Outside Director of the Company (Current Position)

Significant Concurrent Positions Outside the Company
Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd.
Standing Audit and Supervisory Board Member, Recruit Co., Ltd.

Reasons for appointment
Ms. Nagashima has been our Outside Director since March 2019. We have benefited from her experience in corporate management and execution of business in a wide range of fields, such as emerging businesses and temporary staffing. Her objective point of view based on her experience as a Member of the Audit & Supervisory Boards is reflected in the management of the JT Group. She has worked tirelessly to supervise business execution from a fair and independent standpoint. She has also contributed enormously to improving corporate governance in the Group through actively providing proposals and advice to the Board of Directors and the Advisory Panel on Nomination and Compensation of the Group. We believe that her experience and knowledge from the perspectives of both management and audit are indispensable in the Group's management going forward.



Masato Kitera

Outside Director
(Independent Outside Director)

Date of birth: October 10, 1952
Term of office:
1 year from March 2021
Number of shares held: 0

April	1976	Entered the Ministry of Foreign Affairs Japan (hereinafter the Ministry)
January	2008	Director-General for Sub-Saharan African Affairs, Middle Eastern and African Affairs Bureau, the Ministry Secretary General, the Fourth Tokyo International Conference on African Development
July	2008	Director-General, International Cooperation Bureau, the Ministry
January	2010	Deputy Vice-Minister, the Ministry
September	2012	Assistant Chief Cabinet Secretary
November	2012	Ambassador Extraordinary and Plenipotentiary of Japan to People's Republic of China
April	2016	Ambassador Extraordinary and Plenipotentiary of Japan to the French Republic
June	2016	Ambassador Extraordinary and Plenipotentiary of Japan to the French Republic, Principality of Andorra and Principality of Monaco
April	2020	Adviser of the Company
June	2020	Outside Director, Marubeni Corporation (Current Position) Outside Director, Nippon Steel Corporation (Current Position)

Significant Concurrent Positions Outside the Company
Outside Director, Marubeni Corporation
Outside Director, Nippon Steel Corporation

Reasons for appointment
Mr. Kitera possesses abundant international experience and knowledge concerning international affairs, gained through his long diplomatic career including his important positions as a government officer mostly in the Ministry of Foreign Affairs. We expect him to contribute his in-depth knowledge on a global basis to the JT Group's business which operates in international environments where geopolitical risks are currently increasing and to give pertinent counsel and to supervise appropriately for further enhancement of corporate governance.

Five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members)

As of March 24, 2021



Ryoko Nagata
Standing Audit & Supervisory Board Member
Date of birth: July 14, 1963
Term of office:
4 years from March 2019
Number of shares held: 12,400

April	1987	Joined the Company
April	2001	Vice President, Products Division, Food Business Division, Food Business
June	2008	Senior Vice President; Head of Beverage Business Division; and Vice President, Product Division, Food Business Division, Food Business
July	2008	Senior Vice President; and Head of Beverage Business, Food Business
July	2010	Senior Vice President; and Head of Beverage Business
June	2013	Senior Vice President, CSR
January	2018	Senior Vice President, Assistant to President
March	2018	Standing Audit & Supervisory Board Member of the Company (Current Position)

Reasons for appointment
Ms. Nagata has been an Audit & Supervisory Board Member of the JT Group since March 2018. She has contributed in the Group's auditing through leveraging her abundant experience and her wide-ranging insights with regard to the Group's business operations across operational businesses and internal departments. We believe her experience and knowledge are indispensable for the JT Group's to better its corporate governance going forward.



Hiroshi Yamamoto
Standing Audit & Supervisory Board Member
Date of birth: November 29, 1963
Term of office:
4 years from March 2019
Number of shares held: 2,600

April	1987	Joined the Company
July	2008	Vice President, Non-Tobacco Material Procurement Division, Tobacco Business
June	2012	Vice President, Operational Review and Business Assurance
March	2019	Standing Audit & Supervisory Board Member of the Company (Current Position)

Reasons for appointment
Mr. Yamamoto has served in such roles as the Vice President of the Non-Tobacco Material Procurement Division of the Tobacco Business, and as Vice President of the Operational Review and Business Assurance. He particularly played an important role in the latter position by enhancing the Group's corporate governance in its business operations. We acknowledge he has fulfilled his duties as an Audit & Supervisory Board Member in relation to the effective auditing of the Group through his detailed, deep and wide-ranging knowledge as well as experience across all business operations and in direct departments, making his knowledge and experience indispensable for the JT Group to better its corporate governance going forward.



Toru Mimura
Standing Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member)
Date of birth: December 26, 1955
Term of office:
4 years from March 2019
Number of shares held: 0

April	1979	Entered the Ministry of Finance
July	2010	Deputy Director-General of the Planning and Coordination Bureau; Secretary-General of the Executive Bureau, Certified Public Accountants; Auditing Oversight Board, Financial Services Agency
July	2011	Director General, Kinki Local Finance Bureau, the Ministry of Finance
January	2012	Deputy Director-General, Minister's Secretariat, the Ministry of Defense (hereinafter the Ministry)
September	2012	Director General, Bureau of Personnel and Education, the Ministry
July	2013	Director General, National Institute for Defense Studies, the Ministry
July	2014	Director General, Bureau of Finance and Equipment, the Ministry
October	2015	Vice-Minister of Defense for International Affairs, the Ministry
September	2016	Chairman, Sompo Japan Nipponkoa Research Institute Inc.
October	2017	Director, Eltes Co.,Ltd.
March	2018	Registered as Attorney at Law
March	2019	Standing Outside Audit & Supervisory Board Member of the Company (Current Position)

Significant Concurrent Positions Outside the Company
Attorney at Law, Shiba International Law Offices

Reasons for appointment
Mr. Mimura has deep knowledge of such fields as finance, global risk management, geopolitics and corporate law through his extensive experience over many years of serving in a wide range of important positions in ministries and bureaus, in addition to his role as research institute chairperson. His broad and deep knowledge have made a significant contribution to the effective auditing of the JT Group in this highly uncertain business environment. We believe his roles as Standing Audit & Supervisory Board Member and Outside Audit & Supervisory Board Member have facilitated improvements to auditing from a third-party perspective, and led to a strengthening of the Group's corporate governance. Therefore, we deem his knowledge and experience to be indispensable for the JT Group to better its corporate governance going forward.

Mr. Mimura meets all requirements for being appointed an independent director prescribed by the Tokyo Stock Exchange, Inc. and complies with a set of internal independence criteria, which has been revised in accordance with a resolution of the Board of the Directors on November 24, 2020. Therefore, the JT Group will newly appoint him as our independent director on March 24, 2021.



Hiroshi Obayashi
Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member)
Date of birth: June 17, 1947
Term of office:
4 years from March 2019
Number of shares held: 0

April	1970	Judicial Apprentice
April	1972	Appointed as Public Prosecutor
May	2001	Director-General of the Rehabilitation Bureau, the Ministry of Justice (hereinafter the Ministry)
January	2002	Deputy Vice-Minister of Justice, the Ministry
June	2004	Director-General of the Criminal Affairs Bureau, the Ministry
June	2006	Vice-Minister of Justice, the Ministry
July	2007	Superintending Prosecutor, Sapporo High Public Prosecutors' Office
July	2008	Superintending Prosecutor, Tokyo High Public Prosecutors' Office
June	2010	Prosecutor-General
March	2011	Registered as Attorney at Law
April	2011	Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. (Current Position)
June	2013	Outside Director, Mitsubishi Electric Corporation (Current Position)
June	2014	Outside Audit & Supervisory Board Member, Nippon Steel & Sumitomo Metal Corporation (Current Nippon Steel Corporation)
March	2015	Outside Audit & Supervisory Board Member of the Company (Current Position)
June	2020	Outside Director, Audit & Supervisory Committee Member, Nippon Steel Corporation (Current position)

Significant Concurrent Positions Outside the Company
Attorney at Law, Obayashi Law Office
Outside Audit & Supervisory Board Members, Daiwa Securities Co. Ltd.
Outside Director, Mitsubishi Electric Corporation
Outside Director, Audit & Supervisory Committee Member, Nippon Steel Corporation

Reasons for appointment
Mr. Obayashi has been our Audit & Supervisory Board Member since March 2015. In addition to his extensive experience in the legal circles, he has significant experience as an outside director and outside Audit & Supervisory Board member across a wide range of industries. We consider his deep knowledge and experience have greatly contributed to effective auditing on the Group and are indispensable for the JT Group to better its corporate governance going forward.



Koji Yoshikuni
Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member)
Date of birth:
September 7, 1952
Term of office:
4 years from March 2019
Number of shares held: 0

April	1975	Joined Japan Broadcasting Corporation (hereinafter the Corporation)
June	2003	Director Responsible for Finance of News Department, the Corporation
June	2005	Executive Director, Yokohama Broadcasting Station, the Corporation
June	2007	Chief of Secretariat for Board of Governors, the Corporation
February	2010	Senior Director, the Corporation
April	2012	Executive Director, the Corporation
April	2017	Vice President and Professor, the Graduate School of Project Design Auditor, Hosei University (Current Position)
March	2019	Audit & Supervisory Board Member of the Company (Current Position)
April	2019	President, the Graduate School of Information & Communication (Current Position)

Reasons for appointment
Mr. Yoshikuni has served in such roles at Japan Broadcasting Corporation as the Director Responsible for Finance of News Department, Chief of Secretariat for Board of Governors, and Executive Director. He has knowledge of politics and economics cultivated over long years in his journalist career as well as management experience that makes him well-versed with all business operations and internal departments. His broad knowledge based on his experience has greatly contributed to effective auditing on the Group and we believe it is indispensable for the JT Group to better its corporate governance going forward.

Executive Officers and Members of JTI Executive Committee

As of January 1, 2021

Executive Officers

President

Masamichi Terabatake
Chief Executive Officer*

Executive Vice Presidents

Naohiro Minami
Chief Financial Officer and Communications

Kiyohide Hirowatari
Legal, Corporate Strategy, Digitalization, Human Resources, Operation Review & Business Assurance, Pharmaceutical Business and Food Business

Senior Vice Presidents

Kazuhito Yamashita
Chief Sustainability Officer, Compliance and General Affairs

Junichi Fukuchi
Chief Executive Officer of Japanese Tobacco Business, Tobacco Business Planning, Tobacco Business

Senior Vice Presidents

Yuki Maeda
Chief Financial Officer of Japanese Tobacco Business, Tobacco Business

Eiichi Kiyokawa
Sales, Tobacco Business

Kenji Ogura
Corporate, Scientific & Regulatory Affairs, Tobacco Business

Chigusa Ogawa
Leaf Procurement, Tobacco Business

Yasuhiro Nakajima
Head of RRP Japan Office, Tobacco Business

Shuichi Hirosue
Marketing, Tobacco Business

Hiroyuki Miki
R&D, Tobacco Business

Akihiro Koyanagi
Manufacturing, Tobacco Business

Toru Oguchi
Head of China Division, Tobacco Business

Toru Hijikata
Quality Assurance, Tobacco Business

Muneaki Fujimoto
President, Pharmaceutical Business

Shigenori Ohkawa
Head of Central Pharmaceutical Research Institute, Pharmaceutical Business

Hiromasa Furukawa
Food Business

Kei Nakano
Corporate Strategy

Takehisa Shibayama
Digitalization

Takanori Kikuchi
General Affairs

Koichi Mori
Human Resources

Hiroyuki Fukuda
Communications

Osamu Hirose
Legal

Hisato Imokawa
Sustainability Management

* Masamichi Terabatake concurrently serves as President, Tobacco Business.

Members of the JTI Executive Committee

As of January 1, 2021

Eddy Pirard
President and Chief Executive Officer

Koji Shimayoshi
Executive Vice President and Deputy CEO

Roland Kostantos
Chief Operating Officer

Vassilis Vovos
Senior Vice President, Finance, IT and Chief Financial Officer

Howard Parks
Senior Vice President, People and Culture, & Chief Compliance Officer

John Fraser
Senior Vice President, Legal and Regulatory Affairs

Tom Greene
Senior Vice President, Digital and Information Technology

Daniel Torras
Senior Vice President, Reduced-Risk Products

Takehiko Tsutsui
Senior Vice President, Business Development and Corporate Strategy

Suzanne Wise
Senior Vice President, Corporate Affairs and Communications

Bilgehan Anlas
Regional President, Middle East, Near East, Africa, Turkey and Worldwide Duty-Free

Yves Barbier
Senior Vice President, Marketing and Sales

Antoine Ernst
Senior Vice President, Chief Transformation Officer

Stefan Fitz
Regional President, Western Europe

Marchant Kuys
Regional President, Americas

Hiroyuki Miki
Senior Vice President, R&D

Rob Stanworth
Regional President, Asia Pacific

Phil Livingston
Senior Vice President, Global Supply Chain

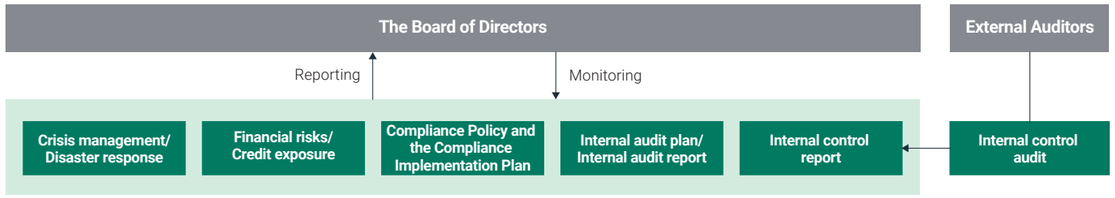
Daniel Sciamma
Regional President, Eastern Europe

Internal controls system & risk management system

Overview

We have implemented an internal control system to maintain proper operational execution, largely through compliance, internal auditing and risk management. Our Board of Directors is kept apprised of these internal controls' status through regular reports. We have also set up channels, including a specialized organizational unit, to facilitate reporting to Audit & Supervisory Board members to ensure the effectiveness of their auditing activities. In coordination with our subsidiaries, we have built a risk management system, a compliance system (including a concern reporting system), and an internal auditing system and implemented controls to ensure the reliability of our financial reporting.

Internal control framework



Assurance of reliability of financial reporting

We have implemented and operate internal controls over financial reporting in compliance with the Financial Instruments and Exchange Act and other applicable laws and regulations. We have also allocated proper human resources to evaluate and report on these controls. Through such measures, we ensure the reliability of financial reporting.

Risk management

We have instituted internal guidelines, rules and manuals on financial risk management. Our CFO reports on financial risks to our CEO and the Board of Directors once a quarter. For other risks, every organizational unit appropriately monitors and reports on risks as a secretariat division by establishing various types of committees in accordance with the Responsibility and Authority Regulations, which stipulates each division's responsibilities and authorities.

We comprehensively grasp and monitor all risks that might have an influence on the JT Group. The person in charge of risk management for the monitored risks determines the material risks and reports them to the CEO. Each executive officer takes the initiative to formulate countermeasures against material risks and promote/execute these measures after reporting measures and their progress to the person in charge of risk management and the CEO.

We have prepared crisis/disaster response manuals for such occurrences. We create a task force and swiftly take appropriate action in close coordination with relevant organizational units and our subsidiaries under the direction of the top management. Cases handled and other matters, as well as the corresponding measures taken, are reported to the Board of Directors in a timely and appropriate matter.

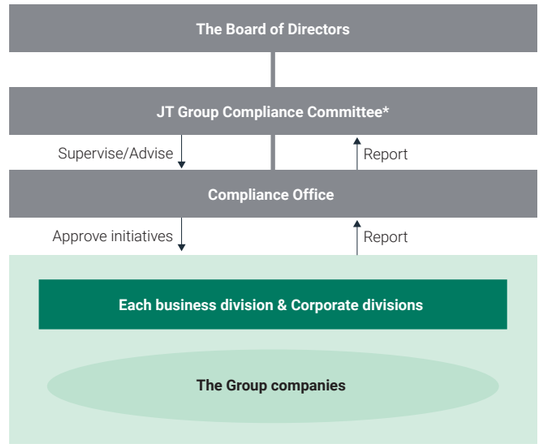
▶ Please see Risk factors (P. 50) for more on risks facing the JT Group.

Compliance

We enforce strict compliance. We have instituted a Code of Conduct that mandates that all directors and employees act in compliance with applicable laws, government regulations, our Articles of Incorporation and societal norms pursuant to regulations established by the Board of Directors. To ensure fair and effective compliance practices, we have established the JT Group Compliance Committee as a deliberative body that reports directly to the Board of Directors.

The head of the JT Group Compliance Committee is the Chairperson of the Board, and the Committee includes external experts as key members. The Committee meets regularly every year. Among the matters discussed are initiatives to promote compliance throughout the Group, which will be executed based on the Annual Compliance Action Plan.

The Compliance Office administers our compliance system, promotes compliance and endeavors to identify deficiencies. It also conducts various training programs and other educational activities for directors and employees in the aim of more effective compliance.



* composed of 2 internal and 3 external members

Compliance action plans

The JT Group Compliance Committee formulates the Action Plan including maintenance/enhancement of compliance programs, taking action on Company priority issues, carrying out trainings and seminars, handling the Reporting Concerns Mechanism and implementing the Compliance Promotion Month.

Compliance surveys

We annually conduct a Group-wide questionnaire survey to check the status of compliance practices in our Japanese operations. In 2020, 95.5% of employees completed the survey. Using the survey's findings, which are reported to directors and employees, the relevant departments introduce remediation plans to address any issues raised, formulate and implement measures to improve compliance.

Internal reporting system (Whistle-blower system)

We have set up internal and external hotlines for reporting of concerns. Violations and potential violations of our Code of Conduct are reported to compliance promotion departments via a hotline, as a report or request to investigate the details and take necessary action, while working to prevent recurrence of the issues. Serious problems are referred to the JT Group Compliance Committee for review and, as necessary, reported to the Board of Directors.

Quality control

We are committed to maintaining the public's trust in our products. To do so, we have implemented quality assurance systems across all of our businesses as described below.

Tobacco Business

In our Japanese-domestic tobacco business, we have adopted a basic quality assurance policy and configured our operations to provide high-quality products and services in accord with this basic policy.
Although the quality assurance system was initially built to enable us to provide high-quality products, mainly combustibles, we have established the Quality Assurance Group within the tobacco business headquarters in July 2017, in response to the recent changes in the market environment, including the growing popularity of RRP (Reduced-Risk Products), in order to further strengthen our quality assurance. Comprised of the Quality Assurance and Customer Satisfaction Promotion Divisions, the Quality Assurance Group works to turn consumer feedback into improvements in products and services by informing relevant divisions. It also monitors market quality and investigates quality problems as they come to light, coordinating with concerned organizational units to rectify quality deficiencies. To ensure the quality and safety of RRP in particular, the Quality Assurance Group commissions safety and quality consultants to independently assess our RRP to make sure they meet safety standards. It also makes sure that our RRP comply with laws and regulations that apply to sales of electronic devices.
In our international tobacco business, our Quality Assurance Group works together with JTI's Quality Assurance staff as a unified team under our global quality guidelines. JT and JTI collaborate on quality improvement initiatives also and periodically update each other on quality issues.

Pharmaceutical Business

In our pharmaceutical business, we are strictly committed to safety and quality control in compliance with regulations such as the Pharmaceutical and Medical Device Act and ministerial ordinances that govern pharmaceutical quality and safety.

Processed Food Business

In our processed food business, we place utmost priority on food safety management across the entire value chain from sourcing ingredients to delivering products to consumers. We do so under our four-pronged framework, coined with the following categories: Food Safety, Food Defense, Food Quality and Food Communication.

Information security

We have established an information security policy and related regulations to protect our information assets and promote safe and efficient information usage.

We proactively invest in information security on an ongoing basis to keep abreast of advances in information technology, adapt to changes in our operating environment and defend against increasingly sophisticated security threats. We also educate our entire global workforce on information security to ensure they treat information assets properly. In 2020, 99.7% of employees in our Japanese operations received security education. Our international tobacco business has a bespoke i-secure program in order to educate employees on information security across all of its geographies.

Internal auditing

Our Operational Review and Business Assurance Division conducts internal audits from an objective standpoint independent of organizational units involved in operational execution and reports directly to the CEO. To fulfill its responsibilities, it has unrestricted authority to observe all activities, inspect all records and question all personnel on a Group-wide basis.

It formulates annual internal audit plans subject to the CEO's approval. Its head mandatorily reports internal audit results to the CEO, reports annually to the Board of Directors also and may freely and regularly confer with the CEO and the heads of our subsidiaries in regards to internal audit results, status of internal controls, and risk assessments.

Our subsidiaries may set up their own internal auditing organizations at their own discretion. Those that have done so include major subsidiaries JTI, TS Network, Torii Pharmaceutical and TableMark. Subsidiaries' internal audit plans are approved by, and their audit results reported to, their respective presidents. JT's Operational Review and Business Assurance Division coordinates internal audits with subsidiaries' internal auditing organizations. Subsidiaries' annual internal audit plans and their internal audit results are reported to the Group CEO and our Board of Directors through our Operational Review and Business Assurance Division. To increase internal audits' efficiency and effectiveness, we periodically hold meetings to improve audit quality through information-sharing among internal auditing staff across the Group. We also conduct joint audits with and provide auditing assistance to subsidiaries as necessary.

FINANCIAL INFORMATION/ OTHERS

This chapter explains financial information, shareholder information and others of the JT Group, as the result of its business activities working toward value creation.

106 Financial review

114 Consolidated financial statements

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184 Shareholder information

185 List of key disclosures

185 Contact information



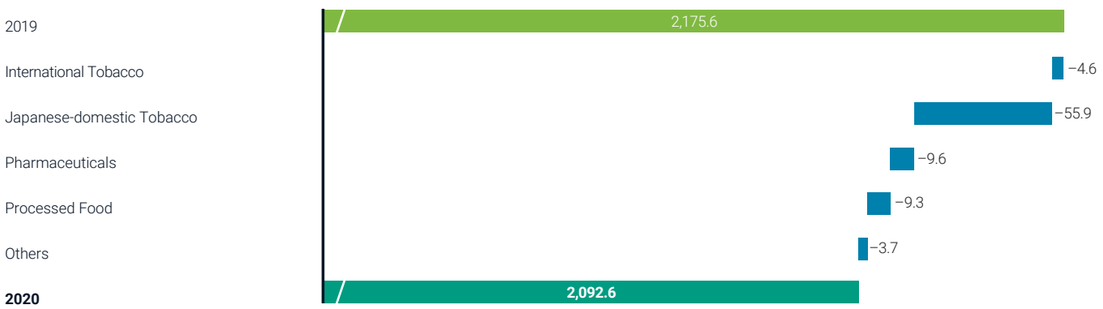
Financial review

Analysis of the results

Results for the year ended December 31, 2020

Revenue*1

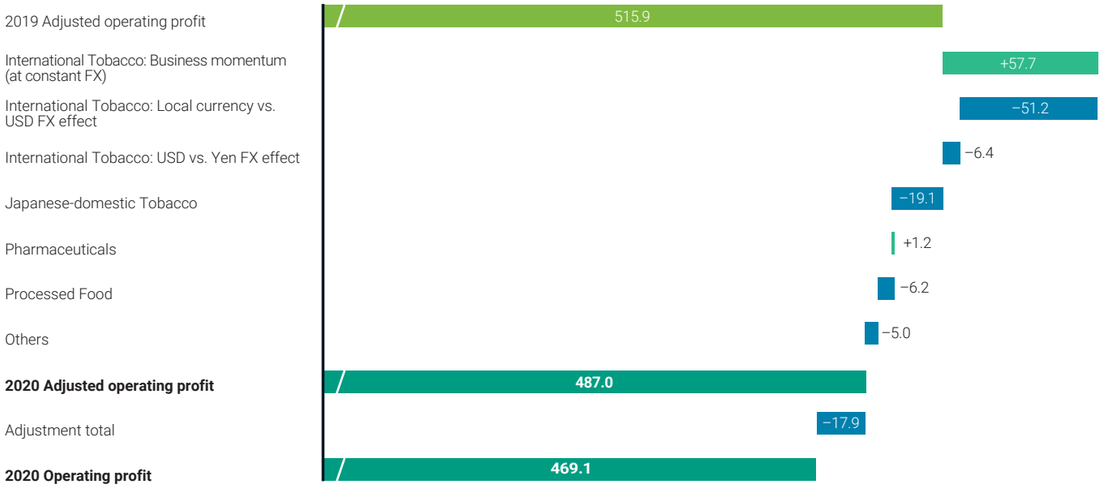
Billions of yen



Revenue decreased by 3.8% to 2,092.6 billion yen due to decreases in revenue in the Japanese-domestic tobacco, pharmaceutical and processed food businesses. In the international tobacco business, the positive momentum from the favorable price/mix contributions were offset by unfavorable foreign currency impacts. COVID-19 is estimated to have negatively impacted consolidated revenue by around 61 billion yen, or about 3% of the total consolidated revenue.

Adjusted operating profit*2/Operating profit

Billions of yen



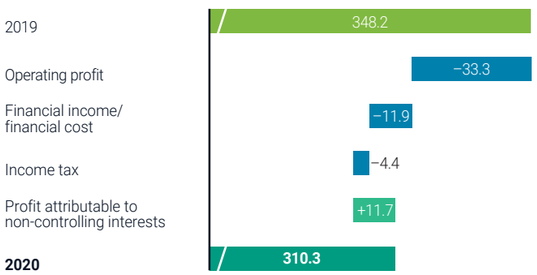
At constant currency, adjusted operating profit increased by 5.5% driven by an increase in the pharmaceutical business, as well as growth in the international tobacco business, partially offset by decreases in the Japanese-domestic tobacco and processed food businesses.

Adjusted operating profit including foreign exchange effects decreased by 5.6% to 487.0 billion yen due to unfavorable foreign currency impacts in the international tobacco business, as well as decreases in the Japanese-domestic tobacco and processed food businesses.

Operating profit decreased by 6.6% to 469.1 billion yen, due to factors including an unfavorable comparison from the one-time compensation gains in the pharmaceutical business in the previous year. This was in spite of the increase in proceeds from the sales of real estate, mainly the former JT head office building, and a favorable comparison from transformation-related restructuring costs in the international tobacco business in the previous year.

Profit*3

Billions of yen



Profit decreased by 10.9% to 310.3 billion yen due to factors including a decrease in operating profit and higher financing costs.

- Financial costs increased (negative impact in the graph) mainly due to an increase of foreign exchange losses.
- Income tax expenses increased (negative impact in the graph) due to a higher effective tax rate despite decline in profit before income tax.

Revenue by business segment

	Billions of yen	
	2019	2020
Revenue	2,175.6	**2,092.6**
International Tobacco	1,310.9	**1,306.2**
Core revenue*4	1,253.0	**1,250.8**
Japanese-domestic Tobacco	611.5	**555.6**
Core revenue*5	568.9	**515.7**
Pharmaceuticals	88.5	**79.0**
Processed Food	158.6	**149.3**
Others	6.1	**2.5**

Average exchange rate

	2019	2020
USD/JPY	109.03	**106.76**
USD/RUB	64.74	**72.07**
USD/GBP	0.78	**0.78**
USD/EUR	0.89	**0.88**

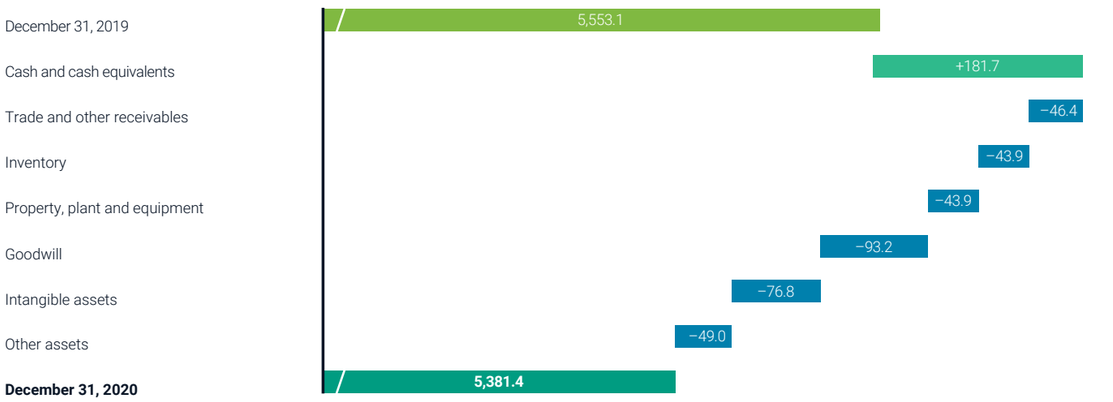
Adjusted operating profit and Operating profit by business segment

	Billions of yen	
	2019	2020
Consolidated: Operating profit	502.4	**469.1**
International Tobacco	274.0	**296.4**
Japanese-domestic Tobacco	171.0	**151.8**
Pharmaceuticals	72.7	**16.5**
Processed Food	5.5	**(0.8)**
Others/Elimination	(20.8)	**5.1**
Adjustments, Total*6	(13.6)	**(17.9)**
International Tobacco	(66.7)	**(44.4)**
Japanese-domestic Tobacco	(16.2)	**(16.2)**
Pharmaceuticals	56.8	**(0.7)**
Processed Food	0.1	**(0.0)**
Others/Elimination	12.5	**43.5**
Consolidated: Adjusted operating profit	515.9	**487.0**
International Tobacco	340.8	**340.9**
Japanese-domestic Tobacco	187.2	**168.1**
Pharmaceuticals	15.9	**17.2**
Processed Food	5.4	**(0.8)**
Others/Elimination	(33.4)	**(38.4)**

- Please see Business strategy/Business review (P.34) for the analysis of revenue, core revenue and adjusted operating profit of each business segment.

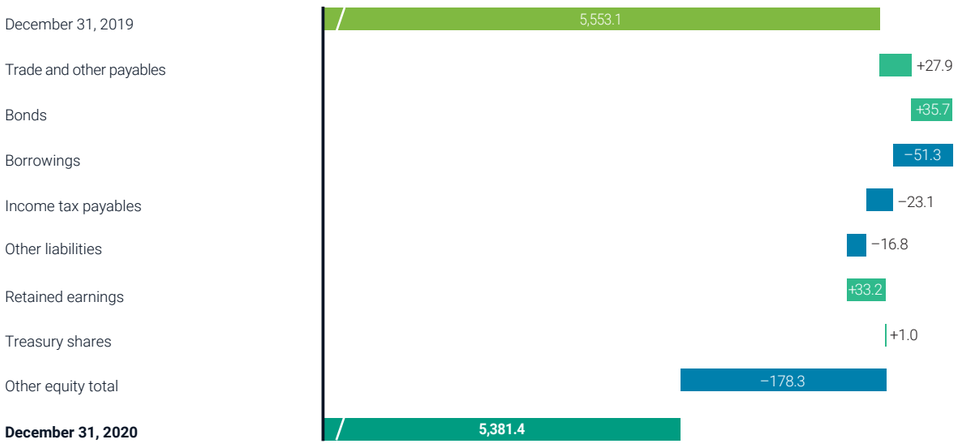
*1 Excludes tobacco excise and other similar taxes, as well as agency transactions, for which the JT Group acts as an agent.
2 Adjusted operating profit = Operating profit + amortization cost of acquired intangibles arising from business acquisitions + adjusted items (income and costs).
*3 Profit attributable to owners of the parent company
*4 Includes waterpipe tobacco and RRP (Reduced-Risk Products), but excludes revenue from distribution, contract manufacturing and other peripheral businesses.
*5 Includes revenue from domestic Duty-Free, the China business, little cigars and RRP, but excludes revenue from distribution of imported tobacco in the Japanese-domestic tobacco business, among others.
6 Amortization cost of acquired intangibles arising from business acquisitions ± adjusted items (income and costs).
* Adjusted items (income and costs) = Impairment losses on goodwill ± restructuring income and costs ± others.

Consolidated statement of financial position (Assets) Billions of yen



Total assets decreased 171.7 billion yen to 5,381.4 billion yen, mainly due to the decrease in goodwill as a result of negative foreign currency impacts and in amortization cost of acquired intangible arising from business acquisition.

Consolidated statement of financial position (Liabilities and Equity) Billions of yen



Total liabilities decreased 27.6 billion yen to 2,781.9 billion yen mainly due to repayment of short-term borrowings, redemption of bonds and decrease in tobacco excise tax payables, despite the proceeds from issuance of the subordinated bonds and borrowings of the subordinated loan.

Total equity decreased 144.1 billion yen to 2,599.5 billion yen mainly due to dividend payments and decrease in exchange differences on translation of foreign operations, despite an increase in retained earnings as a result of the recording of profit attributable to owners of the parent company.

1. Significant accounting policies

Having acquired RJR Nabisco Inc.'s non-U.S. tobacco business in 1999 and Gallaher Group Plc in the U.K. in 2007, the JT Group has been growing steadily as a global company with operations in more than 70 countries and regions and with its products sold in more than 130 countries and regions around the world. In this context, the JT Group adopted IFRS from the year ended March 31, 2012 to improve international comparability of financial information in capital markets and to diversify the Group's sources of financing through international capital markets.

For further details of significant accounting policies, please refer to Note 3 to the consolidated financial statements.

2. Non-GAAP financial measures

The JT Group discloses the consolidated financial statements as well as certain additional financial measures that are not required or defined under IFRS (non-GAAP financial measures). These measures help grasp the underlying performance of each business and are used for internal performance management in view of the Group's target for mid- to long-term sustainable growth. The JT Group considers that they are useful information for users of the financial statements to assess the Group's performance.

For the international tobacco business, its consolidated financial statements reported in U.S. dollars are internally reviewed, and therefore revenue and adjusted operating profit are externally communicated in U.S. dollars. These non-GAAP financial measures should be treated as supplementary information, rather than alternative measures, for corresponding financial numbers reported in accordance with IFRS.

Core revenue

For the tobacco business, core revenue is disclosed additionally as a breakdown of revenue. Specifically, core revenue for the international tobacco business excludes the revenue from distribution, contract manufacturing and other peripheral businesses, but includes revenue from waterpipe tobacco and RRP. Furthermore, growth rate in core revenue at constant FX is also presented in U.S. dollars as additional information. Core revenue for the Japanese-domestic tobacco business includes revenue from domestic Duty-Free, the China business, RRP (Reduced-Risk Products) and little cigars, but excludes revenue from distribution of imported tobacco in the Japanese-domestic tobacco business, among others.

The JT Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29 "Financial Reporting in Hyperinflationary Economies" (hereinafter referred to as "IAS 29"). However, the impact of IAS 29 is not included in core revenue at constant FX.

Adjusted operating profit

In order to provide useful comparative information on the JT Group's business performance, adjusted operating profit is presented as operating profit plus amortization cost of acquired intangibles arising from business acquisitions and adjusted items (income and costs). Adjusted items (income and costs) are impairment losses on goodwill and restructuring income or costs, and other items.

Furthermore, for the performance of the JT Group and the international tobacco business, adjusted operating profit at constant FX, is also presented as additional information. Adjusted operating profit at constant FX for a relevant period in the international tobacco business is calculated using the foreign exchange rates of the prior year and excludes foreign exchange effects.

The JT Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29. However, the impact of IAS 29 is not included in adjusted operating profit at constant FX.

3. Consolidated financial results for 2020

Please refer to pages 106 and 107 for analysis of "Revenue," "Adjusted operating profit," "Operating profit" and "Profit attributable to owners of the parent company." For analysis of "Assets," "Liability" and "Equity," please refer to page 108. Please refer to "Business strategy/Business review" for analysis of financial results by business segment.

Capital expenditures

Capital expenditures include outlays on property, plant and equipment such as land, buildings, and structures, machinery as well as vehicles and others; and intangible assets such as goodwill, trademark, software, and others. These capital expenditures are necessary for enhancing the productivity of the JT Group's factories and other facilities; strengthening its competitiveness; and operating in various business fields. In 2020, total capital expenditures amounted to 112.9 billion yen.

Capital expenditure

	Billions of yen	
	2019	**2020**
Total	131.4	**112.9**
International Tobacco	78.3	**66.6**
Japanese-domestic Tobacco	34.8	**21.1**
Pharmaceuticals	7.0	**9.1**
Processed Food	6.1	**8.0**
Others/Elimination	5.2	**8.2**

In the international tobacco business, capital expenditures amounted to 66.6 billion yen, which was spent on investments related to compliance with regulations in addition to improvements in product specifications. In the Japanese-domestic tobacco business, capital expenditures amounted to 21.1 billion yen which was mainly spent on investments on manufacturing process maintenance, productivity improvements, adaptions for new products and, product-specification improvements. In the pharmaceutical business, capital expenditures amounted to 9.1 billion yen which was primarily spent on enhancing and strengthening research and development structures. In the processed food business, capital expenditures amounted to 8.0 billion yen, which was spent on improvement, maintenance and renewals of production capability. These capital expenditures were funded through cash generated by operations and borrowings.

Plans for new installations and disposal of facilities

Based on the JT Group's management principle, the resource allocation policy in the mid- to long-term is to prioritize on business investments for mid- to long-term sustainable profit growth. The international and Japanese-domestic tobacco businesses are positioned as the JT Group's core business and profit growth driver and place top priority on business investments that will lead to their sustainable profit growth. Regarding the pharmaceutical and processed food businesses, we will strive to strengthen foundations that will lead to future profit contribution, and will make investments to that end. Based on this policy, the JT Group's capital expenditure are estimated to be a total of 147.5 billion yen for 2021.

As the JT Group companies have wide-ranging plans for their capital expenditure, we disclose the figures by segment. Our actual capital expenditures may significantly differ from the planned figures mentioned above, due to a number of factors, including those mentioned on "Risk factors."

4. Dividends

The year-end dividends for 2020 were 77 yen per share. Including interim dividends per share of 77 yen, total annual dividends per share were 154 yen.

The year-end dividends related to the current year are recognized in the following year for accounting purposes. The year-end dividend for 2019 (record date of December 31, 2019) and the interim dividends for 2020 (record date of June 30, 2020) are recorded in the financial statements for 2020. For more details, please refer to Note 24 to the consolidated financial statements "Dividends."

5. Capital management

The JT Group's management principle pursues the 4S model: we strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can. The JT Group believes that sustainable profit growth in the mid to long term based on this principle will increase the JT Group's corporate value in the mid to long term, and is consequently in the best interest of all stakeholders.

The JT Group's financial policy is to maintain a solid financial base. This provides us with the capacity to withstand any adversity arising out of a volatile environment, such as economic crisis. It also ensures sufficient flexibility to capture attractive investment opportunities. The JT Group monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a stable and flexible financial condition for future investment. We monitor credit ratings for a solid financial base, and ROE (Return on Equity) for profitability, as well as change in internal and external environments. The JT Group monitors net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, as well as capital (the part attributable to owners of the parent company). Please see below in the table for the each year-end figures of those monitored financial indicators.

Capital management

	Billions of yen	
	As of Dec. 31, 2019	**As of Dec. 31, 2020**
Interest-bearing debt	974.5	**958.9**
Cash and cash equivalents	(357.2)	**(538.8)**
Net interest-bearing debt	617.3	**420.0**
Capital (equity attributable to owners of the parent company)	2,662.7	**2,522.8**

Capital expenditure plan

	2021 (Billions of yen)	Main purpose of investing	Funding
International Tobacco	92.0	Improvement in product specifications, RRP-related investment and facilities renewal	Internally funded
Japanese-domestic Tobacco	30.0	RRP-related investment and manufacturing facilities repair	Same as above
Pharmaceuticals	5.0	Maintenance and reinforcement of R&D	Same as above
Processed Food	14.5	Increase in production capacity, increase of productivity, maintenance and replacement of facilities	Same as above

Share buy-back

The JT Group held 225,754,671 shares of common stock as treasury stock as of December 31, 2020, amounting to 11.29% of the total number of shares issued.

A repurchase of its shares requires cash outlays. In order to repurchase its shares in a flexible manner, it amended the Articles of Incorporation at the Ordinary General Meeting of Shareholders held on June 24, 2004 allowing us to repurchase based on a decision made by the Board of Directors. We may continue to hold the repurchased shares as treasury stock or use them for other purposes. Stock repurchase provides our management with an additional option for increasing flexibility and speed in capital management in order to adapt to a rapidly changing business environment.

6. Financial activities

The JT Group's Treasury Division formulates financial strategies based on optimal financial risk management and provides Group-wide support to enable secure and efficient financing activities. The Group is exposed to various financial risks: credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks. In order to avoid or reduce said risks, we conduct our treasury activities pursuant to a set of Group-wide financial risk management policies and the results of risk management are reported to the Group CEO and the Board of Directors on a regular basis. For more details on financial risk management, please refer to from "(2) Financial Risk Management" to "(8) Market Price Fluctuation Risk" of Note 34 to the consolidated financial statements "Financial Instruments."

Intra-group cash management

To maximize the JT Group's overall cash efficiency, we prioritize utilizing internal financing mainly through the Cash Management Systems (CMS) within the Group, where legally permissible and economically viable.

External funding

The JT Group basically funds its short-term working capital needs through short-term borrowings from financial institutions, commercial paper, or a combination of both. We fund the mid-to long-term capital needs through long-term borrowings from financial institutions, bonds, equity, or a combination of those previously stated.

The JT Group continues to diversify the financing method and correspondent financial institutions to secure stable and efficient funding sources through activities such as the establishment of committed facilities. The status of Group-wide external debt is reported to the Group CEO and the Board of Directors on a regular basis.

External investments

The JT Group always makes its financial investments by taking into account safety, liquidity and optimal yield. It does not allow any speculative dealings in pursuit of profit margin. The investment results is reported to the Group CEO and the Board of Directors on a regular basis.

7. Cash flow results

2020 and 2019 cash flow results

Cash and cash equivalents at the end of 2020 increased by 181.7 billion yen from the end of 2019 to 538.8 billion yen. Cash and cash equivalents at the end of 2019 were 357.2 billion yen.

Cash flows in operating activities

Net cash flows from operating activities during 2020 were 519.8 billion yen provided, while it was 540.4 billion yen provided in 2019. This was mainly due to the generation of a stable cash inflow from the tobacco business, despite payments of both national and international tobacco excise taxes as well as income taxes.

Cash flows in investing activities

Net cash flows provided in investing activities during 2020 were 5.4 billion yen, compared with 123.6 billion yen spent in 2019. This was mainly due to sales of investment properties estates as well as shares of subsidiaries and associates, despite purchase of property, plant and equipment and intangible assets.

Cash flows in financing activities

Net cash flows spent in financing activities during 2020 were 297.4 billion yen compared with 333.8 billion yen spent in 2019. This was mainly due to the payment of cash dividends and repayments of borrowings, despite the proceeds from issuance of the subordinated bonds and borrowing of the subordinated loan.

8. Liquidity

The JT Group has historically had, and expect to continue to have, significant cash flows from operating activities. It is expected that cash generated from operating activities will continue to be stable and cover funds needed for daily business activities. The JT Group had 478.2 billion yen as committed facilities for both domestic and international major financial institutions as of December 31, 2020, of which 100% was unused. In addition, it has a commercial paper program, uncommitted facilities, a domestic bond shelf registration and EMTN program.

Long-term debt

Bonds issued (including the current portion) as of December 31, 2019 and December 31, 2020 accounted for 666.6 billion yen and 702.3 billion yen respectively. Long-term borrowings as loans from financial institutions (including the current portion) accounted for 115.3 billion yen in 2019 and 205.0 billion yen in 2020. Long-term lease liabilities totaled 40.2 billion yen as of December 31, 2019 and 49.4 billion yen as of December 31, 2020.

As of December 31, 2020, the long-term debt was rated A1 by Moody's Japan K.K. (Moody's), AA- by S&P Global Ratings Japan Inc. (S&P), and AA by Rating and Investment Information Inc. (R&I), with a "negative" outlook from Moody's, a "negative" outlook from S&P and a "stable" outlook from R&I.

These ratings are affected by a number of factors such as developments in our major markets, the JT Group's business strategies and general economic trends that are beyond its control. The ratings may be withdrawn or revised at any time. Each rating should be evaluated separately from other ratings. Under the Japan Tobacco Inc. Act, the bondholders of the JT Group can enjoy statutory preferential rights over unsecured creditors in seeking repayment, with the exception of national and local taxes and other statutory obligations.

Short-term debt

Short-term borrowings from financial institutions totaled 192.6 billion yen as of December 31, 2019 and 51.6 billion yen as of December 31, 2020. There was no balance of commercial paper on both period. Short-term lease liabilities totaled 13.5 billion yen as of December 31, 2019 and 17.1 billion yen as of December 31, 2020.

Liquidity

Billions of yen

Year ended December 31, 2020	Book Value	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term borrowings as loans	51.6	51.6	—	—	—	—	—
Long-term borrowings as loans (current portion)	12.2	12.2	—	—	—	—	—
Bonds (current portion)	77.6	77.6	—	—	—	—	—
Long-term borrowings as loans	192.7	—	41.9	11.6	20.1	0.0	120.1
Bonds	624.7	—	30.0	114.3	—	94.7	389.6
Total	**958.9**	**141.5**	**71.9**	**125.9**	**20.1**	**94.8**	**509.7**

Note: Lease obligations are excluded.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Japan Tobacco Inc. and Consolidated Subsidiaries
As of December 31, 2019 and 2020

	Millions of yen	
Assets	2019	**2020**
Current assets		
Cash and cash equivalents (Note 7)	357,158	**538,844**
Trade and other receivables (Note 8)	458,513	**412,144**
Inventories (Note 9)	583,695	**539,762**
Other financial assets (Note 10)	21,943	**18,828**
Other current assets (Note 11)	504,334	**493,992**
Subtotal	1,925,643	**2,003,570**
Non-current assets held for sale (Note 12)	30	**348**
Total current assets	1,925,673	**2,003,919**
Non-current assets		
Property, plant and equipment (Notes 13, 15)	803,239	**759,290**
Goodwill (Note 14)	2,002,595	**1,909,392**
Intangible assets (Note 14)	440,434	**363,604**
Investment property (Note 16)	16,588	**4,744**
Retirement benefit assets (Note 22)	67,377	**70,528**
Investments accounted for using the equity method	52,903	**40,230**
Other financial assets (Note 10)	109,568	**107,143**
Deferred tax assets (Note 17)	134,696	**122,534**
Total non-current assets	3,627,397	**3,377,464**
Total assets	5,553,071	**5,381,382**

	Millions of yen	
Liabilities and equity	2019	**2020**
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	408,597	**436,540**
Bonds and borrowings (Note 19)	284,135	**141,469**
Income tax payables	69,543	**46,462**
Other financial liabilities (Note 19)	21,862	**27,588**
Provisions (Note 20)	18,289	**19,420**
Other current liabilities (Note 21)	699,331	**652,314**
Total current liabilities	1,501,757	**1,323,793**
Non-current liabilities		
Bonds and borrowings (Note 19)	690,367	**817,412**
Other financial liabilities (Note 19)	41,062	**50,164**
Retirement benefit liabilities (Note 22)	320,614	**331,752**
Provisions (Note 20)	40,164	**31,338**
Other non-current liabilities (Note 21)	135,066	**162,982**
Deferred tax liabilities (Note 17)	80,430	**64,447**
Total non-current liabilities	1,307,702	**1,458,095**
Total liabilities	2,809,459	**2,781,888**
Equity		
Share capital (Note 23)	100,000	**100,000**
Capital surplus (Note 23)	736,400	**736,400**
Treasury shares (Note 23)	(492,469)	**(491,507)**
Other components of equity (Note 23)	(431,741)	**(605,776)**
Retained earnings	2,750,506	**2,783,718**
Equity attributable to owners of the parent company	2,662,696	**2,522,834**
Non-controlling interests	80,916	**76,660**
Total equity	2,743,611	**2,599,495**
Total liabilities and equity	5,553,071	**5,381,382**

Consolidated Statement of Income

Japan Tobacco Inc. and Consolidated Subsidiaries
Years Ended December 31, 2019 and 2020

	Millions of yen	
	2019	**2020**
Revenue (Notes 6, 25)	2,175,626	**2,092,561**
Cost of sales (Notes 14, 22)	(942,299)	**(898,001)**
Gross profit	1,233,326	**1,194,560**
Other operating income (Note 26)	95,725	**54,924**
Share of profit in investments accounted for using the equity method	5,011	**4,042**
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(831,707)	**(784,472)**
Operating profit (Note 6)	502,355	**469,054**
Financial income (Notes 28, 33)	8,402	**12,353**
Financial costs (Notes 22, 28, 33)	(45,526)	**(61,344)**
Profit before income taxes	465,232	**420,063**
Income taxes (Note 17)	(103,609)	**(108,034)**
Profit for the period	361,622	**312,029**
Attributable to		
Owners of the parent company	348,190	**310,253**
Non-controlling interests	13,432	**1,775**
Profit for the period	361,622	**312,029**
Earnings per share		
Basic (Yen) (Note 30)	195.97	**174.88**
Diluted (Yen) (Note 30)	195.87	**174.80**

Reconciliation from "Operating profit" to "Adjusted operating profit"

	Millions of yen	
	2019	**2020**
Operating profit	502,355	**469,054**
Amortization cost of acquired intangibles arising from business acquisitions	69,623	**63,160**
Adjustment items (income)	(84,467)	**(51,978)**
Adjustment items (costs)	28,415	**6,716**
Adjusted operating profit (Note 6)	515,927	**486,952**

Consolidated Statement of Comprehensive Income

Japan Tobacco Inc. and Consolidated Subsidiaries
Years Ended December 31, 2019 and 2020

	Millions of yen	
	2019	**2020**
Profit for the period	361,622	**312,029**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Notes 29, 33)	(2,484)	**(2,702)**
Remeasurements of defined benefit plans (Notes 22, 29)	(2,811)	**(5,957)**
Total of items that will not be reclassified to profit or loss	(5,295)	**(8,659)**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	9,879	**(170,711)**
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	(391)	**224**
Total of items that may be reclassified subsequently to profit or loss	9,489	**(170,486)**
Other comprehensive income (loss), net of taxes	4,194	**(179,145)**
Comprehensive income (loss) for the period	365,816	**132,883**
Attributable to		
Owners of the parent company	352,953	**131,965**
Non-controlling interests	12,863	**919**
Comprehensive income (loss) for the period	365,816	**132,883**

Consolidated Statement of Changes in Equity

Japan Tobacco Inc. and Consolidated Subsidiaries
Years Ended December 31, 2019 and 2020

Millions of yen

	Equity attributable to owners of the parent company						
				Other components of equity			
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
As of January 1, 2019	100,000	736,400	(442,829)	1,547	(454,918)	443	29,570
Profit for the period	—	—	—	—	—	—	—
Other comprehensive income (loss)	—	—	—	—	10,553	(391)	(2,486)
Comprehensive income (loss) for the period	—	—	—	—	10,553	(391)	(2,486)
Acquisition of treasury shares (Note 23)	—	—	(50,001)	—	—	—	—
Disposal of treasury shares (Note 23)	—	—	361	(281)	—	—	—
Share-based payments (Note 32)	—	—	—	290	—	—	—
Dividends (Note 24)	—	—	—	—	—	—	—
Changes in the scope of consolidation	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(15,883)
Other increase (decrease)	—	—	—	—	—	(185)	—
Total transactions with the owners	—	—	(49,640)	10	—	(185)	(15,883)
As of December 31, 2019	100,000	736,400	(492,469)	1,556	(444,366)	(132)	11,201
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other comprehensive income (loss)	**—**	**—**	**—**	**—**	**(170,009)**	**224**	**(2,577)**
Comprehensive income (loss) for the period	**—**	**—**	**—**	**—**	**(170,009)**	**224**	**(2,577)**
Acquisition of treasury shares (Note 23)	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**
Disposal of treasury shares (Note 23)	**—**	**—**	**963**	**(334)**	**—**	**—**	**—**
Share-based payments (Note 32)	**—**	**—**	**—**	**30**	**—**	**—**	**—**
Dividends (Note 24)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Changes in the scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Changes in the ownership interest in a subsidiary without a loss of control	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer from other components of equity to retained earnings	**—**	**—**	**—**	**—**	**—**	**—**	**(1,399)**
Other increase (decrease)	**—**	**—**	**—**	**—**	**—**	**30**	**—**
Total transactions with the owners	**—**	**—**	**962**	**(304)**	**—**	**30**	**(1,399)**
As of December 31, 2020	**100,000**	**736,400**	**(491,507)**	**1,252**	**(614,374)**	**122**	**7,224**

Millions of yen

	Equity attributable to owners of the parent company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2019	—	(423,357)	2,660,381	2,630,594	69,851	2,700,445
Profit for the period	—	—	348,190	348,190	13,432	361,622
Other comprehensive income (loss)	(2,913)	4,763	—	4,763	(569)	4,194
Comprehensive income (loss) for the period	(2,913)	4,763	348,190	352,953	12,863	365,816
Acquisition of treasury shares (Note 23)	—	—	—	(50,001)	—	(50,001)
Disposal of treasury shares (Note 23)	—	(281)	(80)	0	—	0
Share-based payments (Note 32)	—	290	(19)	271	47	319
Dividends (Note 24)	—	—	(270,936)	(270,936)	(2,051)	(272,987)
Changes in the scope of consolidation	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary without a loss of control	—	—	(1)	(1)	206	205
Transfer from other components of equity to retained earnings	2,913	(12,971)	12,971	—	—	—
Other increase (decrease)	—	(185)	—	(185)	—	(185)
Total transactions with the owners	2,913	(13,146)	(258,065)	(320,851)	(1,798)	(322,650)
As of December 31, 2019	—	(431,741)	2,750,506	2,662,696	80,916	2,743,611
Profit for the period	**—**	**—**	**310,253**	**310,253**	**1,775**	**312,029**
Other comprehensive income (loss)	**(5,927)**	**(178,289)**	**—**	**(178,289)**	**(857)**	**(179,145)**
Comprehensive income (loss) for the period	**(5,927)**	**(178,289)**	**310,253**	**131,965**	**919**	**132,883**
Acquisition of treasury shares (Note 23)	**—**	**—**	**—**	**(1)**	**—**	**(1)**
Disposal of treasury shares (Note 23)	**—**	**(334)**	**(629)**	**0**	**—**	**0**
Share-based payments (Note 32)	**—**	**30**	**469**	**498**	**35**	**533**
Dividends (Note 24)	**—**	**—**	**(273,200)**	**(273,200)**	**(1,276)**	**(274,476)**
Changes in the scope of consolidation	**—**	**—**	**—**	**—**	**8**	**8**
Changes in the ownership interest in a subsidiary without a loss of control	**—**	**—**	**846**	**846**	**(3,941)**	**(3,095)**
Transfer from other components of equity to retained earnings	**5,927**	**4,528**	**(4,528)**	**—**	**—**	**—**
Other increase (decrease)	**—**	**30**	**—**	**30**	**—**	**30**
Total transactions with the owners	**5,927**	**4,254**	**(277,042)**	**(271,826)**	**(5,174)**	**(277,000)**
As of December 31, 2020	**—**	**(605,776)**	**2,783,718**	**2,522,834**	**76,660**	**2,599,495**

Consolidated Statement of Cash Flows

Japan Tobacco Inc. and Consolidated Subsidiaries
Years Ended December 31, 2019 and 2020

Millions of yen

	2019	2020
Cash flows from operating activities		
Profit before income taxes	465,232	**420,063**
Depreciation and amortization	183,852	**179,654**
Impairment losses	16,124	**12,571**
Interest and dividend income	(7,944)	**(7,318)**
Interest expense	27,557	**22,535**
Share of profit in investments accounted for using the equity method	(5,011)	**(4,042)**
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(8,299)	**(40,821)**
(Increase) decrease in trade and other receivables	10,673	**21,554**
(Increase) decrease in inventories	(9,046)	**748**
Increase (decrease) in trade and other payables	28,294	**39,288**
Increase (decrease) in retirement benefit liabilities	(9,526)	**(5,788)**
(Increase) decrease in prepaid tobacco excise taxes	(21,864)	**(29,996)**
Increase (decrease) in tobacco excise tax payables	3,891	**(18,038)**
Increase (decrease) in consumption tax payables	29,592	**9,762**
Other	(7,005)	**49,132**
Subtotal	696,521	**649,305**
Interest and dividends received	15,340	**14,589**
Interest paid	(24,346)	**(19,549)**
Income taxes paid	(147,105)	**(124,511)**
Net cash flows from operating activities	540,410	**519,833**
Cash flows from investing activities		
Purchase of securities	(45,401)	**(39,991)**
Proceeds from sale and redemption of securities	77,200	**49,802**
Purchase of property, plant and equipment	(111,366)	**(85,319)**
Proceeds from sale of investment property	15,863	**86,263**
Purchase of intangible assets	(22,004)	**(23,301)**
Payments into time deposits	(218)	**(491)**
Proceeds from withdrawal of time deposits	409	**334**
Subsequent payments for past fiscal years' business combinations	(40,127)	**(1,140)**
Proceeds from sale of investments in associates	—	**17,413**
Other	2,073	**1,785**
Net cash flows from investing activities	(123,571)	**5,354**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(270,871)	**(273,134)**
Dividends paid to non-controlling interests	(1,913)	**(1,404)**
Capital contribution from non-controlling interests	358	**117**
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	(44,976)	**(132,462)**
Proceeds from long-term borrowings (Note 31)	—	**100,101**
Repayments of long-term borrowings (Note 31)	(11,568)	**(11,948)**
Proceeds from issuance of bonds (Note 31)	59,435	**122,201**
Redemption of bonds (Note 31)	—	**(80,000)**
Repayments of lease liabilities (Note 31)	(14,294)	**(17,741)**
Acquisition of treasury shares	(50,001)	**(1)**
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	**(3,132)**
Other	0	**0**
Net cash flows from financing activities	(333,832)	**(297,404)**
Net increase (decrease) in cash and cash equivalents	83,008	**227,784**
Cash and cash equivalents at the beginning of the period	282,063	**357,158**
Effect of exchange rate changes on cash and cash equivalents	(7,913)	**(46,098)**
Cash and cash equivalents at the end of the period (Note 7)	357,158	**538,844**

Notes to Consolidated Financial Statements

1. Reporting Entity

Japan Tobacco Inc. (hereinafter referred to as the "Company") is a joint stock corporation under the Companies Act of Japan, pursuant to the Japan Tobacco Inc. Act, with its principal places of business located in Japan since its incorporation. The addresses of the Company's registered head office and principal business offices are available on the Company's website (https://www.jt.com/).

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the "Group") are stated in "6. Operating Segments."

The Group's consolidated financial statements for the year ended December 31, 2020 were approved on March 24, 2021 by Masamichi Terabatake, President and Chief Executive Officer.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS")

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

3. Significant Accounting Policies

(1) Basis of Consolidation

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

A. Subsidiaries

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

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

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

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

B. Associates

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

C. Joint Arrangements

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

(2) Business Combination

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

(3) Foreign Currency Translation

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

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

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

(4) Financial Instruments

A. Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

An allowance for doubtful accounts for trade receivables is always recognized in an amount equal to the full 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 full lifetime expected credit losses if a credit risk on the financial asset has increased significantly since initial recognition.

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ii) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

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

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

(i) Fair Value Hedge

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

(ii) Cash Flow Hedge

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

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

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

(iii) Hedge of Net Investment in Foreign Operations

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

F. Fair Value of Financial Instruments

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

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

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

(7) Property, Plant and Equipment

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

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

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

- Buildings and structures: 38 to 50 years
- Machinery and vehicles: 10 to 15 years

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

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

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

B. Intangible Assets

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

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

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

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

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

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

(9) Leases

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

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

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

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

(10) Investment Property

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

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

(11) Impairment of Non-financial Assets

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

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

(12) Non-current Assets Held for Sale

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

(13) Post-employment Benefits

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

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

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

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

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

(14) Share-based Payments

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

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

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

(15) Provisions

The Group has present obligations (legal or constructive) resulting from past events and recognizes provisions when it is probable that the obligations are required to be settled and the amount of the obligations can be estimated reliably.

Where the effect of the time value of money is material, the amount of provisions is measured at the present value of the expenditures expected to be required to settle the obligations. In calculating the present value, the Group uses the pretax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability.

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

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

(16) Revenue

A. Revenue from Contracts with Customers

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

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

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

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

B. Interest Income

Interest income is recognized using the effective interest rate method.

C. Dividend Income

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

(17) Government Grants

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

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

(18) Borrowing Costs

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

(19) Income Taxes

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

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

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

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

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

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

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

The Company and certain subsidiaries apply for the consolidated taxation system.

(20) Treasury Shares

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

(21) Earnings per Share

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

(22) Dividends

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

(23) Contingencies

A. Contingent Liabilities

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

B. Contingent Assets

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

(24) Adjusted Financial Measures

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

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

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

(Changes in Accounting Policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the year ended December 31, 2020.

IFRS		Description of new standards and amendments
IFRS 3	Business Combinations	Amendments to definition of "business"
IFRS 16	Leases	Amendments to permit a practical expedient for COVID-19-related rent concessions

The adoption of the above standards and interpretations does not have a material impact on the consolidated financial statements.

Part of the consolidated financial statements for the year ended December 31, 2019 has been reclassified to conform with the presentation for the year ended December 31, 2020.

4. Significant Accounting Estimates and Judgments

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

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.

Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

A. Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount has declined below the carrying amount, the Group performs an impairment test.

Such indications include, but are not limited to significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry or economic trends. With regard to goodwill, an impairment test is conducted at least once a year, regardless of whether there are any indicators of impairment.

An impairment test is performed by comparing the carrying amount to the recoverable amount of the asset under assessment. If the recoverable amount is below the carrying amount, impairment losses are recognized. The recoverable amount is calculated based primarily on a discounted cash flow model. Certain assumptions must be made for the useful lives and future cash flows of the assets, the applicable discount rates as well as long-term growth rates. These assumptions are based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating the recoverable amount is described in "13. Property, Plant and Equipment," "14. Goodwill and Intangible Assets" and "16. Investment Property." With regard to goodwill, the sensitivity analysis is described in "14. Goodwill and Intangible Assets."

B. Post-employment Benefits

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan and the Company is legally obligated to bear a part of the pension costs of the plan.

The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions make use of estimates and judgments on a number of variables, including discount rates and inflation rate.

The Group obtains advice from external pension actuaries with respect to the appropriateness of their actuarial assumptions including the aforementioned variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, or by the publication or amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and the related sensitivity analysis are described in "22. Employee Benefits."

C. Provisions

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on best estimates of the expenditure required to settle the obligations, taking into account the pertinent risks and uncertainties which exist at the year-end for those obligations.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively; however, they may be affected by the occurrence of unexpected events or changes in conditions which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in "20. Provisions."

D. Income Taxes

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities, based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, we reasonably estimate the timing and amount of future taxable income based on the business plan.

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

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

E. Contingencies

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

The content of contingencies is described in "38. Contingencies."

The spread of COVID-19 has affected the Group businesses in the current fiscal year, causing a decrease in duty-free sales in the tobacco business and changes in consumer trends in the Domestic Tobacco Business and the Processed Food Business.

The Group anticipates that although the impact of the spread of COVID-19 will continue to certain extent from 2021 onward, the economies of countries around the world will gradually recover. At present, there is no material impact on accounting estimates and judgements.

5. New Accounting Standards Not Yet Adopted by the Group

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

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

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 1	First-time Adoption of International Financial Reporting Standards	January 1, 2022	Year ending December 2022	Amendments to accounting treatment for measurement of cumulative translation differences if a subsidiary becomes a first-time adopter of IFRS later than its parent
IFRS 3	Business Combinations	January 1, 2022	Year ending December 2022	Amendments to update references to the conceptual framework
IFRS 4	Insurance Contracts	January 1, 2021	Year ending December 2021	Amendments to replace an existing interest rate benchmark with an alternative benchmark rate
IFRS 7	Financial Instruments Disclosures	January 1, 2021	Year ending December 2021	Amendments to replace an existing interest rate benchmark with an alternative benchmark rate
IFRS 9	Financial Instruments	January 1, 2021	Year ending December 2021	Amendments to replace an existing interest rate benchmark with an alternative benchmark rate
		January 1, 2022	Year ending December 2022	Clarifying fees and costs to be included in the 10 per cent test for derecognition of financial liabilities
IFRS 16	Leases	January 1, 2021	Year ending December 2021	Amendments to replace an existing interest rate benchmark with an alternative benchmark rate
IFRS 17	Insurance Contracts	January 1, 2023	Year ending December 2023	Amendments to accounting treatment for insurance contracts
IAS 1	Presentation of Financial Statements	January 1, 2023	Year ending December 2023	Clarifying classification of liabilities into current liabilities or non-current liabilities
				Amendments to require companies to disclose their material accounting policy information rather than their significant accounting policies
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023	Year ending December 2023	Amendments to clarify how companies should distinguish changes in accounting policies from changes in accounting estimates
IAS 16	Property, Plant and Equipment	January 1, 2022	Year ending December 2022	Amendments to accounting treatment regarding proceeds from selling items produced while bringing the asset to the condition to be capable of operating in the manner intended
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	January 1, 2022	Year ending December 2022	Clarifying the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous
IAS 39	Financial Instruments Recognition and Measurement	January 1, 2021	Year ending December 2021	Amendments to replace an existing interest rate benchmark with an alternative benchmark rate
IAS 41	Agriculture	January 1, 2022	Year ending December 2022	Removal of the requirement to use pre-tax exclude taxation cash flows when measuring the fair value of a biological assets
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet determined	Not yet determined	Amendments to accounting treatment for sale or contribution of assets between an investor and its associate or joint venture

6. Operating Segments

(1) Outline of Reportable Segments

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

The Group is mainly engaged in the manufacture and sale of tobacco products, prescription drugs and processed foods. With respect to tobacco products, operations are managed separately for domestic and overseas markets. The reportable segments of the Group are composed of four segments: "Domestic Tobacco Business," "International Tobacco Business," "Pharmaceutical Business," and "Processed Food Business." They are determined by the type of products sold, their characteristics, and their markets.

The "Domestic Tobacco Business" manufactures and sells tobacco products in domestic areas (which include duty-free shops in Japan and markets in China, Hong Kong, and Macau where the Company's China Division operates). The "International Tobacco Business" manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The "Pharmaceutical Business" consists of research and development, and the manufacture and sale of prescription drugs. The "Processed Food Business" consists of the manufacture and sale of frozen and ambient processed foods, bakery products and seasonings.

(2) Revenues and Performances of Reportable Segments

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

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Year ended December 31, 2019

Millions of yen

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharmaceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	611,494	1,310,877	88,528	158,586	2,169,485	6,140	—	2,175,626
Intersegment revenue	7,270	27,626	—	1	34,897	7,333	(42,229)	—
Total revenue	618,764	1,338,503	88,528	158,587	2,204,382	13,473	(42,229)	2,175,626
Segment profit (loss)								
Adjusted operating profit (Note 1)	187,180	340,752	15,943	5,432	549,308	(33,478)	97	515,927
Other items								
Depreciation and amortization (Note 3)	59,276	108,378	5,936	7,586	181,176	2,909	(233)	183,852
Impairment losses on other than financial assets	7,751	5,765	1,471	220	15,207	917	—	16,124
Reversal of impairment losses on other than financial assets	—	91	—	—	91	—	—	91
Share of profit (loss) in investments accounted for using the equity method	16	4,863	—	10	4,889	122	—	5,011
Capital expenditures (Note 4)	34,793	78,295	6,979	6,142	126,209	5,609	(383)	131,434

Year ended December 31, 2020

Millions of yen

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharmaceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Revenue								
External revenue	**555,568**	**1,306,233**	**78,957**	**149,329**	**2,090,087**	**2,474**	**—**	**2,092,561**
Intersegment revenue	**7,674**	**24,606**	**—**	**1**	**32,282**	**5,317**	**(37,599)**	**—**
Total revenue	**563,242**	**1,330,839**	**78,957**	**149,330**	**2,122,369**	**7,791**	**(37,599)**	**2,092,561**
Segment profit (loss)								
Adjusted operating profit (Note 1)	**168,069**	**340,867**	**17,161**	**(793)**	**525,304**	**(38,201)**	**(152)**	**486,952**
Other items								
Depreciation and amortization (Note 3)	**56,576**	**105,654**	**5,427**	**7,554**	**175,210**	**4,679**	**(234)**	**179,654**
Impairment losses on other than financial assets	**—**	**7,538**	**—**	**3,841**	**11,378**	**1,193**	**—**	**12,571**
Reversal of impairment losses on other than financial assets	**—**	**49**	**—**	**—**	**49**	**—**	**—**	**49**
Share of profit (loss) in investments accounted for using the equity method	**15**	**3,963**	**—**	**21**	**3,999**	**42**	**—**	**4,042**
Capital expenditures (Note 4)	**21,053**	**66,598**	**9,087**	**7,972**	**104,709**	**8,301**	**(127)**	**112,883**

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

Year ended December 31, 2019

Millions of yen

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharmaceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Adjusted operating profit (Note 1)	187,180	340,752	15,943	5,432	549,308	(33,478)	97	515,927
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(53,378)	—	—	(69,623)	—	—	(69,623)
Adjustment items (income) (Note 5)	24	8,776	61,018	461	70,278	14,189	—	84,467
Adjustment items (costs) (Note 6)	—	(22,141)	(4,264)	(365)	(26,770)	(1,646)	—	(28,415)
Operating profit (loss)	170,960	274,008	72,697	5,528	523,193	(20,935)	97	502,355
Financial income								8,402
Financial costs								(45,526)
Profit before income taxes								465,232

Year ended December 31, 2020

Millions of yen

	Reportable Segments							
	Domestic Tobacco	International Tobacco	Pharmaceuticals	Processed Food	Total	Other (Note 2)	Elimination	Consolidated
Adjusted operating profit (Note 1)	**168,069**	**340,867**	**17,161**	**(793)**	**525,304**	**(38,201)**	**(152)**	**486,952**
Amortization cost of acquired intangibles arising from business acquisitions	**(16,245)**	**(46,915)**	**—**	**—**	**(63,160)**	**—**	**—**	**(63,160)**
Adjustment items (income) (Note 5)	**—**	**5,774**	**150**	**1**	**5,926**	**46,053**	**—**	**51,978**
Adjustment items (costs) (Note 6)	**—**	**(3,280)**	**(822)**	**(44)**	**(4,147)**	**(2,569)**	**—**	**(6,716)**
Operating profit (loss)	**151,824**	**296,446**	**16,488**	**(836)**	**463,923**	**5,283**	**(152)**	**469,054**
Financial income								**12,353**
Financial costs								**(61,344)**
Profit before income taxes								**420,063**

(Note 1) For adjusted operating profit, amortization cost of acquired intangibles arising from business acquisitions, and adjustment items (income and costs) are excluded from operating profit (loss).

(Note 2) "Other" includes business activities relating to real estate rental and corporate expenditure relating to corporate communication and operation of the head office.

(Note 3) Depreciation of right-of-use assets included in "Depreciation and amortization" is as follows:

Millions of yen

	2019	2020
Domestic Tobacco	3,649	**3,641**
International Tobacco	10,314	**11,923**
Pharmaceuticals	456	**439**
Processed Food	741	**867**
Other	616	**2,797**
Depreciation of right-of-use assets	15,778	**19,667**

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

(Note 5) The breakdown of "Adjustment items (income)" is as follows:

Millions of yen

	2019	2020
Gain on transfer of pharmaceutical licenses	60,518	**—**
Gain on sale of the former JT Building	—	**41,265**
Restructuring incomes	15,197	**4,803**
Other	8,752	**5,910**
Adjustment items (income)	84,467	**51,978**

Restructuring incomes for the years ended December 31, 2019 and 2020 mainly relate to gains on sale of real estate. The breakdown of restructuring incomes is described in "26. Other Operating Income." Other (income) for the year ended December 31, 2019 and 2020 mainly relate to gains on fair value adjustment after the measurement period for assets and liabilities acquired in a business combination in the "International Tobacco Business."

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

Millions of yen

	2019	2020
Restructuring costs	26,182	**3,116**
Other	2,233	**3,600**
Adjustment items (costs)	28,415	**6,716**

Restructuring costs for the year ended December 31, 2019 mainly relate to business operation transformation in the "International Tobacco Business" and business restructuring in the "Pharmaceutical Business." The breakdown of restructuring costs is described in "27. Selling, General and Administrative Expenses." Other (costs) for the year ended December 31, 2019 mainly relates to disposal of real estate.

(3) Geographic Information

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

Non-current Assets

	Millions of yen
	2019 / **2020**
Japan	812,083 / **751,673**
Overseas	2,450,772 / **2,285,357**
Consolidated	3,262,855 / **3,037,030**

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

The regional breakdown of external revenue for each year is as follows:

External Revenue

	Millions of yen
	2019 / **2020**
Japan	789,279 / **727,845**
Overseas	1,386,347 / **1,364,716**
Consolidated	2,175,626 / **2,092,561**

(Note) Revenue is segmented by the sales destination.

(4) Major Customers Information

The "International Tobacco Business" of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥235,093 million (10.8% of consolidated revenue) for the year ended December 31, 2019 and ¥210,834 million (10.1% of consolidated revenue) for the year ended December 31, 2020.

7. Cash and Cash Equivalents

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

	Millions of yen
	2019 / **2020**
Cash and deposits	260,908 / **483,844**
Short-term investments	96,249 / **55,000**
Total	357,158 / **538,844**

Cash and cash equivalents are classified as financial assets measured at amortized cost.

The Group's Iranian subsidiaries' ability to remit funds outside of Iran is restricted mainly due to international sanctions imposed on Iran. "Cash and cash equivalents" include ¥48,675 million as of December 31, 2019 and ¥42,807 million as of December 31, 2020 held by the Group's Iranian subsidiaries.

JTI-Macdonald Corp. (hereinafter referred to as "JTI-Mac"), the Company's Canadian subsidiary, is subject to certain restrictions on the use of funds other than in the ordinary course of business due to the adoption of the "Companies' Creditors Arrangement Act." "Cash and cash equivalents" include ¥19,085 million as of December 31, 2019 and ¥43,735 million as of December 31, 2020 held by JTI-Mac.

8. Trade and Other Receivables

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

	Millions of yen
	2019 / **2020**
Note and account receivables	432,874 / **404,720**
Other	28,113 / **9,347**
Allowance for doubtful accounts	(2,475) / **(1,923)**
Total	458,513 / **412,144**

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

Trade and other receivables are classified as financial assets measured at amortized cost.

9. Inventories

The breakdown of "Inventories" as of December 31 is as follows:

	Millions of yen
	2019 / **2020**
Merchandise and finished goods	142,343 / **130,718**
Leaf tobacco (Note)	365,700 / **334,797**
Other	75,652 / **74,247**
Total	583,695 / **539,762**

(Note) Leaf tobacco includes those products that will be used after 12 months from the end of each year, but they are included in inventories since they are held within the normal operating cycle.

10. Other Financial Assets

(1) The breakdown of "Other financial assets" as of December 31 is as follows:

	Millions of yen
	2019 / **2020**
Derivative assets	2,564 / **8,608**
Equity securities	32,747 / **26,704**
Debt securities	18,616 / **18,776**
Time deposits	761 / **928**
Other	82,757 / **76,830**
Allowance for doubtful accounts	(5,935) / **(5,875)**
Total	131,511 / **125,971**
Current assets	21,943 / **18,828**
Non-current assets	109,568 / **107,143**
Total	131,511 / **125,971**

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

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those to which hedge accounting is applied, equity securities are classified as financial assets measured at fair value through other comprehensive income, and time deposits and debt securities are classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of December 31 are as follows:

		Millions of yen
Company name	2019	2020
Seven & i Holdings Co., Ltd.	3,424	**3,129**
Japan Airport Terminal Co., Ltd.	2,436	**2,500**
DOUTOR•NICHIRES Holdings Co., Ltd.	2,892	**1,980**
KATO SANGYO CO., LTD.	2,032	**1,968**
Mitsubishi Shokuhin Co., Ltd.	1,860	**1,720**
Central Japan Railway Company	2,200	**1,459**
NIPPON EXPRESS CO., Ltd.	1,111	**1,199**
Yoshimura Food Holdings K.K.	1,250	**814**
Daicel Corporation	891	**640**
Kanemi Co., Ltd.	638	**624**

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

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

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

		Millions of yen
	2019	2020
Fair Value	30,765	**2,978**
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(15,883)	**(1,399)**

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

11. Other Current Assets

The breakdown of "Other current assets" as of December 31 is as follows:

		Millions of yen
	2019	2020
Prepaid tobacco excise taxes	337,166	**336,109**
Prepaid expenses	22,172	**15,680**
Consumption tax receivables	15,243	**14,960**
Other	129,753	**127,242**
Total	504,334	**493,992**

12. Non-current Assets Held for Sale

The breakdown of "Non-current assets held for sale" as of December 31 is as follows:

Breakdown of Major Assets

		Millions of yen
	2019	2020
Non-current assets held for sale		
Property, plant and equipment	14	**348**
Other	17	**0**
Total	30	**348**

"Non-current assets held-for-sale" are mainly idle properties which are currently actively marketed for sale.

With regard to such assets and assets sold, impairment losses of ¥31 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the year ended December 31, 2020.

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of "Property, plant and equipment" are as follows:

					Millions of yen
Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of December 31, 2018	362,586	288,587	44,333	63,335	758,841
Cumulative effect of changes in accounting policies	36,440	4,548	85	—	41,073
As of January 1, 2019, after cumulative effect of changes in accounting policies	399,027	293,135	44,418	63,335	799,914
Individual acquisition	29,054	47,247	15,808	41,371	133,480
Transfer to investment property	(1,095)	—	(21)	—	(1,116)
Transfer to non-current assets held for sale	(14)	—	—	—	(14)
Depreciation	(28,049)	(55,775)	(15,196)	—	(99,021)
Impairment losses	(1,930)	(9,506)	(304)	(44)	(11,784)
Reversal of impairment losses	—	91	—	—	91
Sale or disposal	(739)	(5,148)	(2,084)	(21)	(7,991)
Exchange differences on translation of foreign operations	(741)	(1,550)	(81)	(1,280)	(3,652)
Other	9,461	30,172	1,357	(47,657)	(6,668)
As of December 31, 2019	404,973	298,665	43,897	55,704	803,239
Individual acquisition	**45,618**	**33,073**	**11,434**	**34,242**	**124,367**
Transfer to investment property	**(979)**	**—**	**(1)**	**—**	**(980)**
Transfer to non-current assets held for sale	**(29,059)**	**(379)**	**(474)**	**(50)**	**(29,962)**
Depreciation	**(31,160)**	**(56,278)**	**(13,658)**	**—**	**(101,096)**
Impairment losses	**(4,405)**	**(4,089)**	**(386)**	**(10)**	**(8,891)**
Reversal of impairment losses	**—**	**34**	**2**	**—**	**36**
Sale or disposal	**(733)**	**(3,437)**	**(1,081)**	**(148)**	**(5,399)**
Exchange differences on translation of foreign operations	**(8,552)**	**(8,667)**	**(998)**	**(1,880)**	**(20,097)**
Other	**5,721**	**29,707**	**850**	**(38,205)**	**(1,927)**
As of December 31, 2020	**381,424**	**288,629**	**39,583**	**49,653**	**759,290**

					Millions of yen
Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2019	707,874	778,384	152,878	63,443	1,702,578
As of December 31, 2019	734,009	826,909	156,328	55,709	1,772,954
As of December 31, 2020	**686,208**	**826,889**	**152,000**	**49,653**	**1,714,751**

					Millions of yen
Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2019	308,847	485,249	108,460	107	902,664
As of December 31, 2019	329,036	528,244	112,431	5	969,715
As of December 31, 2020	**304,783**	**538,261**	**112,417**	**—**	**955,461**

(2) Impairment Losses

The grouping of property, plant and equipment for impairment test is the smallest cash-generating unit that independently generates cash inflows.

The Group recognized impairment losses of ¥11,784 million in the year ended December 31, 2019, and ¥8,891 million in the year ended December 31, 2020 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2019 represent losses incurred to reduce the carrying amounts to the recoverable amounts for buildings, structures, machinery and vehicles, due to the decision to demolish individual items, etc.

The recoverable amounts of these assets are calculated mainly by their values in use, which are estimated at "zero."

Impairment losses recognized in the year ended December 31, 2020 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles, due to the decision to demolish individual items, etc.

The recoverable amounts of these assets are calculated mainly by their values in use.

14. Goodwill and Intangible Assets

(1) Schedule of Goodwill and Intangible Assets

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

					Millions of yen
Carrying Amount	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2019	2,008,416	421,276	31,919	49,882	2,511,492
Individual acquisition	—	4	8,778	13,112	21,893
Amortization (Note)	—	(63,380)	(11,500)	(9,418)	(84,298)
Impairment losses	—	(791)	(130)	(2,501)	(3,423)
Sale or disposal	—	(6)	(300)	(83)	(389)
Exchange differences on translation of foreign operations	(665)	3,536	(129)	121	2,863
Other	(5,155)	3	2,934	(2,891)	(5,109)
As of December 31, 2019	2,002,595	360,641	31,572	48,221	2,443,029
Individual acquisition	**—**	**447**	**7,176**	**15,601**	**23,224**
Amortization (Note)	**—**	**(57,737)**	**(11,905)**	**(8,555)**	**(78,196)**
Transfer to non-current assets held for sale	**—**	**—**	**(20)**	**(0)**	**(20)**
Impairment losses	**—**	**(55)**	**(117)**	**(3,219)**	**(3,390)**
Reversal of impairment losses	**—**	**—**	**13**	**—**	**13**
Sale or disposal	**—**	**(7)**	**(798)**	**(236)**	**(1,041)**
Exchange differences on translation of foreign operations	**(93,203)**	**(15,928)**	**(486)**	**(1,216)**	**(110,833)**
Other	**—**	**(17)**	**5,829**	**(5,602)**	**210**
As of December 31, 2020	**1,909,392**	**287,344**	**31,264**	**44,995**	**2,272,996**

(Note) The amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

					Millions of yen
Acquisition Cost	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2019	2,008,416	1,078,596	157,191	94,698	3,338,901
As of December 31, 2019	2,002,595	1,087,865	141,954	103,762	3,336,175
As of December 31, 2020	**1,909,392**	**1,057,235**	**149,251**	**110,884**	**3,226,763**

					Millions of yen
Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2019	—	657,320	125,272	44,817	827,409
As of December 31, 2019	—	727,224	110,382	55,540	893,146
As of December 31, 2020	**—**	**769,891**	**117,987**	**65,889**	**953,767**

(2) Material Goodwill and Intangible Assets

Goodwill and intangible assets recognized in the consolidated statement of financial position are mainly composed of goodwill and trademarks in the JTIH Group. The carrying amounts of goodwill as of December 31, 2019 and 2020 were ¥1,711,335 million and ¥1,618,133 million, respectively. The carrying amounts of trademarks as of December 31, 2019 and 2020 were ¥261,969 million and ¥205,223 million, respectively.

The majority of goodwill and trademark in the JTIH Group was recognized as a result of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999 and Gallaher in 2007.

Other than the above, goodwill and trademark in Domestic Tobacco business were recognized as a result of the acquisition of Natural American Spirit's non-U.S. tobacco operations in 2016. The carrying amounts of goodwill as of December 31, 2018 and 2019 were ¥265,891 million and ¥265,891 million, respectively. The carrying amounts of trademarks as of December 31, 2019 and 2020 were ¥98,669 million and ¥82,120 million, respectively.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly from 5 to 6 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2020, the carrying amount of the majority of goodwill is allocated to the domestic tobacco cash-generating unit of ¥265,891 million (¥265,891 million for the year ended December 31, 2019), the international tobacco cash-generating unit of ¥1,618,133 million (¥1,711,335 million for the year ended December 31, 2019) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2019). Details of the result of impairment tests are as follows:

A. Domestic Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, given the current domestic tobacco market situation, the Group calculates the value in use by using cash flows with a growth rate from (1.3%) in the fourth year to 0% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate. In the prior period, the Group's estimated growth rate of 0% is applied only from the fourth year of cash-flows onwards.

The pre-tax discount rate is 4.9% (2019: 4.3%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

B. International Tobacco Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 4.6% in the fourth year (2019: 5.7%) to 2.8% in the ninth year (2019: 3.3%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 9.0% (2019: 11.0%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

C. Processed Food Cash-generating Unit

The recoverable amount is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information and that was approved by management. After the three-year business plan, the Group sets a growth rate from 2.2% in the fourth year (2019: 2.5%) to 1.1% in the ninth year (2019: 1.3%), and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation.

The pre-tax discount rate is 3.9% (2019: 3.8%). The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group assumes that the value in use will not become less than the carrying amount.

(4) Impairment Losses

Goodwill is allocated to cash-generating units that are identified according to locations and types of businesses. The grouping of intangible assets for impairment test is the smallest cash-generating unit that independently generates cash inflow.

The Group recognized impairment losses of ¥3,423 million for the year ended December 31, 2019, and ¥3,390 million for the year ended December 31, 2020 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized in the year ended December 31, 2019 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.

The recoverable amounts of these assets are calculated mainly by their values in use.

Impairment losses recognized in the year ended December 31, 2020 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.

The recoverable amounts of these assets are calculated mainly by their values in use.

15. Lease Transactions

The Group leases buildings, factory sites, vehicles and other assets as a lessee. Some of the lease contracts have renewal options or escalation clauses. There are no restrictions on additional debt and further leasing imposed by the lease arrangements.

(1) Addition, Depreciation and Carrying Amount of Right-of-use Assets

The breakdown of addition, depreciation and carrying amount of right-of-use assets is as follows:

Year ended December 31, 2019

				Millions of yen
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	14,645	9,404	72	24,121
Depreciation	10,449	5,210	119	15,778

As of December 31, 2019

				Millions of yen
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	43,772	12,813	126	56,711

Year ended December 31, 2020

				Millions of yen
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	**29,796**	**4,813**	**165**	**34,773**
Depreciation	**14,149**	**5,435**	**84**	**19,667**

As of December 31, 2020

				Millions of yen
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	**57,011**	**10,732**	**103**	**67,847**

(2) Expense Items Related to Lease

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

		Millions of yen
	2019	2020
Financial cost on lease liabilities	1,506	**1,462**
Expense relating to short-term lease or leases of low-value assets	9,440	**7,519**
Expense relating to variable lease payments	2,182	**1,654**
Total cash outflow for leases	16,003	**19,315**

16. Investment Property

(1) Schedule of Investment Property

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

		Millions of yen
	2019	2020
As of January 1	17,558	**16,588**
Expenditure after acquisition	182	**65**
Transfer from property, plant and equipment	1,116	**980**
Transfer to non-current assets held for sale	(403)	**(12,033)**
Transfer to property, plant and equipment	(370)	**(223)**
Depreciation	(533)	**(362)**
Impairment losses	(917)	**(259)**
Sale or disposal	(34)	**(11)**
Exchange differences on translation of foreign operations	(10)	**3**
Other	—	**(3)**
As of December 31	16,588	**4,744**
Acquisition cost as of January 1	38,355	**40,262**
Accumulated depreciation and accumulated impairment losses as of January 1	20,797	**23,674**
Acquisition cost as of December 31	40,262	**14,074**
Accumulated depreciation and accumulated impairment losses as of December 31	23,674	**9,331**

(2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal standards of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

- Level 1: Fair value measured at the quoted price in the active market
- Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly
- Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

The fair value of investment property based on the fair value hierarchy as of December 31 is as follows:

				Millions of yen
	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investment property	—	34,788	1,416	36,204

				Millions of yen
	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investment property	**—**	**12,467**	**1,489**	**13,956**

(3) Impairment Losses

The grouping of investment properties for impairment test is based on the smallest cash-generating unit that independently generates cash inflows. Impairment tests for idle properties are carried out individually.

The Group recognized impairment losses of ¥917 million for the year ended December 31, 2019, and ¥259 million for the year ended December 31, 2020 in "Selling, general and administrative expenses" in the consolidated statement of income.

Impairment losses recognized for the year ended December 31, 2019 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by their values in use, which are estimated at "zero."

Impairment losses recognized for the year ended December 31, 2020 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by their values in use, which are estimated at "zero."

17. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown and schedule of "Deferred tax assets" and "Deferred tax liabilities" by major causes of their occurrence for each year are as follows:

Year ended December 31, 2019

Millions of yen

Deferred Tax Assets	As of January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2019
Fixed assets (Note 2)	120,129	(2,528)	—	16	117,616
Retirement benefits	72,248	(3,996)	3,854	(572)	71,534
Carryforward of unused tax losses	53,126	(10,070)	—	(648)	42,409
Other	84,215	2,635	1,103	(22)	87,931
Subtotal	329,717	(13,959)	4,957	(1,225)	319,490
Valuation allowance	(65,986)	15,011	(1,438)	349	(52,064)
Total	263,731	1,053	3,519	(877)	267,426

Millions of yen

Deferred Tax Liabilities	As of January 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2019
Fixed assets (Note 2)	(99,298)	5,824	—	(495)	(93,968)
Retirement benefits	(10,125)	375	(1,708)	(174)	(11,632)
Other	(117,697)	3,938	6,773	(574)	(107,561)
Total	(227,120)	10,137	5,065	(1,243)	(213,160)

Year ended December 31, 2020

Millions of yen

Deferred Tax Assets	As of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2020
Fixed assets (Note 2)	**117,616**	**(12,394)**	**—**	**(332)**	**104,890**
Retirement benefits	**71,534**	**(2,590)**	**3,243**	**841**	**73,028**
Carryforward of unused tax losses	**42,409**	**8,645**	**—**	**(4,966)**	**46,087**
Other	**87,931**	**10,770**	**(1,626)**	**(3,354)**	**93,722**
Subtotal	**319,490**	**4,431**	**1,617**	**(7,811)**	**317,726**
Valuation allowance	**(52,064)**	**(12,815)**	**(921)**	**4,356**	**(61,443)**
Total	**267,426**	**(8,384)**	**696**	**(3,455)**	**256,283**

Millions of yen

Deferred Tax Liabilities	As of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2020
Fixed assets (Note 2)	**(93,968)**	**11,990**	**—**	**2,443**	**(79,535)**
Retirement benefits	**(11,632)**	**(826)**	**(1,704)**	**(5)**	**(14,166)**
Other	**(107,561)**	**328**	**1,275**	**1,462**	**(104,496)**
Total	**(213,160)**	**11,492**	**(429)**	**3,900**	**(198,197)**

(Note 1) "Other" includes exchange differences on translation of foreign operations.
(Note 2) "Fixed assets" include property, plant and equipment, goodwill, intangible assets and investment property.

The deferred tax assets are recognized for the amount considered to be recoverable on deductible temporary differences, carryforward of unused tax losses and tax credits by taking taxable temporary differences and future taxable profits plan into account. The carryforward of unused tax losses, for which the deferred tax assets are not recognized, was ¥31,555 million (including ¥19,252 million, for which the carryforward expires after five years) as of December 31, 2019, and ¥38,953 million (including ¥20,743 million, for which the carryforward expires after five years) as of December 31, 2020. Tax credits, for which the deferred tax assets are not recognized, were ¥4,201 million (including ¥3,931 million, for which the carryforward expires after five years) as of December 31, 2019, and ¥5,132 million (including ¥4,705 million, for which the carryforward expires after five years) as of December 31, 2020.

(2) Income Taxes

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

Millions of yen

	2019	2020
Current income taxes	114,799	**111,142**
Deferred income taxes	(11,189)	**(3,108)**
Total income taxes	103,609	**108,034**

Deferred income taxes decreased by ¥4,498 million and increased by ¥1,624 million for the years ended December 31, 2019 and 2020, respectively, due to the effect of changes in tax rates in Japan and other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate for each year calculated based on these taxes was 30.43%. Foreign subsidiaries are subject to income taxes at their locations.

%

	2019	2020
Effective statutory tax rate	30.43	**30.43**
Different tax rates applied to foreign subsidiaries	(9.08)	**(8.81)**
Non-deductible expenses	1.48	**1.53**
Dividend income	2.04	**2.40**
Valuation allowance	(2.90)	**3.16**
Tax credits	(1.66)	**(1.04)**
Withholding tax in foreign countries	1.79	**1.25**
Tax contingencies	1.21	**(1.11)**
Other	(1.05)	**(2.10)**
Average actual tax rate	22.27	**25.72**

18. Trade and Other Payables

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

	Millions of yen
	2019	**2020**
Accounts payable	229,914	**233,723**
Other payables	69,439	**72,588**
Other	109,245	**130,228**
Total	408,597	**436,540**

Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Bonds and Borrowings (Including Other Financial Liabilities)

(1) Breakdown of Financial Liabilities

The breakdown of "Bonds and borrowings" and "Other financial liabilities" as of December 31 is as follows:

	Millions of yen		
	2019	**2020**	Due
Derivative liabilities	7,739	**10,334**	—
Short-term borrowings	192,581	**51,633**	—
Current portion of long-term borrowings	11,554	**12,226**	—
Current portion of bonds (Note 2)	80,000	**77,609**	—
Long-term borrowings (Note 1)	103,743	**192,729**	2022–2080
Bonds (Note 2)	586,623	**624,683**	—
Lease liabilities	53,705	**66,531**	—
Other	1,479	**887**	—
Total	1,037,425	**1,036,633**	
Current liabilities	305,997	**169,057**	
Non-current liabilities	731,428	**867,576**	
Total	1,037,425	**1,036,633**	

(Note 1) ¥99,085 million of the long-term borrowings is subordinated loans. (Due: 2080. 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 in January 2025)

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

			Millions of yen		%		
Company	Name of bond	Date of issuance	As of December 31, 2019	**As of December 31, 2020**	Interest rate	Collateral	Date of maturity
Japan Tobacco Inc.	8th domestic straight bond	December 9, 2010	20,000 (20,000)	**—**	1.300	Yes	December 9, 2020
Japan Tobacco Inc.	9th domestic straight bond	July 15, 2015	60,000 (60,000)	**—**	0.217	Yes	July 15, 2020
Japan Tobacco Inc.	10th domestic straight bond	July 15, 2015	30,000	**30,000**	0.358	Yes	July 15, 2022
Japan Tobacco Inc.	11th domestic straight bond	July 15, 2015	25,000	**25,000**	0.599	Yes	July 15, 2025
Japan Tobacco Inc.	12th domestic straight bond	September 10, 2018	60,000	**60,000**	0.110	Yes	September 8, 2023
Japan Tobacco Inc.	13th domestic straight bond	September 10, 2018	30,000	**30,000**	0.355	Yes	September 8, 2028
Japan Tobacco Inc.	14th domestic straight bond	September 10, 2018	10,000	**10,000**	0.758	Yes	September 10, 2038
Japan Tobacco Inc.	Straight bond in USD	April 13, 2016	82,095 [USD 750 mil.]	**77,609** **(77,609)** **[USD 750 mil.]**	2.000	Yes	April 13, 2021
Japan Tobacco Inc.	Straight bond in USD	April 13, 2016	54,580 [USD 500 mil.]	**51,589** **[USD 500 mil.]**	2.800	Yes	April 13, 2026
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	57,198 [USD 525 mil.]	**54,109** **[USD 525 mil.]**	3.500	No	September 28, 2023
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	54,172 [USD 500 mil.]	**51,231** **[USD 500 mil.]**	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	66,772 [EUR 550 mil.]	**69,233** **[EUR 550 mil.]**	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR	November 26, 2019	60,639 [EUR 500 mil.]	**62,842** **[EUR 500 mil.]**	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	56,168 [GBP 400 mil.]	**54,850** **[GBP 400 mil.]**	2.750	No	September 28, 2033
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	— [—]	**62,934** **[EUR 500 mil.]**	2.375	No	April 7, 2081 (Note 3)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	— [—]	**62,896** **[EUR 500 mil.]**	2.875	No	October 7, 2083 (Note 4)
Total			666,623 (80,000)	**702,292** **(77,609)**			

(Note 1) The figure in parentheses ( ) represents the amount of the current portion of the bond.
(Note 2) The figure in parentheses [ ] represents the amount of foreign currency-denominated bond.
(Note 3) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on and including April 7, 2026 and on each interest payment date thereafter.
(Note 4) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on and including January 7, 2029 and on each interest payment date thereafter.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those to which hedge accounting is applied, and bonds and borrowings are classified as financial liabilities measured at amortized cost.

There are no financial covenants that have a significant impact on the bonds and borrowings of the Group.

(2) Assets Pledged as Collateral for Liabilities

Pursuant to the provisions of Article 6 of the Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

20. Provisions

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

Year ended December 31, 2019

					Millions of yen
	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2019	3,579	322	3,668	34,689	42,258
Provisions	2	25,393	4,000	16,225	45,621
Interest cost associated with passage of time	29	—	—	—	29
Provisions used	(9)	(2,874)	(3,668)	(4,204)	(10,754)
Provisions reversed	(4)	(95)	—	(18,406)	(18,506)
Exchange differences on translation of foreign operations	—	490	—	(685)	(195)
As of December 31, 2019	3,598	23,236	4,000	27,619	58,453
Current liabilities	—	7,565	4,000	6,723	18,289
Non-current liabilities	3,598	15,671	—	20,896	40,164
Total	3,598	23,236	4,000	27,619	58,453

Year ended December 31, 2020

					Millions of yen
	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2020	**3,598**	**23,236**	**4,000**	**27,619**	**58,453**
Provisions	**1,887**	**4,254**	**3,697**	**15,949**	**25,787**
Interest cost associated with passage of time	**29**	**—**	**—**	**—**	**29**
Provisions used	**(173)**	**(7,246)**	**(4,000)**	**(5,362)**	**(16,782)**
Provisions reversed	**(108)**	**(2,046)**	**—**	**(10,675)**	**(12,828)**
Exchange differences on translation of foreign operations	**—**	**(538)**	**—**	**(3,363)**	**(3,901)**
As of December 31, 2020	**5,232**	**17,660**	**3,697**	**24,169**	**50,758**
Current liabilities	**43**	**10,637**	**3,697**	**5,043**	**19,420**
Non-current liabilities	**5,189**	**7,023**	**—**	**19,125**	**31,338**
Total	**5,232**	**17,660**	**3,697**	**24,169**	**50,758**

A. Asset Retirement Provisions

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

B. Restructuring Provisions

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

C. Provisions for Sales Rebates

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

21. Other Liabilities

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

		Millions of yen
	2019	**2020**
Tobacco excise tax payables	302,965	**268,608**
Tobacco special excise tax payables	10,060	**8,536**
Tobacco local excise tax payables	163,387	**158,905**
Consumption tax payables	124,693	**129,782**
Bonus to employees	49,473	**56,955**
Employees' unused paid vacations liabilities	19,488	**20,297**
Other	164,331	**172,213**
Total	834,397	**815,295**
Current liabilities	699,331	**652,314**
Non-current liabilities	135,066	**162,982**
Total	834,397	**815,295**

22. Employee Benefits

(1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions, such as points employees have gained in compensation for each year of service, the payment rate, years of service, and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities.

Special termination benefits may be provided to employees on their early retirements under certain circumstances.

The funded defined benefit plans are administrated by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group, or the board of the pension fund and the trustee of the plan, are required by law to act in the best interests of the plan participants, and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group's main defined benefit plans expose the Group to actuarial risks, such as investment risk, interest rate risk, inflation risk, and longevity risk.

(i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bonds or government bonds. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

(ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

(iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

(iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity, and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

			Millions of yen
	Japan (Note 3)	Overseas	Total
As of January 1, 2019 (Notes 1, 2)	216,223	484,964	701,187
Current service cost	9,940	9,099	19,039
Past service cost and settlement	—	(4,190)	(4,190)
Interest expense	1,000	10,287	11,288
Contributions by plan participants	—	1,727	1,727
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	1,135	(4,668)	(3,533)
Actuarial gains and losses arising from changes in financial assumptions	(1,282)	46,336	45,053
Actuarial gains and losses arising from experience adjustments	(2,914)	(2,463)	(5,378)
Benefits paid	(23,507)	(21,110)	(44,617)
Exchange differences on translation of foreign operations	—	(284)	(284)
Other	—	(608)	(608)
As of December 31, 2019 (Notes 1, 2)	200,595	519,089	719,684
Current service cost	**9,510**	**10,014**	**19,524**
Past service cost and settlement	**—**	**3,047**	**3,047**
Interest expense	**1,135**	**7,585**	**8,720**
Contributions by plan participants	**—**	**1,966**	**1,966**
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	**(284)**	**(2,110)**	**(2,394)**
Actuarial gains and losses arising from changes in financial assumptions	**(3,618)**	**39,629**	**36,012**
Actuarial gains and losses arising from experience adjustments	**(678)**	**4,374**	**3,696**
Benefits paid	**(21,434)**	**(19,864)**	**(41,298)**
Exchange differences on translation of foreign operations	**—**	**2,621**	**2,621**
Other	**(629)**	**(8)**	**(637)**
As of December 31, 2020 (Notes 1, 2)	**184,597**	**566,343**	**750,940**

(Note 1) The Group's weighted-average duration of the defined benefit obligations is 6.9 years for Japan and 15.5 years for overseas (2019: 6.9 years for Japan and 15.5 years for overseas).
(Note 2) The Group's breakdown of the defined benefit obligation by plan participant is as follows:

						Millions of yen
	As of December 31, 2019			As of December 31, 2020		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	135,200	172,637	307,837	**129,281**	**198,735**	**328,016**
Deferred members	10,427	76,190	86,617	**7,830**	**81,218**	**89,048**
Pensioners	54,968	270,263	325,230	**47,485**	**286,391**	**333,876**
Total	200,595	519,089	719,684	**184,597**	**566,343**	**750,940**

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

		Millions of yen
	2019	2020
As of January 1	36,675	**31,090**
Interest expense	110	**124**
Remeasurement gains and losses	(1,661)	**(1,596)**
Benefits paid	(4,034)	**(3,565)**
As of December 31	31,090	**26,054**

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

			Millions of yen
	Japan	Overseas	Total
As of January 1, 2019	62,788	373,702	436,489
Interest income	296	8,207	8,503
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	1,064	30,122	31,185
Contributions by the employer (Notes 1, 2)	959	6,465	7,424
Contributions by plan participants	—	1,727	1,727
Benefits paid	(7,114)	(16,402)	(23,516)
Exchange differences on translation of foreign operations	—	4,634	4,634
As of December 31, 2019	57,992	408,455	466,447
Interest income	**333**	**6,215**	**6,548**
Remeasurement gains and losses:			
Return on plan assets (excluding amounts included in interest income)	**380**	**29,438**	**29,817**
Contributions by the employer (Notes 1, 2)	**879**	**7,536**	**8,414**
Contributions by plan participants	**—**	**1,966**	**1,966**
Benefits paid	**(5,560)**	**(15,100)**	**(20,660)**
Exchange differences on translation of foreign operations	**—**	**(2,246)**	**(2,246)**
Other	**(571)**	**—**	**(571)**
As of December 31, 2020	**53,453**	**436,263**	**489,715**

(Note 1) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.
(Note 2) The Group plans to pay contributions of ¥5,154 million in the year ending December 31, 2021.

C. Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the consolidated statement of financial position as of December 31 is as follows:

As of December 31, 2019

			Millions of yen
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	53,201	366,845	420,046
Fair value of the plan assets	(57,992)	(408,455)	(466,447)
Subtotal	(4,791)	(41,610)	(46,401)
Present value of the unfunded defined benefit obligations	147,394	152,244	299,638
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	142,603	110,635	253,237
Retirement benefit liabilities	148,915	171,699	320,614
Retirement benefit assets	(6,312)	(61,064)	(67,377)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	142,603	110,635	253,237

As of December 31, 2020

	Millions of yen		
	Japan	Overseas	Total
Present value of the funded defined benefit obligations	**48,531**	**397,336**	**445,868**
Fair value of the plan assets	**(53,453)**	**(436,263)**	**(489,715)**
Subtotal	**(4,921)**	**(38,926)**	**(43,847)**
Present value of the unfunded defined benefit obligations	**136,065**	**169,007**	**305,072**
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	**131,144**	**130,080**	**261,225**
Retirement benefit liabilities	**137,262**	**194,490**	**331,752**
Retirement benefit assets	**(6,118)**	**(64,410)**	**(70,528)**
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	**131,144**	**130,080**	**261,225**

D. Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of December 31 is as follows:

Japan

	Millions of yen					
	As of December 31, 2019			**As of December 31, 2020**		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	7,794	—	7,794	**7,569**	**—**	**7,569**
Equity instruments	3,078	—	3,078	**3,524**	**—**	**3,524**
Japan	1,509	—	1,509	**1,653**	**—**	**1,653**
Overseas	1,569	—	1,569	**1,871**	**—**	**1,871**
Debt instruments	8,819	—	8,819	**7,550**	**—**	**7,550**
Japan	7,572	—	7,572	**6,299**	**—**	**6,299**
Overseas	1,247	—	1,247	**1,250**	**—**	**1,250**
General account of life insurance companies (Note)	—	36,496	36,496	**—**	**33,048**	**33,048**
Other	785	1,019	1,804	**751**	**1,011**	**1,762**
Total	20,477	37,515	57,992	**19,394**	**34,059**	**53,453**

Overseas

	Millions of yen					
	As of December 31, 2019			**As of December 31, 2020**		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	15,622	—	15,622	**33,999**	**—**	**33,999**
Equity instruments	59,536	0	59,537	**63,683**	**0**	**63,683**
United Kingdom	4,242	—	4,242	**3,805**	**—**	**3,805**
North America	23,397	—	23,397	**23,876**	**—**	**23,876**
Other	31,897	0	31,897	**36,001**	**0**	**36,001**
Debt instruments	294,759	5,334	300,093	**296,597**	**6,079**	**302,676**
United Kingdom	210,452	—	210,452	**206,048**	**—**	**206,048**
North America	33,186	—	33,186	**31,588**	**0**	**31,588**
Other	51,122	5,334	56,456	**58,962**	**6,079**	**65,040**
Real estate	13,060	66	13,126	**15,673**	**68**	**15,740**
Other	10,395	9,683	20,078	**10,571**	**9,592**	**20,164**
Total	393,372	15,083	408,455	**420,524**	**15,739**	**436,263**

Total

	Millions of yen					
	As of December 31, 2019			**As of December 31, 2020**		
	Market price in an active market			Market price in an active market		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Cash and cash equivalents	23,416	—	23,416	**41,568**	**—**	**41,568**
Equity instruments	62,614	0	62,615	**67,206**	**0**	**67,207**
Debt instruments	303,578	5,334	308,913	**304,147**	**6,079**	**310,226**
Real estate	13,060	66	13,126	**15,673**	**68**	**15,740**
General account of life insurance companies (Note)	—	36,496	36,496	**—**	**33,048**	**33,048**
Other	11,180	10,702	21,882	**11,323**	**10,604**	**21,926**
Total	413,849	52,598	466,447	**439,917**	**49,798**	**489,715**

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

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

(Japan)

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

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

(Overseas)

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

The majority of the plan assets have been allocated to liability matching bonds and the remaining parts of the plan assets are mainly invested in equities targeting long-term return.

E. Matters Related to Actuarial Assumptions

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

	%			
	As of December 31, 2019		**As of December 31, 2020**	
	Japan	Overseas	Japan	Overseas
Discount rate	0.6	1.5	**0.8**	**1.0**
Inflation rate	—	2.3	**—**	**2.3**

As of December 31, 2019

	Years			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	23.6 (Note 2)	29.3 (Note 2)	21.8 (Note 3)	24.0 (Note 3)
Future pensioners			23.1 (Note 4)	25.3 (Note 4)

As of December 31, 2020

	Years			
	Japan		Overseas	
	Males	Females	Males	Females
Average life expectancy at retirement (Note 1)				
Current pensioners	**24.5** (Note 2)	**29.7** (Note 2)	**21.9** (Note 3)	**24.2** (Note 3)
Future pensioners			**23.2** (Note 4)	**25.5** (Note 4)

(Note 1) The average life expectancies underlie the values of the defined benefit obligations on major plans. Assumptions regarding future mortality rate are based on published statistics and mortality tables.
(Note 2) Life expectancy for a pensioner currently aged 60. Regardless of the plan participant's current age, the Group performs actuarial calculations based on the assumption that life expectancy remains the same.
(Note 3) Life expectancy for a pensioner currently aged 65.
(Note 4) Life expectancy at the age of 65 for an active member currently aged 50.
(Note 5) The valuation of defined benefit obligations reflects a judgment on uncertain future events. The sensitivities of defined benefit obligations due to changes in major assumptions as of December 31 are as follows. Each of these sensitivities assumes that other variables remain fixed; however, in fact, they do not always change independently. Negative figures represent a decrease in pension plan obligations, while positive figures represent an increase.

		Millions of yen			
		As of December 31, 2019		**As of December 31, 2020**	
	Change in assumptions	Japan	Overseas	Japan	Overseas
Discount rate	Increase by 0.5%	(6,438)	(38,101)	**(5,821)**	**(41,376)**
	Decrease by 0.5%	6,917	42,460	**6,252**	**46,245**
Inflation rate	Increase by 0.5%	—	25,757	**—**	**31,073**
	Decrease by 0.5%	—	(24,052)	**—**	**(28,236)**
Mortality rate	Extended 1 year	3,834	20,155	**3,367**	**21,707**
	Shortened 1 year	(3,696)	(19,764)	**(3,231)**	**(21,346)**

F. Breakdown of Defined Benefit Cost

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

Year ended December 31, 2019

	Millions of yen		
	Japan	Overseas	Total
Current service cost	9,940	9,099	19,039
Past service cost and gains and losses on settlement	—	(4,190)	(4,190)
Interest expense (income)	704	2,080	2,785
Defined benefit cost through profit or loss	10,645	6,989	17,634
Actuarial gains and losses arising from changes in demographic assumptions	1,135	(4,668)	(3,533)
Actuarial gains and losses arising from changes in financial assumptions	(1,282)	46,336	45,053
Actuarial gains and losses arising from experience adjustments	(2,914)	(2,463)	(5,378)
Return on plan assets (excluding amounts included in interest income)	(1,064)	(30,122)	(31,185)
Defined benefit cost through other comprehensive income	(4,126)	9,083	4,957
Total of defined benefit cost	6,519	16,072	22,591

Year ended December 31, 2020

	Millions of yen		
	Japan	Overseas	Total
Current service cost	**9,510**	**10,014**	**19,524**
Past service cost and gains and losses on settlement	**—**	**3,047**	**3,047**
Interest expense (income)	**802**	**1,370**	**2,172**
Defined benefit cost through profit or loss	**10,312**	**14,431**	**24,742**
Actuarial gains and losses arising from changes in demographic assumptions	**(284)**	**(2,110)**	**(2,394)**
Actuarial gains and losses arising from changes in financial assumptions	**(3,618)**	**39,629**	**36,012**
Actuarial gains and losses arising from experience adjustments	**(678)**	**4,374**	**3,696**
Return on plan assets (excluding amounts included in interest income)	**(380)**	**(29,438)**	**(29,817)**
Defined benefit cost through other comprehensive income	**(4,960)**	**12,456**	**7,496**
Total of defined benefit cost	**5,352**	**26,886**	**32,238**

(Note 1) The net amount of interest expense and interest income is included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses."
(Note 2) Contributions to the defined contribution plans were ¥9,269 million for the year ended December 31, 2019 and ¥9,698 million for the year ended December 31, 2020 and were not included in the table above.

(2) Other Employee Benefit Expenses

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

	Millions of yen	
	2019	**2020**
Remuneration and salary	239,305	**241,549**
Bonus to employees	80,973	**97,676**
Legal welfare expenses	44,607	**45,458**
Welfare expenses	38,620	**38,258**
Termination benefits	24,541	**85**

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2019 and 2020 is 8,000,000 thousand ordinary shares.

B. Fully Paid Issued Shares

The schedule of the number of issued shares and share capital is as follows:

	Thousands of shares	Millions of yen	
	Number of ordinary issued shares	Share capital	Capital surplus
As of January 1, 2019	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2019	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2020	**2,000,000**	**100,000**	**736,400**

(Note) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Treasury Shares

The schedule of the number of treasury shares and its amount as of each year end is as follows:

	Thousands of shares	Millions of yen
	Number of shares	Amount
As of January 1, 2019	208,577	442,829
Increase (decrease) (Note 2)	17,620	49,640
As of December 31, 2019	226,197	492,469
Increase (decrease) (Note 2)	(442)	(962)
As of December 31, 2020	**225,755**	**491,507**

(Note 1) The Company adopts share option plans, restricted stock remuneration plans and performance share unit plans and utilizes treasury shares for delivery of shares due to their exercises. Contract conditions and amounts are described in "32. Share-based Payments."

(Note 2) The number of treasury shares purchased based on the resolution made by the Board of Directors is 17,788 thousand shares and the total purchase cost is ¥50,000 million for the year ended December 31, 2019. Purchases of shares less than one unit are 0 thousand shares for the year ended December 31, 2019 and 0 thousand shares for the year ended December 31, 2020. Sale of shares less than one unit is 0 thousand shares for the year ended December 31, 2020. The number of shares delivered upon exercise of share options is 168 thousand shares for the year ended December 31, 2019 and 203 thousand shares for the year ended December 31, 2020. The number of shares disposed for restricted stock remuneration is 239 thousand shares for the year ended December 31, 2020.

(3) Other Components of Equity

A. Subscription Rights to Shares

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

B. Exchange Differences on Translation of Foreign Operations

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

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

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

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

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

E. Remeasurements of Defined Benefit Plans

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

24. Dividends

Dividends paid for each year are as follows:

Year ended December 31, 2019

		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 20, 2019)	Ordinary shares	134,357	75	December 31, 2018	March 22, 2019
Board of Directors (July 31, 2019)	Ordinary shares	136,579	77	June 30, 2019	September 2, 2019

Year ended December 31, 2020

		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 19, 2020)	**Ordinary shares**	**136,583**	**77**	**December 31, 2019**	**March 23, 2020**
Board of Directors (July 31, 2020)	**Ordinary shares**	**136,617**	**77**	**June 30, 2020**	**September 1, 2020**

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

Year ended December 31, 2019

		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 19, 2020)	Ordinary shares	136,583	77	December 31, 2019	March 23, 2020

Year ended December 31, 2020

		Millions of yen	Yen		
	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2021)	**Ordinary shares**	**136,617**	**77**	**December 31, 2020**	**March 25, 2021**

25. Revenue

(1) Disaggregation of Revenue

The disaggregation of "Revenue" for each year is as follows. The amounts are presented after eliminations of intercompany transactions.

Year ended December 31, 2019

						Millions of yen
	Reportable Segments					
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharmaceuticals	Processed Food	Other	Consolidated
Core revenue from tobacco business (Note 1)	568,880	1,253,022	—	—	—	1,821,902
Other	42,614	57,855	88,528	158,586	6,140	353,724
Total	611,494	1,310,877	88,528	158,586	6,140	2,175,626

Year ended December 31, 2020

						Millions of yen
	Reportable Segments					
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharmaceuticals	Processed Food	Other	Consolidated
Core revenue from tobacco business (Note 1)	**515,745**	**1,250,808**	**—**	**—**	**—**	**1,766,554**
Other	**39,822**	**55,425**	**78,957**	**149,329**	**2,474**	**326,007**
Total	**555,568**	**1,306,233**	**78,957**	**149,329**	**2,474**	**2,092,561**

(Note 1) The "Domestic Tobacco Business" does not include revenue related to imported tobacco delivery charges. In addition, the "International Tobacco Business" does not include revenue related to the distribution business and contract manufacturing.

(Note 2) Revenues from RRP in core revenue from the "Domestic Tobacco Business" were ¥60,932 million and ¥55,891 million for the year ended December 31, 2019 and 2020, respectively. RRP represents Reduced-Risk Products with potential to reduce the health risks associated with smoking.
(Note 3) Core revenue by cluster from the "International Tobacco Business" is as follows:

	Millions of yen	
	2019	**2020**
South and West Europe	216,653	**219,359**
North and Central Europe	236,210	**271,976**
CIS+	309,646	**294,283**
Rest-of-the-World	490,513	**465,190**
Total	1,253,022	**1,250,808**

South and West Europe includes France, Italy and Spain. North and Central Europe includes Germany and the United Kingdom. CIS+ includes Romania and Russia. Rest-of-the-World includes Iran, Taiwan and Turkey.

A. Domestic and International Tobacco Businesses

Domestic and international tobacco businesses engage in the sale of tobacco products.

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

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

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

B. Pharmaceutical Business

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

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

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

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

C. Processed Foods Business

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

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

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

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

(2) Transaction Price Allocated to the Remaining Performance Obligations

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

(3) Gross Turnover

The reconciliation from "Gross turnover" to "Revenue" for each year is as follows:

	Millions of yen	
	2019	**2020**
Gross turnover	7,581,071	**7,555,062**
Tobacco excise taxes and agency transaction amount	(5,405,446)	**(5,462,501)**
Revenue	2,175,626	**2,092,561**

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

Gross turnover is an item that the Group discloses voluntarily and is not "Revenue" as defined by IFRS.

26. Other Operating Income

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

	Millions of yen	
	2019	**2020**
Gain on transfer of pharmaceutical licenses	60,518	**—**
Gain on sale of the former JT building	—	**41,265**
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	15,605	**5,332**
Other (Note)	19,603	**8,327**
Total	95,725	**54,924**

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

	Millions of yen	
	2019	**2020**
Gain on sale of property, plant and equipment, intangible assets and investment property	14,626	**4,744**
Other	571	**60**
Total	15,197	**4,803**

27. Selling, General and Administrative Expenses

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

	Millions of yen	
	2019	**2020**
Advertising expenses	33,467	**27,254**
Promotion expenses	102,095	**92,149**
Commission	55,469	**57,614**
Employee benefit expenses (Note 2)	309,623	**307,181**
Research and development expenses (Note 1)	64,079	**60,847**
Depreciation and amortization	106,094	**103,666**
Impairment losses on other than financial assets (Note 2)	16,124	**12,571**
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	9,432	**7,591**
Other (Note 2)	135,324	**115,598**
Total	831,707	**784,472**

(Note 1) All research and development expenses are included in "Selling, general and administrative expenses."

(Note 2) The amount of restructuring costs included in each account is as follows:

	Millions of yen
	2019 / 2020
Employee benefit expenses	24,378 / **323**
Impairment losses on other than financial assets	411 / **332**
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	329 / **361**
Other	1,064 / **2,100**
Total	26,182 / **3,116**

28. Financial Income and Financial Costs

The breakdown of "Financial income" and "Financial costs" for each year is as follows:

	Millions of yen
Financial Income	2019 / 2020
Dividend income	
Financial assets measured at fair value through other comprehensive income	
Investments derecognized during the year	1,275 / **46**
Investments held at the end of the year	654 / **882**
Interest income	
Financial assets measured at amortized cost	
Deposits and bonds	6,014 / **6,389**
Gain on net monetary position	— / **3,143**
Other	459 / **1,893**
Total	8,402 / **12,353**

	Millions of yen
Financial Costs	2019 / 2020
Interest expenses	
Financial liabilities measured at amortized cost	
Bonds and borrowings	26,019 / **21,039**
Other	1,538 / **1,495**
Foreign exchange losses (Note 1)	13,297 / **35,812**
Employee benefit expenses (Note 2)	2,785 / **2,172**
Other	1,887 / **826**
Total	45,526 / **61,344**

(Note 1) Valuation gain (loss) of currency derivatives is included in foreign exchange losses.
(Note 2) The employee benefit expenses are the net amount of interest cost and interest income related to employee benefits.

29. Other Comprehensive Income

Amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" for each year are as follows:

Year ended December 31, 2019

	Millions of yen				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2,209)	—	(2,209)	(274)	(2,484)
Remeasurements of defined benefit plans	(4,957)	—	(4,957)	2,146	(2,811)
Total of items that will not be reclassified to profit or loss	(7,166)	—	(7,166)	1,871	(5,295)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	7,521	2,591	10,112	(233)	9,879
Net gain (loss) on derivatives designated as cash flow hedges	(882)	320	(561)	171	(391)
Total of items that may be reclassified subsequently to profit or loss	6,639	2,911	9,550	(62)	9,489
Total	(527)	2,911	2,384	1,810	4,194

Year ended December 31, 2020

	Millions of yen				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	**(3,886)**	**—**	**(3,886)**	**1,184**	**(2,702)**
Remeasurements of defined benefit plans	**(7,496)**	**—**	**(7,496)**	**1,539**	**(5,957)**
Total of items that will not be reclassified to profit or loss	**(11,383)**	**—**	**(11,383)**	**2,723**	**(8,659)**
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	**(167,963)**	**(1)**	**(167,964)**	**(2,746)**	**(170,711)**
Net gain (loss) on derivatives designated as cash flow hedges	**170**	**152**	**323**	**(98)**	**224**
Total of items that may be reclassified subsequently to profit or loss	**(167,793)**	**151**	**(167,642)**	**(2,844)**	**(170,486)**
Total	**(179,175)**	**151**	**(179,024)**	**(121)**	**(179,145)**

30. Earnings per Share

(1) Basis of Calculating Basic Earnings per Share

A. Profit Attributable to Ordinary Shareholders of the Parent Company

	Millions of yen
	2019 / 2020
Profit for the period attributable to owners of the parent company	348,190 / **310,253**
Profit not attributable to ordinary shareholders of the parent company	— / **—**
Profit for the period used for calculation of basic earnings per share	348,190 / **310,253**

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

	Thousands of shares	
	2019	2020
Weighted-average number of shares during the period	1,776,782	**1,774,128**

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

	Millions of yen	
	2019	2020
Profit for the period used for calculation of basic earnings per share	348,190	**310,253**
Adjustment	—	**(0)**
Profit for the period used for calculation of diluted earnings per share	348,190	**310,253**

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

	Thousands of shares	
	2019	2020
Weighted-average number of ordinary shares during the period	1,776,782	**1,774,128**
Increased number of ordinary shares under subscription rights to shares	857	**792**
Weighted-average number of diluted ordinary shares during the period	1,777,639	**1,774,921**

31. Reconciliation of Liabilities Arising from Financing Activities

Reconciliation of liabilities arising from financing activities for each year is as follows:

Year ended December 31, 2019

					Millions of yen
			Non-cash changes		
	As of January 1, 2019	Cash flows	Foreign exchange movement	Other	As of December 31, 2019
Short-term borrowings and commercial paper	238,023	(44,976)	(1,563)	1,097	192,581
Long-term borrowings (Note)	129,313	(11,568)	(2,475)	27	115,297
Bonds (Note)	610,444	59,435	(3,579)	324	666,623
Lease liabilities	48,840	(14,294)	(394)	19,552	53,705
Total	1,026,621	(11,403)	(8,011)	21,000	1,028,206

Year ended December 31, 2020

					Millions of yen
			Non-cash changes		
	As of January 1, 2020	Cash flows	Foreign exchange movement	Other	**As of December 31, 2020**
Short-term borrowings and commercial paper	**192,581**	**(132,462)**	**(8,525)**	**39**	**51,633**
Long-term borrowings (Note)	**115,297**	**88,153**	**1,280**	**225**	**204,955**
Bonds (Note)	**666,623**	**42,201**	**(7,000)**	**468**	**702,292**
Lease liabilities	**53,705**	**(17,741)**	**(641)**	**31,209**	**66,531**
Total	**1,028,206**	**(19,849)**	**(14,886)**	**31,941**	**1,025,412**

(Note) Current portion is included.

32. Share-based Payments

The explanation of the share-based payments of the Company and the Group is as follows.

(1) Share Option

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

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

A. Share Option Contract Conditions of the Company

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

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

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

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

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

						Shares
	2019			2020		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	195,400	634,000	829,400	**361,000**	**613,600**	**974,600**
Granted	126,000	187,200	313,200	**—**	**—**	**—**
Exercised	—	(168,000)	(168,000)	**—**	**(203,000)**	**(203,000)**
Transferred	39,600	(39,600)	—	**—**	**—**	**—**
Balance as of December 31	361,000	613,600	974,600	**361,000**	**410,600**	**771,600**
Exercisable balance as of December 31	—	153,400	153,400	**—**	**85,200**	**85,200**

(Note 1) The number of share options is presented as the number of underlying shares.
(Note 2) All share options are granted with an exercise price of ¥1 per share.
(Note 3) Share options are granted to 6 directors and 20 executive officers for the year ended December 31, 2019.
"Transferred" included in the "Changes in the Number of Share Options" represents the number of share options for persons granted whose management position changed during the period.
(Note 4) The weighted-average fair value per share of share options granted during the period was ¥940 for the year ended December 31, 2019.
(Note 5) The weighted-average share prices of share options at the time of exercise during the period were ¥2,544 and ¥2,256 for the years ended December 31, 2019 and 2020, respectively.
(Note 6) The weighted-average remaining contract years of unexercised share options at the end of each period were 26.4 years and 25.6 years for the years ended December 31, 2019 and 2020, respectively.

C. Method of Measuring Fair Value of Share Options Granted During the Period of the Company

(i) Valuation Model

Black-Scholes Model

(ii) Main Assumptions and Estimation

	2019	2020
Share price	¥2,401	–
Volatility of share price (Note 1)	31.2%	–
Estimated remaining period (Note 2)	15 years	–
Estimated dividends (Note 3)	¥150/share	–
Risk free interest rate (Note 4)	0.07%	–

(Note 1) Calculated based on daily share prices quoted for the past 15 years.
(Note 2) Because of the difficulty of a reasonable estimation due to insufficient data, the remaining period is estimated based on the assumption that share option rights would be exercised at a midpoint of the exercise period.
(Note 3) Based on the latest dividends paid.
(Note 4) The yield on government bonds for a period of the expected remaining period.

(2) Restricted Stock Remuneration

The Company has the restricted stock remuneration plan, which delivers the Company's ordinary shares which are subject to a certain transfer restriction period, to Directors also serving as Executive Officers and Executive Officers of the Company (hereinafter referred to as "Eligible Directors and Executive Officers"). The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders.

The Company enters into the restricted stocks allotment agreement with the Eligible Directors and Executive Officers and the Company's ordinary shares shall be delivered if the Eligible Directors and Executive Officers, who continue to serve for a stipulated period, pay all of the monetary compensation claims provided by the Company by the method of contribution in kind. The transfer restriction period is 30 years from the grant date. With regard to the allotted restricted stocks (hereinafter referred to as "Allotted Shares") the restricted stock allotment agreement says that each Eligible Directors and Executive Officers is prohibited to transfer Allotted Shares to a third party, pledge them, mortgage them, or use any arrangement to dispose them, that the Company can acquire Allotted Shares without any compensation on certain conditions and so on. In case any Eligible Directors and Executive Officers who receive allotment retire due to expiration of the term or resign due to reasons deemed reasonable by the Company's Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company's Board of Directors even during the transfer restriction period, the transfer restrictions shall be removed on all Allotted Shares held by him/her.

Details of Restricted Stock Remuneration

	2019	2020
Grant date	–	**May 26, 2020**
Number of allotted shares	–	**Directors: 94,200** **Executive Officers: 145,000**
Fair value at the grant date	–	**¥2,001**
Calculation methodology of fair value	–	**Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors**

(3) Performance Share Unit Remuneration

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

The Eligible Directors and Executive Officers shall be paid monetary compensation claims and monies for the delivery of the Company's ordinary shares in accordance with the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period as determined through deliberations by the Advisory Panel on Nomination and Compensation of the Company after the performance evaluation period of 3 consecutive fiscal years on the condition that they continue to serve as Directors, etc. of the Company for a stipulated period. They shall receive the delivery of the Company's ordinary shares by paying all of such monetary compensation claims by the method of contribution in kind. The number of allotted shares and the amount of cash to be paid are calculated by multiplying basic number of share units determined in accordance with duties of each Eligible Directors and Executive Officers by the payment ratio calculated based on the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period in the range of 0% - 200%.

The fair value in the plan is estimated based on the market price of the Company's share, which is not revised in consideration of the estimated dividend. The weighted average fair value at the reporting date for the year ended December 31, 2020 is ¥2,102.

(4) Share-based Payment Expenses

The costs included in "Selling, general and administrative expenses" in the consolidated statement of income are as follows.

		Millions of yen
	2019	2020
Share options (equity-settled)	291	**30**
Restricted stock remuneration (equity-settled)	–	**479**
Performance share unit remuneration (cash-settled)	–	**84**

(5) Liabilities Arising from Share-based Payment

The liabilities included in "Other non-current liabilities" in the consolidated statement of financial position as of December 31 are as follows.

		Millions of yen
	2019	2020
Carrying amounts of liability	–	**84**

33. Financial Instruments

(1) Capital Management

The Group's management principle is pursuit of the "4S" model: balancing the interests of consumers, shareholders, employees and wider society, and fulfilling our responsibilities towards them, aiming to exceed their expectations.

The Group believes that sustainable profit growth in the mid- to long-term based on this principle will increase the Group's value in the mid- to long-term, and is consequently in the best interest of all stakeholders, including our shareholders.

For that reason, as its financial policy, the Group maintains a strong financial base that secures stability in the case of changes in business environment such as economic crises, and flexibility enabling expeditious responses to business investment opportunities.

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

		Millions of yen
	2019	2020
Interest-bearing debt (Note)	974,502	**958,881**
Cash and cash equivalents	(357,158)	**(538,844)**
Net interest-bearing debt	617,344	**420,037**
Capital (equity attributable to owners of the parent company)	2,662,696	**2,522,834**

(Note) Lease liabilities are excluded.

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

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

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

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

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

(2) Financial Risk Management

The Group is exposed to financial risks (credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price fluctuation risk) in the process of its management activities and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are regularly reported by the Treasury Division 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, we do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

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

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

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

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

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

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

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

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

Millions of yen

		Other financial assets		
		Measured at an amount equal to the full lifetime expected credit losses		
	Trade receivables	Measured at an amount equal to the 12-month expected credit losses	Non-credit-impaired financial assets	Credit-impaired financial assets	Total
As of January 1, 2019	1,650	—	269	5,839	7,758
Addition	1,163	—	18	1	1,182
Decrease (intended use)	(218)	—	—	(0)	(219)
Decrease (reversal)	(20)	—	(57)	(78)	(155)
Other	(100)	—	—	(56)	(156)
As of December 31, 2019	2,475	—	230	5,705	8,409
Addition	**785**	**—**	**10**	**2**	**797**
Decrease (intended use)	**(1,003)**	**—**	**(0)**	**(55)**	**(1,059)**
Decrease (reversal)	**(52)**	**—**	**(31)**	**(23)**	**(107)**
Other	**(281)**	**—**	**(117)**	**155**	**(244)**
As of December 31, 2020	**1,923**	**—**	**92**	**5,783**	**7,798**

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

(4) Liquidity Risk

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

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

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

As of December 31, 2019

Millions of yen

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	408,597	408,597	408,597	—	—	—	—	—
Short-term borrowings	192,581	192,581	192,581	—	—	—	—	—
Current portion of long-term borrowings	11,554	11,554	11,554	—	—	—	—	—
Long-term borrowings	103,743	103,847	—	11,209	41,211	11,175	20,064	20,187
Current portion of bonds	80,000	80,000	80,000	—	—	—	—	—
Bonds	586,623	590,133	—	82,170	30,000	117,519	—	360,444
Lease liabilities	53,705	58,189	15,289	10,985	6,482	4,183	2,751	18,497
Subtotal	1,436,804	1,444,901	708,022	104,364	77,694	132,877	22,815	399,128
Derivative financial liabilities								
Foreign exchange forward contract	7,739	7,739	7,739	—	—	—	—	—
Subtotal	7,739	7,739	7,739	—	—	—	—	—
Total	1,444,543	1,452,640	715,761	104,364	77,694	132,877	22,815	399,128

As of December 31, 2020

Millions of yen

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	**436,540**	**436,540**	**436,540**	**—**	**—**	**—**	**—**	**—**
Short-term borrowings	**51,633**	**51,633**	**51,633**	**—**	**—**	**—**	**—**	**—**
Current portion of long-term borrowings	**12,226**	**12,226**	**12,226**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings	**192,729**	**193,722**	**—**	**41,911**	**11,560**	**20,064**	**49**	**120,140**
Current portion of bonds	**77,609**	**77,625**	**77,625**	**—**	**—**	**—**	**—**	**—**
Bonds	**624,683**	**628,628**	**—**	**30,000**	**114,338**	**—**	**94,728**	**389,563**
Lease liabilities	**66,531**	**70,383**	**19,031**	**12,896**	**9,336**	**7,132**	**3,223**	**18,764**
Subtotal	**1,461,952**	**1,470,757**	**597,055**	**84,807**	**135,233**	**27,196**	**98,000**	**528,467**
Derivative financial liabilities								
Foreign exchange forward contract	**10,334**	**10,334**	**10,334**	**—**	**—**	**—**	**—**	**—**
Subtotal	**10,334**	**10,334**	**10,334**	**—**	**—**	**—**	**—**	**—**
Total	**1,472,286**	**1,481,091**	**607,389**	**84,807**	**135,233**	**27,196**	**98,000**	**528,467**

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

Millions of yen

	2019	2020
Total committed line of credit	470,411	**478,200**
Withdrawing	—	**—**
Unused balance	470,411	**478,200**

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.

(ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts for example, when future cash flow is projected or when receivables and payables are fixed, and some of them are designated as cash flow hedges. The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts for example, and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy, and under the supervision of the Treasury Committee of the Company, the Group establishes and implements a foreign currency hedge policy, taking into consideration the impact on the Group's performance and the current conditions of the foreign exchange market in a comprehensive manner. The Treasury Division of the Company regularly reports the performances to the president and the Board of Directors of the Company.

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

		Millions of yen
	2019	**2020**
Profit before income taxes	(1,594)	**(3,960)**

(6) Interest Rate Risk

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

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

Interest Rate Sensitivity Analysis

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

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

		Millions of yen
	2019	**2020**
Profit before income taxes	(566)	**1,743**

(7) Hedging Transactions

The Group's policy for hedging transactions is stated in "3. Significant Accounting Policies."

A. Cash Flow Hedges

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

As of December 31, 2019

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen) Assets	Carrying amount (Note) (Millions of yen) Liabilities	Average rate, etc.
Foreign exchange risk					
Foreign exchange forward contract					
JPY/USD	USD 187 mil.	USD —	41	227	¥106.67

As of December 31, 2020

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen) Assets	Carrying amount (Note) (Millions of yen) Liabilities	Average rate, etc.
Foreign exchange risk					
Foreign exchange forward contract					
JPY/USD	**USD 218 mil.**	**USD —**	**324**	**176**	**¥105.31**

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

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

	Millions of yen
	Effective portion of changes in the fair value of cash flow hedges
	Foreign exchange risk
As of January 1, 2019	443
Other comprehensive income	
Amount arising (Note 1)	(882)
Reclassification adjustments (Note 2)	320
Tax effects	171
Other	(185)
As of December 31, 2019	(132)
Other comprehensive income	
Amount arising (Note 1)	**170**
Reclassification adjustments (Note 2)	**152**
Tax effects	**(98)**
Other	**30**
As of December 31, 2020	**122**

(Note 1) The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness approximates the change in fair value of the hedging instrument.
(Note 2) The amount, which is reclassified when the hedged item affects profit or loss, is recognized in "Revenue," "Financial income" or "Financial costs" in the consolidated statement of income. The amount of hedge ineffectiveness is immaterial.

B. Hedge of Net Investment in Foreign Operations

The details of hedging instruments designated as hedge of net investment are mainly as follows:

As of December 31, 2019

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen) Assets	Carrying amount (Note) (Millions of yen) Liabilities	Average rate, etc.
Bonds in USD	USD 1,250 mil.	USD 1,250 mil.	—	136,675	¥109.41
Bonds in EUR	EUR 567 mil.	EUR 567 mil.	—	69,132	$1.11
Bonds in GBP	GBP 400 mil.	GBP 400 mil.	—	56,089	$1.32
Foreign exchange forward contract					
EUR / RUB	RUB 29,502 mil.	RUB —	—	930	€0.014
JPY / USD	USD 400 mil.	USD —	—	749	¥106.68
USD / TWD	TWD 7,518 mil.	TWD —	—	399	$0.033
GBP / USD	USD 245 mil.	USD —	15	395	£0.77
EUR / USD	USD 183 mil.	USD —	—	358	€0.89

As of December 31, 2020

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen) Assets	Liabilities	Average rate, etc.
Bonds in USD	**USD 1,250 mil.**	**USD 500 mil.**	**—**	**129,198**	**¥109.41**
Bonds in EUR	**EUR 1,321 mil.**	**EUR 1,321 mil.**	**—**	**166,119**	**$1.16**
Bonds in GBP	**GBP 400 mil.**	**GBP 400 mil.**	**—**	**54,704**	**$1.32**
Foreign exchange forward contract					
EUR / RUB	**RUB 20,294 mil.**	**RUB —**	**543**	**289**	**€0.011**
JPY / USD	**USD 300 mil.**	**USD —**	**519**	**—**	**¥105.03**
GBP / USD	**USD 523 mil.**	**USD —**	**—**	**1,682**	**£0.76**

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

The schedule of net gains (losses) on hedging instrument designated as hedge of net investment in foreign operations is as follows:

	Millions of yen
	2019	**2020**
As of January 1	17,842	**10,338**
Other comprehensive income		
Amount arising (Note 1)	(7,271)	**3,887**
Tax effects	(233)	**(2,746)**
As of December 31 (Note 2)	10,338	**11,480**

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

(Note 2) Net gain arising from the hedging instruments for which hedge accounting is discontinued were ¥14,683 million and ¥21,026 million as of December 31, 2019 and 2020 respectively those which are included in the exchange differences on translation of foreign operations.

(8) Market Price Fluctuation Risk

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

(9) Fair Value of Financial Instruments

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

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

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

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

A. Financial Instruments Measured at Amortized Cost

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

As of December 31, 2019

	Carrying amount	Millions of yen Fair value Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	115,297	—	116,804	—	116,804
Bonds (Note)	666,623	683,650	—	—	683,650

As of December 31, 2020

	Carrying amount	Millions of yen Fair value Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	**204,955**	**—**	**206,953**	**—**	**206,953**
Bonds (Note)	**702,292**	**750,417**	**—**	**—**	**750,417**

(Note) Current portion is included.

With regard to short-term financial assets and short-term financial liabilities measured at amortized cost, their fair value approximates the carrying amount.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

B. Financial Instruments Measured at Fair Value

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

As of December 31, 2019

	Millions of yen Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	2,564	—	2,564
Equity securities	25,829	—	6,919	32,747
Other	442	17,673	5,008	23,123
Total	26,270	20,238	11,927	58,435
Derivative liabilities	—	7,739	—	7,739
Total	—	7,739	—	7,739

As of December 31, 2020

	Millions of yen Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	**—**	**8,608**	**—**	**8,608**
Equity securities	**19,604**	**—**	**7,100**	**26,704**
Other	**451**	**8,650**	**5,357**	**14,457**
Total	**20,055**	**17,257**	**12,457**	**49,769**
Derivative liabilities	**—**	**10,334**	**—**	**10,334**
Total	**—**	**10,334**	**—**	**10,334**

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

	Millions of yen
	2019	**2020**
As of January 1	10,351	**11,927**
Total gain (loss)		
Profit or loss (Note 1)	209	**(930)**
Other comprehensive income (Note 2)	(182)	**(804)**
Purchases	1,660	**2,674**
Sales	(140)	**(410)**
Other	29	**—**
As of December 31	11,927	**12,457**

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2019 and 2020 are related to financial assets measured at fair value through profit or loss as of the year end. These gains and losses are included in "Financial income" and "Financial costs."

(Note 2) Gains and losses included in other comprehensive income for the years ended December 31, 2019 and 2020 are related to financial assets measured at fair value through other comprehensive income as of the year end. These gains and losses are included in "Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income."

34. Related Parties

Based on the Japan Tobacco Inc. Act, the Japanese government shall hold more than one-third of all of the shares issued by the Company (excluding the type of shares, for which it is stipulated that voting rights may not be exercised on any matters that can be resolved by Annual Shareholders' Meeting). As of December 31, 2020, the Japanese government held 33.35% of all outstanding shares of the Company.

(1) Related-party Transactions

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

The Group's revenue from CJSC TK Megapolis, the local Russian distribution affiliate, was ¥202,780 million and ¥177,170 million for the years ended December 31, 2019 and 2020, respectively. The Group held trade receivables of ¥38,640 million and ¥27,668 million from CJSC TK Megapolis as of December 31, 2019 and 2020, respectively.

(2) Remuneration for Directors and Audit and Supervisory Board Members

Remuneration for directors and audit and supervisory board members for each year is as follows:

		Millions of yen
	2019	**2020**
Remuneration and bonuses	673	**1,139**
Share-based payments	115	**251**
Total	788	**1,390**

35. Subsidiaries, Associates and Others

(The composition of the Group)

The composition of the Group by reportable segment as of December 31 is as follows:

	2019		2020	
Reportable Segments	Number of subsidiaries	Number of entities accounted for using the equity method (Note)	Number of subsidiaries	Number of entities accounted for using the equity method (Note)
Domestic Tobacco	13	1	**13**	**1**
International Tobacco	171	7	**173**	**8**
Pharmaceuticals	2	—	**2**	**—**
Processed Food	28	3	**28**	**2**
Other	17	2	**19**	**2**
Total	231	13	**235**	**13**

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

There is no significant change in the composition of the Group for the year ended December 31, 2020.

Regarding the restrictions on the ability to use the assets of the Group, please refer to "7. Cash and Cash Equivalents."

36. Commitments

(1) Commitments for the Acquisition of Assets

Commitments for the acquisition of assets as of December 31 are as follows:

		Millions of yen
	2019	**2020**
Acquisition of property, plant and equipment	35,747	**33,768**
Acquisition of intangible assets	1,602	**3,130**
Total	37,348	**36,897**

(2) Procurement of Domestic Leaf Tobacco

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

37. Hyperinflationary Accounting Adjustments

As required by IAS 29, the Group's consolidated financial statements include the financial statements of the subsidiaries in the hyperinflationary economy, restated in terms of the measuring unit current at the end of the reporting period.

For the restatement of financial statements of the subsidiaries in Iran, the Group applies the conversion coefficient derived from the Consumer Price Index of Iran published by the Statistical Centre of Iran.

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

End of reporting period	Consumer Price Index	Conversion coefficient
31 December 2015	93	300
31 December 2016	102	276
31 December 2017	112	251
31 December 2018	152	185
31 December 2019	194	145
31 December 2020	**281**	**100**

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

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

38. Contingencies

Contingent Liabilities

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

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

(1) Smoking/Vaping and Health Related Litigation

The Company and some of its subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco products, or exposure to tobacco smoke. As of December 31, 2020, there were a total of 21 smoking and health related cases pending in which one or more members of the Group were named as a defendant or for which the Company may have certain indemnity obligations pursuant to the agreement such as for the Company's acquisition of RJR Nabisco Inc.'s overseas (non-U.S.) tobacco operations.

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

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

A. Individual Claim

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

South Africa Individual Claim (Joselowitz):

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

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

B. Class Actions

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

Canada Quebec Class Action (Cecilia Letourneau):

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥371.1 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥371.1 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of defendants by substantively upholding the first instance judgment and ordering a punitive damage award against the appellants of approximately ¥13.0 billion (approximately CAD 161 million), in which the share of the total damage award against JTI-Mac is approximately ¥1.2 billion (approximately CAD 15 million). The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

Canada Quebec Class Action (Conseil Québécois sur le tabac et la santé):
This class action was brought in November 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥1,005.4 billion (approximately CAD 12.4 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥65.5 billion (approximately CAD 0.8 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of the defendants by substantively upholding the first instance judgment and ordering a compensatory damage award jointly and severally against the defendants of approximately ¥1,093.5 billion (approximately CAD 13.5 billion), in which the share of the total damage award against JTI-Mac is approximately ¥142.2 billion (approximately CAD 1.8 billion), and a punitive damage award of approximately ¥3 million (approximately CAD 0.04 million) per defendants. The time limit for seeking leave to appeal the decision to the Supreme Court of Canada is suspended during the CCAA Proceedings. Enforcement of the judgement is stayed by the CCAA Proceedings.

The Quebec Court of Appeal rendered one judgment for both class actions against the defendants and ordered them to make an initial deposit of approximately ¥93.9 billion (approximately CAD 1.2 billion), in which the share of JTI-Mac is approximately ¥11.8 billion (approximately CAD 145 million). The obligation to pay the initial deposit is stayed by the CCAA Proceedings.

Canada Saskatchewan Class Action (Adams):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Manitoba Class Action (Kunta):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Nova Scotia Class Action (Semple):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2009. Plaintiffs are seeking unspecified compensatory and punitive damages on behalf of class members who allege to be or have been addicted to nicotine contained in cigarettes manufactured by the defendants. The statement of claim was served on the Company's indemnitees but not on JTI-Mac. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada British Columbia Class Action (Bourassa):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada British Columbia Class Action (McDermid):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2010. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

Canada Ontario Class Action (Jacklin):
This class action was brought against tobacco industry members including JTI-Mac and the Company's indemnitees in June 2012. Plaintiffs are seeking unspecified compensatory and punitive damages for class members. The preliminary motions are pending. The case was dormant and is currently stayed by the CCAA Proceedings.

C. Health-Care Cost Recovery Litigation

There are 10 ongoing health-care cost recovery cases in Canada pending against the Company's subsidiary and indemnitees brought by all the Canadian provinces (except three Canadian territories). These provinces filed lawsuits under their own provincial legislation which was enacted exclusively for the purpose of authorizing the provincial government to file a direct action against tobacco manufacturers to recoup the health-care costs the government has allegedly incurred and will incur, resulting from "tobacco related wrongs."

Canada British Columbia Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of British Columbia in January 2001 against tobacco industry members including JTI-Mac and the Company's indemnitees based on its provincial legislation, the "Tobacco Damages and Health-Care Costs Recovery Act." The claim amount is unspecified. In 2001, several defendants challenged the legislation's constitutionality, which was ultimately rejected by the Supreme Court of Canada in September 2005. The action remains pending in the first instance. The case is stayed by the CCAA Proceedings.

Canada New Brunswick Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of New Brunswick in March 2008 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Ontario Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Ontario in September 2009 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of ¥26,673.9 billion (CAD 330 billion). The case is stayed by the CCAA Proceedings.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Manitoba Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Quebec Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total amount of the claim approximately ¥4,902.9 billion (approximately CAD 60.7 billion). The case is stayed by the CCAA Proceedings.

Canada Alberta Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Alberta in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total claimed amount of at least ¥808.3 billion (CAD 10.0 billion). The case is stayed by the CCAA Proceedings.

Canada Saskatchewan Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Prince Edward Island Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Nova Scotia Health-Care Cost Recovery Litigation:
This health-care cost recovery litigation was filed by the Province of Nova Scotia in January 2015 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

(2) Other Legal Proceedings

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

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates as of December 31, 2020.

39. Subsequent Events

To strengthen our response to changes in the business environment and to aim for sustainable growth in the tobacco business, the Group decided to strengthen the operating system of the tobacco business towards further enhancement of its competitiveness and profitability on February 9, 2021.

Rapid changes in the tobacco industry include the perception of smoking and health, heightened tobacco regulations and tax reforms in various countries, increasingly diverse consumer preferences and expansion as well as intense competition in product development in the Reduced Risk Products (RRP) category. Having closely reviewed the business environment from a long-term perspective, the Group

concluded that a revision of its strategic focus in its tobacco business is necessary. The Group's objective going forward is to operate with a stronger consumer-centric mindset and prioritize investments in heated tobacco sticks in the RRP category while maintaining necessary investments towards combustible products. The combination of the two tobacco businesses will enable efficient and effective deployment of resources within the Group.

In the Japanese market, the Group also plans to implement various measures, intending the enhancement of its competitiveness to maximize the value offered to its customers and strengthening its business foundation, considering the latest industry volume decline and the highly uncertain business environment.

Consolidate the existing tobacco businesses into one tobacco business

Objectives:

– Strengthen the competitiveness in the growing RRP category by leveraging global resources
– Simplify the organization structure to improve speed in decision-making while building an effective and efficient organization structure
– Maximize the value offered to consumers through timely resource allocation in a prioritized manner, from a global perspective
– Unify the tobacco business operations further into one team to proactively offer a portfolio of products and services to anticipate the needs of individual markets
– Share and deploy best practices on a global basis to accelerate the learnings across different categories and markets

Actions:

– Consolidate the headquarter functions of the tobacco business, including the Japan market, currently in Tokyo into the existing headquarters of the international tobacco business in Geneva
  • Strategy development functions, performance management functions and decision-making processes for the tobacco business will be consolidated
– Operate the Japanese market as a key market in a new unified tobacco business
– Consolidate the reporting lines of supply chain functions of the global tobacco business (manufacturing, leaf procurement, quality assurance, etc.) following the successful consolidation of the R&D functions
  The consolidation of the tobacco businesses is scheduled for January 2022.

Strengthen the competitiveness in the Japanese market

Objective:

– Establish an organizational structure to enhance consumer satisfaction

Actions:

– Reform the Japanese Market Head-office and sales organization to address the changes in the operating environment, diverse consumer needs in a prompt and effective manner
  • Reform the Japan Market Head-office in January 2022 to further strengthen the marketing and sales function
  • Reform the sales organization structure to further promote sales activities to address consumer needs in each of the regions, from April 2022:
  Restructure the sales organization from 3-tier structure (Market HQ Regional sales office - branch) to 2-tier structure (Market HQ - New sales office)
  Migrate from a system of 15 regional sales offices and 145 branches to a new system of 47 new sales offices

Redefine the organizational structure in the Japanese market to correspond to the operating environment

Objective:

– Ensure competitiveness and adjust the operating model to meet domestic sales volumes

Actions:

– The Company's measures
  • Optimization of workforce reflecting the reorganization of the sales operations and optimization of administrative tasks from April 2022
  • The Company's Kyushu Tobacco Factory (Chikushino city, Fukuoka) will be closed at the end of March 2022
  • Optimize Leaf procurement footprint
  Integrate the Chu-Shikoku Leaf Tobacco Branch (Takamatsu city, Kagawa) and Minami-Kyushu Leaf Tobacco Branch (Miyakonojo city, Miyazaki) into the West Japan Leaf Services Headquarters (Koshi city, Kumamoto) from April 2022
– Group subsidiary measures
  • Filter factory Closure
  Japan Filter Technology Co., Ltd. Tagawa Factory (Tagawa city, Fukuoka) (hereinafter, "JFT Tagawa factory") will be closed at the end of March 2022
  • Liquidation of JT Engineering Inc.
  Tobacco related functions will be consolidated into the Company from April 2023. JT Engineering Inc. is expected to be liquidated after termination of System Integration services and external business services

Optimization of the Company's workforce

Objective:

– Optimization of workforce in line with the initiatives to strengthen competitiveness and redefine the organizational structure in the Japanese market

Actions:

– Offer voluntary retirement program and seek retirement of about 1,000 employees
– Remove field partner organizational structure (part-timers who support the sales activities); as a result, early retirement packages will be offered for about 1,600 field partners
– Offer voluntary retirement program and seek retirement of about 150 senior employees (contractors or part-timers who are reemployed after their retirement)
– The above voluntary retirement and field partner organization restructuring measures are expected to be completed at the end of March 2022

In addition, early retirement package will be offered for certain employees of the group companies, following the closure of the Company's Kyushu and JFT Tagawa factories.

The impact of these initiatives on the consolidated financial statements for fiscal year ending December 31, 2021 is expected to be about JPY 37 billion as a one-time expense, which is due to the factory closures and the offering of voluntary retirement programs.

Others

A. Quarterly Information for the Year ended December 31, 2020

Millions of yen

	Q1 January 1, 2020 to March 31, 2020	Q2 January 1, 2020 to June 30, 2020	Q3 January 1, 2020 to September 30, 2020	2020 January 1, 2020 to December 31, 2020
Revenue	**519,620**	**1,030,218**	**1,592,097**	**2,092,561**
Profit before income taxes for the period (year)	**115,102**	**225,961**	**345,558**	**420,063**
Profit attributable to owners of the parent company for the period (year)	**86,373**	**172,495**	**257,948**	**310,253**
Basic earnings per share for the period (year) (yen)	**48.69**	**97.23**	**145.40**	**174.88**

	Q1 January 1, 2020 to March 31, 2020	Q2 April 1, 2020 to June 30, 2020	Q3 July 1, 2020 to September 30, 2020	Q4 October 1, 2020 to December 31, 2020
Basic earnings per share for the quarter (yen)	**48.69**	**48.54**	**48.16**	**29.48**

B. Significant Lawsuits

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

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Contingencies of Smoking and Health Litigation in Canada	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 38 to the consolidated financial statements "Contingencies," JTI-Macdonald Corp., the Company's Canadian subsidiary and/or indemnitees are defendants in eight class actions and 10 health-care cost recovery litigation in Canada (collectively, the "Canadian cases"). In two class actions in Quebec (Cecilia Letourneau and Conseil Quebecois sur le tabac et la sante), the Quebec Court of Appeal rendered a judgment ordering JTI-Macdonald Corp. to pay compensation of approximately CAD 1.8 billion (approximately ¥143.4 billion). The judgment of the Quebec Court of Appeal exceeded JTI-Macdonald Corp.'s capacity to pay, and JTI-Macdonald Corp. filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"), which was approved by the Ontario Superior Court, and is continuing as of the end of this fiscal year. Legal proceedings including the execution of the judgment against JTI-Macdonald Corp. have been stayed by the CCAA proceedings. The amount of compensation ordered by the Quebec Court of Appeal and the amount of compensatory and punitive damages sought by plaintiffs in the other Canadian cases are considered significant for the consolidated financial statements, and the Canadian cases also include some cases for which the amount of damages sought by plaintiffs has not been specified. The management is required to determine whether the recognition of provisions is necessary or not in accordance with the following recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets": • The company has a present obligation (legal or constructive) as a result of a past event; • The outflow of resources embodying economic benefits is probable (i.e., more likely than not) to settle the obligation; and • A reliable estimate can be made of the amount of the obligation. Since the determination whether the recognition of provisions is necessary or not involves subjective judgments made by management and uncertainty that is difficult to prove, we have determined this matter regarding the Canadian cases to be a key audit matter.	We developed an audit plan and performed the following audit procedures to address this key audit matter: • We inquired of the management and the Legal department of the Company to obtain updates on the statuses of the Canadian cases as of the end of this fiscal year, and assessed the appropriateness of management's judgment whether the recognition requirements for provisions regarding the Canadian cases were met. • We instructed the component auditor to perform the following audit procedures and assessed the appropriateness of component management's judgment on the recognition of provisions based on discussions with the component auditor: ✓ Evaluating internal controls over the internal approval and examination process to ensure that the judgments on recognizing provisions are appropriately made; ✓ Inquiring of component management and inspecting the underlying documents that component management prepared, to assess the appropriateness of the component management's judgments on the recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets"; and ✓ Sending letters to component legal counsel to confirm the appropriateness of the component management's judgment whether JTI-Macdonald Corp. has a present obligation (legal or constructive) as a result of a past event and whether the outflow of resources embodying economic benefits is probable to settle the obligation among the recognition requirements for provisions. • We received a third party opinion from an external legal firm to gain assurance that there are no logical contradictions or significant divergences in reasoning to the position adopted by the component's legal counsel.

Evaluation of goodwill allocated to international tobacco cash-generating unit	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 14 to the consolidated financial statements "Goodwill and Intangible Assets," the Group allocates goodwill generated by business combinations to the domestic tobacco cash-generating unit, the international tobacco cash-generating unit and the processed food cash-generating unit. The Group has a goodwill balance of ¥1,618,133 million allocated to the international tobacco cash-generating unit at the end of this fiscal year, that is mainly as results of the acquisitions of RJR Nabisco's non-U.S. tobacco operations in 1999, Gallaher Group Plc in 2007 and Natural American Spirit's non-U.S. tobacco operations in 2016. In accordance with International Accounting Standard 36 "Impairment of Assets," goodwill is required to be tested for impairment annually or whenever there is an indication that the asset may be impaired. The recoverable amount of the international tobacco cash-generating unit is calculated by value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Group sets a growth rate from 4.6% in the fourth year to 2.8% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the impairment test, the value in use sufficiently exceeds the carrying amount of the international tobacco cash-generating unit, and the management believes that the value in use will not fall below the carrying amount even if the growth rate used in calculating the value in use fluctuates within a reasonable range. The balance of goodwill allocated to the international tobacco cash-generating unit is material to consolidated financial statements, and the three-year business plan used in the impairment test, and the underlying assumptions for growth rates used to develop the plan for fourth year onwards are greatly affected by management's subjective judgments. In addition, in the international tobacco business, the Group is placed in the environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and a fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used to develop the plan for fourth year onwards. Since the three-year business plan and the growth rates to develop the plan for fourth year onwards involve uncertainties and require management's judgment, we have determined the evaluation of the goodwill allocated to the international tobacco cash-generating unit to be a key audit matter.	In response to this key audit matter, we developed an audit plan for the impairment test of goodwill allocated to the international tobacco cash-generating unit and performed the following procedures: • In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we instructed the component auditor to perform the following audit procedures: ✓ Evaluating internal controls over the approval and examination process to ensure the three-year business plan is appropriately prepared; ✓ Considering the achievement of the past three-year business plan retrospectively by comparing the past three-year business plan with actual results during the corresponding period, as well as assessing the feasibility of the current three-year business plan in light of the market conditions and performance of the major markets in which the international tobacco cash-generating unit operates as of the end of this fiscal year; and ✓ Inquiring of component management on the background and rationality of data used by component management to determine the growth rates after the current three-year business plan, as well as testing the growth rates based on available external information, with assistance of the valuation specialists in our network firm. • We discussed with the management the results of the impairment test of goodwill allocated to the international tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 24, 2021

Glossary of terms

Unless otherwise stated, terms and numbers reported in this glossary are in accordance with IFRS.

Financials

Adjusted operating profit: Operating profit + Amortization cost of acquired intangibles arising from business acquisitions + Adjusted items (income and costs).*

* Adjusted items (income and costs) = Impairment losses on goodwill ± restructuring income and costs ± others

Adjusted operating profit at constant FX: The same foreign exchange rates between local currencies vs USD as well as the exchange rates between JPY and USD are applied as in the equivalent period in the previous fiscal year for international tobacco business. Results on a constant FX are provided additionally and are not an alternative to financial reporting under International Financial Reporting Standards (IFRS).

At constant FX, Core revenue/Adjusted operating profit (International tobacco business): The same foreign exchange rates between local currencies vs USD are applied as in the equivalent period in the previous fiscal year for international tobacco business. Results on a constant FX are provided additionally and are not an alternative to financial reporting under International Financial Reporting Standards (IFRS).

FCF (Free cash flow): FCF is sum of cash flows from operating activities and investing activities, but excludes the following items:

- **From investing CF:** Purchase of investment securities (both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes
- **From operating CF:** Depreciation from lease transactions, interest received, dividends received, interest paid and income taxes related to these items excluding lease transactions, and other items

IFRS (International Financial Reporting Standards): The JT Group adopted IFRS from the fiscal year ended March 31, 2012.

Profit: Profit attributable to owners of the parent company.

Revenue: Excluding tobacco excise taxes and revenue from agent transactions.

- **Core revenue (International tobacco business):** Includes revenue from waterpipe tobacco and RRP (Reduced-Risk Products), but excludes revenue from distribution, contract manufacturing and other peripheral businesses.
- **Core revenue (Japanese-domestic tobacco business):** Excludes revenue from distribution of imported tobacco in the Japanese-domestic tobacco business, among others, but includes revenue from domestic Duty-Free, the China business, little cigars and RRP such as Ploom devices, capsules and sticks.

Volume, JT cigarette sales (Japanese-domestic tobacco business): Excludes sales volume of domestic Duty-Free, the China business and RRP while including little cigars.

Volume, total shipment (International tobacco business): The shipment volume of tobacco-based products which includes fine cut tobacco, cigars, pipe, oral (snus, nicotine pouch), kretek and T-Vapor but excludes contract manufactured products, waterpipe tobacco and E-Vapor.

Products

Combustibles: Cigarettes + fine cut tobacco.

FCT (fine cut tobacco): FCT represents tobacco products which are packed in a loose, fine-cut form in pouches and are also known as rolling tobacco, used for both RYO (roll-your-own) cigarettes made using rolling papers and MYO (make-your-own) cigarettes made by filling a filter tube with cut tobacco.

GFB (Global Flagship Brands): Winston, Camel, MEVIUS, LD.

RRP (Reduced-Risk Products): Products with the potential to reduce the risks associated with smoking.

- **E-Vapor:** a product which consumers use by heating its nicotine-based liquid without using tobacco leaf.
- **T-Vapor:** a product that contains tobacco leaf and creates a tobacco-enriched vapor by heating the tobacco without any combustion.
- **HTS (heated tobacco sticks):** High temperature T-Vapor
- **Infused (infused tobacco capsules):** Low temperature T-Vapor

Sustainability

ALP: Agricultural Labor Practices.

CDP: Headquartered in London, CDP is the leading international non-profit organization that accelerates action to achieve a sustainable economy, assessing disclosure and actions by companies from around the world.

Contraband: Genuine products smuggled from abroad that are diverted from the legitimate supply chain and sold in a country other than the intended retail market without payment of domestic duty in that country.

Counterfeit: Fake products appearing to be genuine brand products protected by intellectual property rights. Counterfeit products are manufactured without authorization from the rights' owners and with the intent to copy the genuine brand to deceive the consumer. They are also sold without duties being paid.

DJSI (Dow Jones Sustainability Indices): The DJSI was created jointly by S&P Dow Jones Indices and SAM. It is a global sustainability benchmark and tracks stock performance of the world's leading companies in terms of economic, environmental and social criteria.

GHG emissions: Greenhouse gas emissions.

- **Scope 1 emissions:** Direct GHG emissions from corporate activities, such as burning of fossil fuels at factories
- **Scope 2 emissions:** Indirect GHG emissions from consumption of purchased electricity, heat or steam
- **Scope 3 emissions:** Other indirect emissions, including from manufacture of products bought from other companies

SBT (Science Based Targets): SBT is a joint initiative that enables businesses to take swift climate action by setting ambitious emission reduction targets.

SDGs: The Sustainable Development Goals (SDGs) were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

Self-assessment questionnaire: A questionnaire covering a broad spectrum of human rights issues to identify the greatest potential risk in the operation. The questions include issues such as forced labor or environmental health and safety, particularly in relation to vulnerable groups.

TCFD (Task Force on Climate-related Financial Disclosures): TCFD was established by the Financial Stability Board (FSB) to examine how climate-related information should be disclosed, and how financial institutions should respond. TCFD positions climate change as a serious risk to the world's economy and publishes its recommendations for companies to identify and disclose items such as "Governance," "Strategy," "Risk Management" and "Metrics and Targets."

Others

BnU: Billion Units.

JPY BN: Billion Japanese yen.

USD MM: Million U.S. dollars.

Awards and recognitions

Dow Jones Sustainability Indices

We are a member of the Dow Jones Sustainability Asia Pacific Index for the seventh consecutive year. We achieved second place in the tobacco industry for the second consecutive year and have been selected for the "SAM Bronze Class" and "SAM Industry Mover" for the second consecutive year.

JT Group press release November 2020
The Sustainability Yearbook 2021

FTSE Blossom Japan

We have been selected as a member of FTSE Blossom Japan Index every year since its launch in 2017. FTSE Blossom Index (selected by GPIF as a core ESG benchmark) is designed to measure the performance of Japanese companies that demonstrate strong sustainability practices.

FTSE Blossom Japan Index January 2021

CDP

We continued achieving a place on CDP's "A List" for climate change and water security. We were also recognized as a global leader for engaging our supply chain in tackling climate change for the second time in a row.

JT Group press release December 2020

Science Based Targets (SBT)

We have set a long-term GHG emission reduction target in line with the Paris Agreement, which was approved as an SBT by the Science Based Targets initiative.

JT Group press release February 2019

Global Child Forum

We were recognized as a "leader" by the Global Child Forum, in their "2019 Global Corporate Sector and Children's Rights Benchmark" report.

Final Scorecard November 2019

PRIDE Index

In the PRIDE Index, which recognizes the most LGBT-friendly companies, JT achieved Gold status, the highest ranking, in 2020 for the fifth consecutive year.

work with Pride (in Japanese)
JT press release November 2020

Swiss LGBTI Label

In 2020, JTI, the headquarters of our international tobacco business, was awarded the "Swiss LGBTI Label," a certification for companies and organizations with an open and inclusive structure.

Swiss LGBTI Label September 2020

Platinum Kurumin Certification

JT has long been certified as a childcare-supporting company by the Japanese Ministry of Health, Labour and Welfare.

JT press release (in Japanese) November 2018

Top Employer

Our international tobacco business was certified as a Global Top Employer for the seventh consecutive year.

Top Employer January 2021

Nadeshiko Brand

JT was recognized as a "Nadeshiko Brand" in 2020 for the second consecutive year, for its efforts to empower female employees in the workplace.

JT press release March 2020

Equal Salary Employer

In January 2019, JTI, the headquarters of our international tobacco business, became the first Geneva-based multinational company to be certified as an equal salary employer by the EQUAL-SALARY Foundation.

Equal-Salary Foundation January 2019

White 500

In 2021, JT was recognized as a Certified Health and Productivity Management Outstanding Organization ("White 500") for its excellent health-conscious management since the launch of this recognition in 2017.

JT Press Release March 2021

Shareholder information

As of December 31, 2020

Common stock

Authorized:	8,000,000,000
Issued:	2,000,000,000
Number of shareholders:	638,716

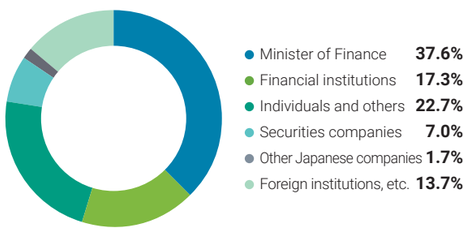
Share registrar

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Listing

Tokyo Stock Exchange: First Section

Composition of shareholders (excluding treasury stock)



Principal shareholders	
Name	**Shares held**
Minister of Finance	666,925,200
Master Trust Bank of Japan, Ltd. (Trust Account)	77,183,500
SMBC Nikko Securities Inc.	58,303,600
Custody Bank of Japan, Ltd. (Trust Account)	48,009,500
Custody Bank of Japan, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	23,660,000
STATE STREET BANK WEST CLIENT-TREATY 505234	19,974,941
Barclays Securities Japan Limited	18,432,844
Custody Bank of Japan, Ltd. (Trust Account 5)	17,079,000
Custody Bank of Japan, Ltd. (Trust Account 6)	15,416,800
JAPAN SECURITIES FINANCE CO., LTD.	14,114,400

Government offerings of JT shares

1st offering		
Method	**Offering by bids**	**Offering by non-bids**
Offer price (Pricing date)	Bid price: From 1,362,000 yen to 2,110,000 yen Weighted average price: 1,438,000 yen (August 29, 1994)	1,438,000 yen (August 31, 1994)
Number of shares offered	229,920 shares	164,356 shares
Offer term	From August 15 to 18, 1994	From September 2 to 8, 1994

Note:
Listing date: October 27, 1994
Tokyo Stock Exchange: First Section

2nd and 3rd, 4th offering			
	2nd offering	**3rd offering**	**4th offering**
Method	**Offering by book-building formula**	**Offering by book-building formula**	**Offering by book-building formula**
Offer price (Pricing date)	815,000 yen (June 17, 1996)	843,000 yen (June 7, 2004)	2,949 yen (March 11, 2013)
Number of shares offered	Japan: 237,390 shares International: 35,000 shares (Total: 272,390 shares)	Japan: 198,334 shares International: 91,000 shares (Total: 289,334 shares)	Japan: 145,625,500 shares International: 107,636,300 shares (Total: 253,261,800 shares)
Offer term	From June 18 to 19, 1996	From June 8 to 10, 2004	From March 12 to 13, 2013

List of key disclosures

The following are the key disclosures we publish on our website.

Disclosures	Content	Timing of publication
Integrated Report	Demonstrates a scenario for sustainable growth of the JT Group over the mid to long term, with a description of our value creation process both from financial and non-financial perspectives.	March
Corporate Governance Report	Explains the policy, structure and system of the JT Group for corporate governance, in line with the Corporate Governance Code of Japan.	March
Website (Investors)	Provides comprehensive information to investors, including various financial information and reports.	As needed
Website (Sustainability)	Provides relevant information for sustainability, including details of its initiatives and data.	As needed

Contact information

Japan Tobacco Inc.
1-1, Toranomon 4-chome,
Minato-ku, Tokyo 105-6927, Japan
TEL: +81 (0)3-6636-2914
URL: https://www.jt.com/

JT International S.A.
8, rue Kazem Radjavi
1202 Geneva, Switzerland
TEL: +41 (0)22-703-07-77
URL: https://www.jti.com/

