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

Year Ended December 31, 2021

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1. Consolidated Financial Statements

(1) Consolidated Financial Statements

A. Consolidated Statement of Financial Position

As of December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Assets		
Current assets		
Cash and cash equivalents (Note 7)	538,844	721,731
Trade and other receivables (Note 8)	412,144	456,587
Inventories (Note 9)	539,762	563,182
Other financial assets (Note 10)	18,828	17,254
Other current assets (Note 11)	493,992	562,034
Subtotal	2,003,570	2,320,789
Non-current assets held for sale (Note 12)	348	500
Total current assets	2,003,919	2,321,289
Non-current assets		
Property, plant and equipment (Notes 13, 15)	759,290	755,843
Goodwill (Note 14)	1,909,392	2,060,965
Intangible assets (Note 14)	363,604	307,152
Investment property (Note 16)	4,744	4,985
Retirement benefit assets (Note 22)	70,528	53,177
Investments accounted for using the equity method	40,230	41,721
Other financial assets (Note 10)	107,143	108,658
Deferred tax assets (Note 17)	122,534	120,419
Total non-current assets	3,377,464	3,452,920
Total assets	5,381,382	5,774,209

	2020	**2021**
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables (Note 18)	436,540	555,777
Bonds and borrowings (Note 19)	141,469	142,901
Income tax payables	46,462	30,794
Other financial liabilities (Note 19)	27,588	28,342
Provisions (Note 20)	19,420	24,858
Other current liabilities (Note 21)	652,314	717,653
Total current liabilities	1,323,793	1,500,326
Non-current liabilities		
Bonds and borrowings (Note 19)	817,412	775,721
Other financial liabilities (Note 19)	50,164	43,885
Retirement benefit liabilities (Note 22)	331,752	296,176
Provisions (Note 20)	31,338	22,867
Other non-current liabilities (Note 21)	162,982	179,195
Deferred tax liabilities (Note 17)	64,447	69,959
Total non-current liabilities	1,458,095	1,387,803
Total liabilities	2,781,888	2,888,128
Equity		
Share capital (Note 23)	100,000	100,000
Capital surplus (Note 23)	736,400	736,400
Treasury shares (Note 23)	(491,507)	(490,899)
Other components of equity (Note 23)	(605,776)	(400,086)
Retained earnings	2,783,718	2,863,843
Equity attributable to owners of the parent company	2,522,834	2,809,258
Non-controlling interests	76,660	76,823
Total equity	2,599,495	2,886,081
Total liabilities and equity	5,381,382	5,774,209

(Millions of yen)

B. Consolidated Statement of Income

Years Ended December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Revenue (Notes 6, 25)	2,092,561	2,324,838
Cost of sales (Notes 14, 22)	(898,001)	(956,861)
Gross profit	1,194,560	1,367,976
Other operating income (Note 26)	54,924	15,622
Share of profit in investments accounted for using the equity method	4,042	3,997
Selling, general and administrative expenses (Notes 12, 13, 14, 16, 22, 27, 32)	(784,472)	(888,574)
Operating profit (Note 6)	469,054	499,021
Financial income (Notes 28, 33)	12,353	19,013
Financial costs (Notes 22, 28, 33)	(61,344)	(45,645)
Profit before income taxes	420,063	472,390
Income taxes (Note 17)	(108,034)	(132,208)
Profit for the period	312,029	340,181
Attributable to		
Owners of the parent company	310,253	338,490
Non-controlling interests	1,775	1,691
Profit for the period	312,029	340,181
Earnings per share		
Basic (Yen) (Note 30)	174.88	190.76
Diluted (Yen) (Note 30)	174.80	190.68

Reconciliation from "Operating profit" to "Adjusted operating profit"

(Millions of yen)

	2020	**2021**
Operating profit	469,054	499,021
Amortization cost of acquired intangibles arising from business acquisitions	63,160	68,876
Adjustment items (income)	(51,978)	(11,469)
Adjustment items (costs)	6,716	54,006
Adjusted operating profit (Note 6)	486,952	610,434

C. Consolidated Statement of Comprehensive Income
Years Ended December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Profit for the period	312,029	340,181
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)	(2,702)	(116)
Remeasurements of defined benefit plans (Notes 22, 29)	(5,957)	(6,246)
Total of items that will not be reclassified to profit or loss	(8,659)	(6,363)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (Notes 29, 33)	(170,711)	206,508
Net gain (loss) on derivatives designated as cash flow hedges (Notes 29, 33)	224	(68)
Total of items that may be reclassified subsequently to profit or loss	(170,486)	206,440
Other comprehensive income (loss), net of taxes	(179,145)	200,077
Comprehensive income (loss) for the period	132,883	540,258
Attributable to		
Owners of the parent company	131,965	538,206
Non-controlling interests	919	2,052
Comprehensive income (loss) for the period	132,883	540,258

D. Consolidated Statement of Changes in Equity
Years Ended December 31, 2020 and 2021

(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, 2020	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
Profit for the period	–	–	–	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	206,199	(68)	(65)
Comprehensive income (loss) for the period	–	–	–	–	206,199	(68)	(65)
Acquisition of treasury shares (Note 23)	–	–	(0)	–	–	–	–
Disposal of treasury shares (Note 23)	–	–	609	(51)	–	–	–
Share-based payments (Note 32)	–	–	–	–	–	–	–
Dividends (Note 24)	–	–	–	–	–	–	–
Changes in the scope of consolidation	–	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	1
Other increase (decrease)	–	–	–	–	–	(327)	–
Total transactions with the owners	–	–	608	(51)	–	(327)	1
As of December 31, 2021	100,000	736,400	(490,899)	1,202	(408,175)	(274)	7,161

(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, 2020	–	(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
Profit for the period	–	–	338,490	338,490	1,691	340,181
Other comprehensive income (loss)	(6,350)	199,716	–	199,716	361	200,077
Comprehensive income (loss) for the period	(6,350)	199,716	338,490	538,206	2,052	540,258
Acquisition of treasury shares (Note 23)	–	–	–	(0)	–	(0)
Disposal of treasury shares (Note 23)	–	(51)	(558)	0	–	0
Share-based payments (Note 32)	–	–	479	479	33	512
Dividends (Note 24)	–	–	(251,961)	(251,961)	(1,941)	(253,902)
Changes in the scope of consolidation	–	–	–	–	–	–
Changes in the ownership interest in a subsidiary without a loss of control	–	–	27	27	18	45
Transfer from other components of equity to retained earnings	6,350	6,351	(6,351)	–	–	–
Other increase (decrease)	–	(327)	–	(327)	–	(327)
Total transactions with the owners	6,350	5,973	(258,364)	(251,782)	(1,890)	(253,672)
As of December 31, 2021	–	(400,086)	2,863,843	2,809,258	76,823	2,886,081

E. Consolidated Statement of Cash Flows
Years Ended December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Cash flows from operating activities		
Profit before income taxes	420,063	472,390
Depreciation and amortization	179,654	187,057
Impairment losses	12,571	22,768
Interest and dividend income	(7,318)	(13,372)
Interest expense	22,535	23,050
Share of profit in investments accounted for using the equity method	(4,042)	(3,997)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(40,821)	(3,974)
(Increase) decrease in trade and other receivables	21,554	(29,891)
(Increase) decrease in inventories	748	9,770
Increase (decrease) in trade and other payables	39,288	111,912
Increase (decrease) in retirement benefit liabilities	(5,788)	(23,651)
(Increase) decrease in prepaid tobacco excise taxes	(29,996)	(43,617)
Increase (decrease) in tobacco excise tax payables	(18,038)	33,167
Increase (decrease) in consumption tax payables	9,762	(3,856)
Other	49,132	2,849
Subtotal	649,305	740,605
Interest and dividends received	14,589	19,245
Interest paid	(19,549)	(19,113)
Income taxes paid	(124,511)	(141,829)
Net cash flows from operating activities	519,833	598,909
Cash flows from investing activities		
Purchase of securities	(39,991)	(27,810)
Proceeds from sale and redemption of securities	49,802	24,137
Purchase of property, plant and equipment	(85,319)	(86,350)
Proceeds from sale of investment property	86,263	8,002
Purchase of intangible assets	(23,301)	(16,568)
Payments into time deposits	(491)	(1,427)
Proceeds from withdrawal of time deposits	334	1,222
Proceeds from sale of investments in associates	17,413	2,562
Other	645	(1,268)
Net cash flows from investing activities	5,354	(97,499)

(Millions of yen)

	2020	**2021**
Cash flows from financing activities		
Dividends paid to owners of the parent company (Note 24)	(273,134)	(251,935)
Dividends paid to non-controlling interests	(1,404)	(1,958)
Capital contribution from non-controlling interests	117	42
Increase (decrease) in short-term borrowings and commercial paper (Note 31)	(132,462)	22,887
Proceeds from long-term borrowings (Note 31)	100,101	3,295
Repayments of long-term borrowings (Note 31)	(11,948)	(12,442)
Proceeds from issuance of bonds (Note 19, 31)	122,201	55,334
Redemption of bonds (Note 19, 31)	(80,000)	(147,911)
Repayments of lease liabilities (Note 31)	(17,741)	(20,449)
Acquisition of treasury shares	(1)	(1)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(3,132)	(1)
Other	0	0
Net cash flows from financing activities	(297,404)	(353,138)
Net increase (decrease) in cash and cash equivalents	227,784	148,271
Cash and cash equivalents at the beginning of the period	357,158	538,844
Effect of exchange rate changes on cash and cash equivalents	(46,098)	34,616
Cash and cash equivalents at the end of the period (Note 7)	538,844	721,731

F. Notes to Consolidated Financial Statements
Years ended December 31, 2020 and 2021

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, 2021 were approved on March 23, 2022 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 lifetime expected credit losses. In principle, with respect to financial assets except for trade receivables, an allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit losses. However, the allowance for doubtful accounts is measured at an amount equal to the lifetime expected credit losses if a credit risk on the financial asset has increased significantly since initial recognition.

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

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

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

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

C. Financial Liabilities

(i) Initial Recognition and Measurement

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

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

(ii) Subsequent Measurement

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

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

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

(b) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Offsetting of Financial Instruments

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

E. Derivatives and Hedge Accounting

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

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

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio due to changes in an economic relationship between the hedged item and the hedging instrument but the risk management objective remains the same, the Group will adjust the hedge ratio so that it meets the qualifying criteria again. The Group discontinues hedge accounting for the portion that does not meet the requirement when the hedging relationship ceases to meet the qualifying criteria even after adjusting the hedge ratio.

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, 2021.

IFRS		Description of new standards and amendments
IFRS 16	Leases	Amendments to accounting treatment for COVID-19-Related Rent Concessions beyond June 30, 2021

IFRS 16 mentioned above has been early adopted.

The adoption of the above standards and interpretations does not have a material impact on the consolidated financial statements.

4. Significant Accounting Estimates and Judgments

Preparation of consolidated financial statements of the Group requires management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclose contingencies as of the year end. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the year end. Given their nature, actual results may differ from those estimates and assumptions.
The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognized in the period of the change or the period of the change and future periods.
Among the above estimates and assumptions, the following are items that may have a material effect on the amounts recognized in the consolidated financial statements of the Group:

A. Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Properties

With regard to property, plant and equipment, goodwill, intangible assets and investment properties, if there is any indication that the recoverable amount has declined below the carrying amount, the Group performs an impairment test.
Such indications include, but are not limited to, significant changes with adverse effect on the results of past or projected business performance, significant changes in the use of acquired assets or in overall business strategy, and significant deteriorations in industry or economic trends. With regard to goodwill, an impairment test is conducted at least once a year, regardless of whether there are any indicators of impairment.
An impairment test is performed by comparing the carrying amount to the recoverable amount of the asset under assessment. If the recoverable amount is below the carrying amount, impairment losses are recognized. The recoverable amount is calculated based primarily on a discounted cash flow model. Certain assumptions must be made for the useful lives and future cash flows of the assets, the applicable discount rates as well as long-term growth rates. These assumptions are based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.
The method for calculating the recoverable amount is described in “13. Property, Plant and Equipment,” “14. Goodwill and Intangible Assets” and “16. Investment Property.” With regard to goodwill, the sensitivity analysis is described in “14. Goodwill and Intangible Assets.”

B. Post-employment Benefits

The Group has various types of retirement benefit plans, including defined benefit plans. In addition, the mutual pension benefits plan of the Company is one of the public pension systems under the jurisdiction of the government of Japan and the Company is legally obligated to bear a part of the pension costs of the plan.
The present value of defined benefit obligations on each of these plans and the related service costs are calculated based on actuarial assumptions. These actuarial assumptions make use of estimates and judgments on a number of variables, including discount rates and inflation rate.
The Group obtains advice from external pension actuaries with respect to the appropriateness of their actuarial assumptions including the aforementioned variables.
The actuarial assumptions are determined based on the best estimates and judgments made by management. However, there is a possibility that these assumptions will be affected by changes in uncertain future economic conditions, or by the publication or amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.
These actuarial assumptions and the related sensitivity analysis are described in “22. Employee Benefits.”

C. Provisions

The Group recognizes various provisions, including provisions for asset retirement obligations and restructuring, in the consolidated statement of financial position.

These provisions are recognized based on best estimates of the expenditure required to settle the obligations, taking into account the pertinent risks and uncertainties which exist at the year-end for those obligations.

Expenditures required to settle the obligations are calculated by taking possible results into account comprehensively; however, they may be affected by the occurrence of unexpected events or changes in conditions which may have a material impact on the consolidated financial statements in future periods.

The nature and amount of recognized provisions are described in “20. Provisions.”

D. Income Taxes

The Group operates business activities around the world, and it recognizes current tax liabilities and income taxes as the estimated amounts to be paid to the tax authorities, based on the estimation in accordance with their laws and regulations.

Calculating current tax liabilities and income taxes requires estimates and judgment on various factors, including the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or the experience of past tax audits.

Therefore, there may be differences between the amount recognized as tax liabilities and income taxes and the amount of actual tax liabilities and income taxes. These differences may have a material impact on the consolidated financial statements in future periods.

In addition, deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

In recognizing the deferred tax assets, when judging the possibility of the future taxable income, the Group reasonably 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.”

F. Impact of COVID-19

Although sales volume in the duty-free market increased compared to the same period of the previous fiscal year in the tobacco business, travel restrictions continued in various countries and it was unable to reach the level prior to the spread of COVID-19. In contrast, in the International Tobacco Business, industry volume remained strong in several markets due to travel restrictions. In addition, in the Processed Food Business, sales of food-service products within the frozen and ambient food business continued to decrease due to factors such as the impact of requests to restrict bar and restaurant operations.

Although the Group anticipates the impact of the spread of COVID-19 will continue to a certain extent from 2022 onward, the economies of countries around the world are expected to 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, the Group 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 9	Financial Instruments	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 17	Insurance Contracts	January 1, 2023	Year ending December 2023	Amendments to accounting treatment for insurance contracts Amendments to comparative information upon adoption of IFRS 17
IAS 1	Presentation of Financial Statements	January 1, 2023	Year ending December 2023	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 12	Income Taxes	January 1, 2023	Year ending December 2023	Clarifying the accounting for deferred tax on leases and decommissioning obligations
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

IFRS		Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
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.

The Group will change the current four reportable segments of “Domestic Tobacco Business,” “International Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business” to the three reportable segments of “Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business” as a result of unifying the business management structure of the tobacco business from fiscal year 2022.

(2) Revenues and Performances of Reportable Segments

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

Year ended December 31, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
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

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Revenue								
External revenue	559,449	1,535,674	80,392	147,245	2,322,759	2,078	—	2,324,838
Intersegment revenue	8,085	21,290	—	1	29,377	5,123	(34,500)	—
Total revenue	567,534	1,556,964	80,392	147,246	2,352,136	7,201	(34,500)	2,324,838
Segment profit (loss)								
Adjusted operating profit (Note 1)	182,448	454,352	11,093	3,956	651,849	(41,869)	455	610,434
Other items								
Depreciation and amortization (Note 3)	55,153	116,816	5,442	6,712	184,123	2,941	(7)	187,057
Impairment losses on other than financial assets	4,207	17,243	—	1,240	22,689	79	—	22,768
Reversal of impairment losses on other than financial assets	—	39	—	26	66	—	—	66
Share of profit (loss) in investments accounted for using the equity method	(137)	3,985	—	49	3,897	101	—	3,997
Capital expenditures (Note 4)	20,032	62,471	5,983	10,739	99,225	3,175	(1,518)	100,882

Reconciliation from “Adjusted operating profit” to “Profit before income taxes”

Year ended December 31, 2020

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
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

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments					Other (Note 2)	Elimination	Consolidated
	Domestic Tobacco	International Tobacco	Pharma-ceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	182,448	454,352	11,093	3,956	651,849	(41,869)	455	610,434
Amortization cost of acquired intangibles arising from business acquisitions	(16,245)	(52,631)	–	–	(68,876)	–	–	(68,876)
Adjustment items (income) (Note 5)	988	3,411	200	129	4,728	6,742	–	11,469
Adjustment items (costs) (Note 6)	(41,672)	(10,656)	0	(1,157)	(53,485)	(521)	–	(54,006)
Operating profit (loss)	125,519	394,475	11,293	2,928	534,216	(35,649)	455	499,021
Financial income								19,013
Financial costs								(45,645)
Profit before income taxes								472,390

(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)

	2020	**2021**
Domestic Tobacco	3,641	5,377
International Tobacco	11,923	12,305
Pharmaceuticals	439	582
Processed Food	867	494
Other	2,797	1,201
Depreciation of right-of-use assets	19,667	19,959

(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)

	2020	**2021**
Gain on sale of the former JT Building	41,265	—
Restructuring incomes	4,803	5,088
Other	5,910	6,381
Adjustment items (income)	51,978	11,469

Restructuring incomes for the years ended December 31, 2020 and 2021 mainly related to gains on sale of real estate. The breakdown of restructuring incomes is described in “26. Other Operating Income.” Other (income) for the year ended December 31, 2020 mainly related to gains on fair value adjustment after the measurement period for assets and liabilities acquired in a business combination in the “International Tobacco Business.” Other (income) for the year ended December 31, 2021 mainly related to gains on sale of an investment in an associate during the past fiscal years and gains on sale of real estate.

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

(Millions of yen)

	2020	**2021**
Restructuring costs	3,116	40,032
Cooperation fee for terminating leaf tobacco farming	—	6,560
Other	3,600	7,414
Adjustment items (costs)	6,716	54,006

Restructuring costs for the year ended December 31, 2021 mainly related to costs of measures to strengthen the operation in the “Domestic Tobacco Business.” and rationalization in a market in the “International Tobacco Business.” Restructuring costs included in "Cost of sales" were ¥222 million for the year ended December 31, 2021. Restructuring costs included in "Selling, general and administrative expenses" were ¥3,116 million and ¥39,810 million for the year ended December 31, 2020 and 2021, respectively. The breakdown of restructuring costs is described in “27. Selling, General and Administrative Expenses.” Other (costs) for the year ended December 31, 2021 mainly related impairment losses of trademarks in the “International Tobacco Business.”

(3) Geographic Information

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

Non-current Assets

(Millions of yen)

	2020	**2021**
Japan	751,673	709,588
Overseas	2,285,357	2,419,357
Consolidated	3,037,030	3,128,945

(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)

	2020	**2021**
Japan	727,845	731,334
Overseas	1,364,716	1,593,504
Consolidated	2,092,561	2,324,838

(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 ¥210,834 million (10.1% of consolidated revenue) for the year ended December 31, 2020 and ¥258,362 million (11.1% of consolidated revenue) for the year ended December 31, 2021.

7. Cash and Cash Equivalents

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

(Millions of yen)

	2020	**2021**
Cash and deposits	483,844	665,731
Short-term investments	55,000	56,000
Total	538,844	721,731

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 ¥42,807 million as of December 31, 2020 and ¥70,927 million as of December 31, 2021 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 ¥43,735 million as of December 31, 2020 and ¥74,098 million as of December 31, 2021 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)

	2020	**2021**
Note and account receivables	404,720	446,018
Other	9,347	11,875
Allowance for doubtful accounts	(1,923)	(1,306)
Total	412,144	456,587

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)

	2020	**2021**
Merchandise and finished goods (Note 1)	130,718	135,479
Leaf tobacco (Note 2)	334,797	348,648
Other	74,247	79,056
Total	539,762	563,182

(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)

	2020	**2021**
Derivative assets	8,608	7,362
Equity securities	26,704	27,792
Debt securities	18,776	21,605
Time deposits	928	1,252
Other	76,830	74,275
Allowance for doubtful accounts	(5,875)	(6,374)
Total	125,971	125,912
Current assets	18,828	17,254
Non-current assets	107,143	108,658
Total	125,971	125,912

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	2020	**2021**
Seven & i Holdings Co., Ltd.	3,129	4,324
DOUTOR･NICHIRES Holdings Co., Ltd.	1,980	2,139
Japan Airport Terminal Co., Ltd.	2,500	1,920
KATO SANGYO CO., LTD.	1,968	1,886
Mitsubishi Shokuhin Co., Ltd.	1,720	1,663
Central Japan Railway Company	1,459	1,535
NIPPON EXPRESS CO., LTD.	1,199	1,196
Daicel Corporation	640	676
Yoshimura Food Holdings K.K.	814	660
Kanemi Co., Ltd.	624	581

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)

	2020	**2021**
Fair value	2,978	12
Cumulative gain or loss recognized in equity as other comprehensive income (Note)	(1,399)	1

(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)

	2020	**2021**
Prepaid tobacco excise taxes	336,109	400,687
Prepaid expenses	15,680	18,335
Consumption tax receivables	14,960	19,028
Other	127,242	123,984
Total	493,992	562,034

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)

	2020	**2021**
Non-current assets held for sale		
Property, plant and equipment	348	14
Investment property	—	486
Other	0	—
Total	348	500

"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 and ¥41 million are recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the year ended December 31, 2020 and 2021, respectively.

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the carrying amount, acquisition cost, and accumulated depreciation and accumulated impairment losses of "Property, plant and equipment" are as follows:

(Millions of yen)

Carrying Amount	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2020	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
Individual acquisition	23,470	35,745	9,917	33,133	102,265
Transfer to investment property	(1,643)	—	—	—	(1,643)
Transfer to non-current assets held for sale	(399)	(77)	(2)	—	(477)
Depreciation	(30,847)	(59,409)	(13,161)	—	(103,417)
Impairment losses	(5,004)	(10,283)	(337)	(804)	(16,428)
Reversal of impairment losses	2	14	50	—	66
Sale or disposal	(1,144)	(3,169)	(431)	(364)	(5,107)
Exchange differences on translation of foreign operations	13,332	9,027	1,329	2,958	26,647
Other	5,550	31,229	1,386	(43,518)	(5,354)
As of December 31, 2021	384,742	291,708	38,334	41,059	755,843

(Millions of yen)

Acquisition Cost	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of January 1, 2020	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
As of December 31, 2021	716,359	884,552	157,427	41,059	1,799,397

(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, 2020	329,036	528,244	112,431	5	969,715
As of December 31, 2020	304,783	538,261	112,417	—	955,461
As of December 31, 2021	331,617	592,844	119,092	—	1,043,554

(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 ¥8,891 million in the year ended December 31, 2020, and ¥16,428 million in the year ended December 31, 2021 in “Selling, general and administrative expenses” in the consolidated statement of income.

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 the value in use.

Impairment losses recognized in the year ended December 31, 2021 represent losses incurred to reduce the carrying amounts to the recoverable amounts for land, buildings, structures, machinery and vehicles because their recoverable amounts fell below their carrying amounts due to the decrease in profitability, etc.

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

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, 2020	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
Individual acquisition	—	1	6,184	10,638	16,823
Amortization (Note)	—	(64,365)	(11,935)	(7,283)	(83,582)
Transfer to non-current assets held for sale	—	—	—	—	—
Impairment losses	—	(4,667)	(1,589)	(0)	(6,256)
Reversal of impairment losses	—	—	—	—	—
Sale or disposal	—	(4)	(346)	(1,637)	(1,988)
Exchange differences on translation of foreign operations	151,573	17,433	863	1,901	171,770
Other	—	(449)	3,009	(4,205)	(1,645)
As of December 31, 2021	2,060,965	235,294	27,450	44,409	2,368,117

(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, 2020	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
As of December 31, 2021	2,060,965	1,089,212	157,665	120,635	3,428,477

(Millions of yen)

Accumulated Amortization and Accumulated Impairment Losses	Goodwill	Trademarks	Software	Other	Total
As of January 1, 2020	—	727,224	110,382	55,540	893,146
As of December 31, 2020	—	769,891	117,987	65,889	953,767
As of December 31, 2021	—	853,918	130,216	76,227	1,060,360

(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 JTIGH Group. The carrying amounts of goodwill as of December 31, 2020 and 2021 were ¥1,618,133 million and ¥1,769,706 million, respectively. The carrying amounts of trademarks as of December 31, 2020 and 2021were ¥205,223 million and ¥169,662 million, respectively.

The majority of goodwill and trademark in the JTIGH 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, 2020 and 2021 were ¥265,891 million and ¥265,891 million, respectively. The carrying amounts of trademarks as of December 31, 2020 and 2021 were ¥82,120 million and ¥65,629 million, respectively.

The trademarks are amortized using the straight-line method and the remaining amortization period is mainly from 4 to 5 years.

(3) Impairment Test for Goodwill

For the year ended December 31, 2021, 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, 2020), the international tobacco cash-generating unit of ¥1,769,706 million (¥1,618,133 million for the year ended December 31, 2020) and the processed food cash-generating unit of ¥25,368 million (¥25,368 million for the year ended December 31, 2020). 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 conservatively decreases a growth rate from 0.2% in the fourth year to 0% in the ninth year gradually, and from the tenth year onward, calculates the value in use by using the same cash flows as in the ninth year. In the prior period, 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.

The pre-tax discount rate is 4.3% (2020: 4.9%). 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 6.9% in the fourth year (2020: 4.6%) to 2.0% in the ninth year (2020: 2.8%), 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 6.9% (2020: 9.0%). 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 2.5% in the fourth year (2020: 2.2%) to 0.7% in the ninth year (2020: 1.1%), 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 4.1% (2020: 3.9%). 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 ¥3,390 million for the year ended December 31, 2020, and ¥6,256 million for the year ended December 31, 2021 in “Selling, general and administrative expenses” in the consolidated statement of income.

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 the value in use.

Impairment losses recognized in the year ended December 31, 2021 represent the losses incurred to reduce the carrying amounts to the recoverable amounts of trademarks, software and other intangible assets since the recoverable amounts were lower than the carrying amounts.

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

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, 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

Year ended December 31, 2021

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Addition	12,650	5,621	55	18,326
Depreciation	14,310	5,602	48	19,959

As of December 31, 2021

(Millions of yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Carrying amount	52,251	10,271	112	62,635

(2) Expense Items Related to Lease

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

(Millions of yen)

	2020	2021
Financial cost on lease liabilities	1,462	1,350
Expense relating to short-term lease or leases of low-value assets	7,519	7,784
Expense relating to variable lease payments	1,654	1,693
Total cash outflow for leases	19,315	21,798

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)

	2020	**2021**
As of January 1	16,588	4,744
Expenditure after acquisition	65	120
Transfer from property, plant and equipment	980	1,643
Transfer to non-current assets held for sale	(12,033)	(1,043)
Transfer to property, plant and equipment	(223)	(161)
Depreciation	(362)	(58)
Impairment losses	(259)	(43)
Sale or disposal	(11)	(219)
Exchange differences on translation of foreign operations	3	19
Other	(3)	(16)
As of December 31	4,744	4,985
Acquisition cost as of January 1	40,262	14,074
Accumulated depreciation and accumulated impairment losses as of January 1	23,674	9,331
Acquisition cost as of December 31	14,074	9,290
Accumulated depreciation and accumulated impairment losses as of December 31	9,331	4,306

(2) Fair Value

The fair value of investment property is determined based on a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the appraisal standards of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at the quoted price in the active market
Level 2: Fair value that is calculated using the observable price other than categorized in Level 1 directly or indirectly
Level 3: Fair value that is calculated based on valuation techniques which include inputs that are not based on observable market data

The fair value of investment property based on the fair value hierarchy as of December 31 is as follows:

As of December 31, 2020

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Investment property	—	12,467	1,489	13,956

As of December 31, 2021

(Millions of yen)

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

(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 ¥259 million for the year ended December 31, 2020, and ¥43 million for the year ended December 31, 2021 in “Selling, general and administrative expenses” in the consolidated statement of income.

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 the value in use, which are estimated at “zero.”

Impairment losses recognized for the year ended December 31, 2021 represent the difference between the recoverable amount and the carrying amount for buildings as it was decided to demolish certain idle properties. The recoverable amounts of these assets are calculated mainly by the value in use, which are estimated at “zero.”

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, 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)

Year ended December 31, 2021

(Millions of yen)

Deferred Tax Assets	As of January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2021
Fixed assets (Note 2)	104,890	(17,807)	—	1,572	88,654
Retirement benefits	73,028	9,427	(2,378)	(1,247)	78,830
Carryforward of unused tax losses	46,087	9,321	—	2,269	57,678
Other	93,722	7,307	3,255	4,282	108,565
Subtotal	317,726	8,249	877	6,876	333,728
Valuation allowance	(61,443)	(13,544)	(72)	(3,601)	(78,660)
Total	256,283	(5,295)	805	3,274	255,068

(Millions of yen)

Deferred Tax Liabilities	As of January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note 1)	As of December 31, 2021
Fixed assets (Note 2)	(79,535)	13,114	—	(4,888)	(71,309)
Retirement benefits	(14,166)	(8,049)	2,883	907	(18,425)
Other	(104,496)	(3,979)	888	(7,287)	(114,874)
Total	(198,197)	1,086	3,771	(11,268)	(204,608)

(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 ¥38,953 million (including ¥20,743 million, for which the carryforward expires after five years) as of December 31, 2020, and ¥51,998 million (including ¥29,578 million, for which the carryforward expires after five years) as of December 31, 2021. Tax credits, for which the deferred tax assets are not recognized, were ¥5,132 million (including ¥4,705 million, for which the carryforward expires after five years) as of December 31, 2020, and ¥5,857 million (including ¥5,383 million, for which the carryforward expires after five years) as of December 31, 2021.

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax liabilities were not recognized, was ¥172,706 million as of December 31, 2021.

(2) Income Taxes

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

(Millions of yen)

	2020	**2021**
Current income taxes	111,142	127,999
Deferred income taxes	(3,108)	4,209
Total income taxes	108,034	132,208

Deferred income taxes increased by ¥1,624 million and increased by ¥7,507 million for the years ended December 31, 2020 and 2021, respectively, due to the effect of changes in tax rates in other countries.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the average actual tax rate for each year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax, and the effective statutory tax rate for each year calculated based on these taxes was 30.43%. Foreign subsidiaries are subject to income taxes at their locations.

(%)

	2020	**2021**
Effective statutory tax rate	30.43	30.43
Different tax rates applied to foreign subsidiaries	(8.81)	(10.67)
Non-deductible expenses	1.53	1.70
Dividend income	2.40	0.62
Changes in tax rates	0.39	1.59
Valuation allowance	3.16	3.30
Tax credits	(1.04)	(1.27)
Withholding tax in foreign countries	1.25	1.73
Tax contingencies	(1.11)	0.07
Other	(2.49)	0.48
Average actual tax rate	25.72	27.99

18. Trade and Other Payables

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

(Millions of yen)

	2020	**2021**
Accounts payable	233,723	272,327
Other payables	72,588	132,206
Other	130,228	151,245
Total	436,540	555,777

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)

	2020	**2021**	Due
Derivative liabilities	10,334	10,926	—
Short-term borrowings	51,633	70,636	—
Current portion of long-term borrowings	12,226	42,265	—
Current portion of bonds (Note 2)	77,609	30,000	—
Long-term borrowings (Note 1)	192,729	154,705	2023 - 2080
Bonds (Note 2)	624,683	621,016	—
Lease liabilities	66,531	60,536	—
Other	887	765	—
Total	1,036,633	990,849	
Current liabilities	169,057	171,243	
Non-current liabilities	867,576	819,606	
Total	1,036,633	990,849	

(Note 1) ¥99,085 million and ¥99,304 million of the long-term borrowings is subordinated loans due in 2080 as of December 31, 2020 and 2021 respectively. The Company may, at its option, repay early all or a portion of the principal on any interest payment date on or after January 31, 2025.

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

Company	Name of bond	Date of issuance	As of December 31, 2020	As of December 31, 2021	Interest rate	Collateral	Date of maturity
				(Millions of yen)	(%)		
Japan Tobacco Inc.	10th domestic straight bond	July 15, 2015	30,000	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	77,609 (77,609) [USD 750 mil.]	— [—]	2.000	Yes	April 13, 2021
Japan Tobacco Inc.	Straight bond in USD	April 13, 2016	51,589 [USD 500 mil.]	— [—]	2.800	Yes	April 13, 2026 (Note 3)
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	54,109 [USD 525 mil.]	— [—]	3.500	No	September 28, 2023 (Note 3)
JT International Financial Services B.V.	Straight bond in USD	September 28, 2018	51,231 [USD 500 mil.]	56,997 [USD 500 mil.]	3.875	No	September 28, 2028
JT International Financial Services B.V.	Straight bond in EUR	September 28, 2018	69,233 [EUR 550 mil.]	71,394 [EUR 550 mil.]	1.125	No	September 28, 2025
JT International Financial Services B.V.	Straight bond in EUR	November 26, 2019	62,842 [EUR 500 mil.]	64,770 [EUR 500 mil.]	1.000	No	November 26, 2029
JT International Financial Services B.V.	Straight bond in GBP	September 28, 2018	54,850 [GBP 400 mil.]	60,969 [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.]	64,883 [EUR 500 mil.]	2.375	No	April 7, 2081 (Note 4)
JT International Financial Services B.V.	Subordinated bond in EUR	October 7, 2020	62,896 [EUR 500 mil.]	64,820 [EUR 500 mil.]	2.875	No	October 7, 2083 (Note 5)
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	— [—]	66,563 [USD 625 mil.]	2.250	No	September 14, 2031
JT International Financial Services B.V.	Straight bond in USD	September 14, 2021	— [—]	45,619 [USD 400 mil.]	3.300	No	September 14, 2051
		Total	702,292 (77,609)	651,016 (30,000)			

(Note 1) The figure in parentheses ( ) represents the amount of the current portion of the bond.
(Note 2) The figure in parentheses [ ] represents the amount of foreign currency-denominated bond.
(Note 3) The Issuers purchased a portion of the bonds on September 13, 2021 and settled the remaining bonds on October 15, 2021.
(Note 4) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on April 7, 2026 and on each interest payment date thereafter.
(Note 5) The Issuer may redeem the Bond at its own discretion in the 3-month period ending on January 7, 2029 and on each interest payment date thereafter.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those to which hedge accounting is applied, and bonds and borrowings are classified as financial liabilities measured at amortized cost.
There are no financial covenants that have a significant impact on the bonds and borrowings of the Group.

(2) Assets Pledged as Collateral for Liabilities

Pursuant to the provisions of Article 6 of the Japan Tobacco Inc. Act, the Company's properties are pledged as general collateral for bonds issued by the Company. Bondholders are entitled to claim satisfaction in preference to unsecured creditors of the Company properties (with the exception of national and local taxes and certain other statutory obligations).

20. Provisions

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

Year ended December 31, 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

Year ended December 31, 2021

(Millions of yen)

	Asset retirement provisions	Restructuring provisions	Provisions for sales rebates	Other provisions	Total
As of January 1, 2021	5,232	17,660	3,697	24,169	50,758
Provisions	1,508	5,402	3,652	10,018	20,581
Interest cost associated with passage of time	25	—	—	—	25
Provisions used	(202)	(10,958)	(3,657)	(6,118)	(20,934)
Provisions reversed	(81)	(2,306)	—	(2,841)	(5,228)
Exchange differences on translation of foreign operations	22	1,358	—	1,143	2,523
As of December 31, 2021	6,505	11,157	3,692	26,371	47,725
Current liabilities	84	7,547	3,692	13,535	24,858
Non-current liabilities	6,422	3,610	—	12,835	22,867
Total	6,505	11,157	3,692	26,371	47,725

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)

	2020	**2021**
Tobacco excise tax payables	268,608	295,229
Tobacco special excise tax payables	8,536	8,298
Tobacco local excise tax payables	158,905	174,445
Consumption tax payables	129,782	134,159
Bonus to employees	56,955	69,489
Employees’ unused paid vacations liabilities	20,297	21,062
Other	172,213	194,166
Total	815,295	896,848
Current liabilities	652,314	717,653
Non-current liabilities	162,982	179,195
Total	815,295	896,848

22. Employee Benefits

(1) Post-employment Benefits

The Group sponsors funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits of defined benefit plans are predetermined based on conditions, such as points employees have gained in compensation for each year of service, the payment rate, years of service, and average salaries in their final years of service before retirement.

The Company is obligated to bear pension costs for a mutual assistance association incurred with respect to services in or before June 1956 (prior to enforcement of the Act on the Mutual Aid Association of Public Corporation Employees). Such obligations are recognized as liabilities at their present value using the actuarial valuation method and are included in retirement benefit liabilities. Special termination benefits may be provided to employees on their early retirements under certain circumstances.

The funded defined benefit plans are administrated by the Group or the fund that is legally separated from the Group in accordance with statutory requirements. The Group, or the board of the pension fund and the trustee of the plan, are required by law to act in the best interests of the plan participants, and are responsible for managing the plan assets in accordance with the designated investment strategy.

The Group's main defined benefit plans expose the Group to actuarial risks, such as investment risk, interest rate risk, inflation risk, and longevity risk.

(i) Investment risk

The present value of the defined benefit obligations is calculated using a discount rate set with reference to a yield on high quality corporate bonds or government bonds. If the return on the plan assets is below this yield, there is a possibility that the plan is underfunded.

(ii) Interest rate risk

A decrease in a yield on high quality corporate bonds or government bonds will increase the present value of the defined benefit obligations. However, this will be partially offset by an increase in the fair value of the debt instruments (plan assets).

(iii) Inflation risk

The level of benefit for certain defined benefit plans of the Group is linked to inflation. Accordingly, a rise in inflation will increase the present value of the defined benefit obligations.

(iv) Longevity risk

Some defined benefit plans of the Group provide a lifetime annuity, and the Group is obligated to provide pension benefits to the plan participants for the rest of their lives after their retirements. The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of plan participants during or after employment. An increase in average life expectancy of the plan participants will increase the defined benefit obligations.

A pension buy-in was implemented for the U.K. pension plan of the Group in December 2021. In the implementation of the transaction, plan assets held by the pension plan have been contributed to the insurance company, and the Group concluded an insurance agreement with the insurance company that ensures the receipt of an amount of money equivalent to pension benefits for pensioners in the future. Consequently, the pension plan was released from the above risks.

A. Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations is as follows:

(Millions of yen)

	Japan (Note 3)	Overseas	Total
As of January 1, 2020 (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
Current service cost	9,042	11,960	21,003
Past service cost and settlement	—	1,610	1,610
Interest expense	1,585	6,164	7,750
Contributions by plan participants	—	2,313	2,313
Remeasurement gains and losses:			
Actuarial gains and losses arising from changes in demographic assumptions	1,362	(4,982)	(3,620)
Actuarial gains and losses arising from changes in financial assumptions	1,906	(24,216)	(22,310)
Actuarial gains and losses arising from experience adjustments	(1,240)	8,686	7,447
Benefits paid	(40,925)	(25,136)	(66,061)
Exchange differences on translation of foreign operations	—	49,407	49,407
Other	—	(2,277)	(2,277)
As of December 31, 2021 (Notes 1, 2)	156,327	589,874	746,201

(Note 1) The Group’s weighted-average duration of the defined benefit obligations is 7.4 years for Japan and 15.1 years for overseas (2020 : 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, 2020			**As of December 31, 2021**		
	Japan	Overseas	Total	Japan	Overseas	Total
Active members	129,281	198,735	328,016	109,151	205,496	314,647
Deferred members	7,830	81,218	89,048	5,912	86,748	92,660
Pensioners	47,485	286,391	333,876	41,264	297,629	338,893
Total	184,597	566,343	750,940	156,327	589,874	746,201

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

(Millions of yen)

	2020	**2021**
As of January 1	31,090	26,054
Interest expense	124	156
Remeasurement gains and losses	(1,596)	(1,283)
Benefits paid	(3,565)	(3,065)
As of December 31	26,054	21,862

B. Schedule of Plan Assets

The schedule of the plan assets is as follows:

(Millions of yen)

	Japan	Overseas	Total
As of January 1, 2020	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 2, 3)	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
Interest income	455	4,953	5,408
Remeasurement gains and losses:			
Return on plan assets (Note 1) (excluding amounts included in interest income)	507	(25,741)	(25,235)
Contributions by the employer (Notes 2, 3)	841	5,724	6,564
Contributions by plan participants	—	2,313	2,313
Benefits paid	(5,062)	(18,519)	(23,581)
Exchange differences on translation of foreign operations	—	48,017	48,017
As of December 31, 2021	50,193	453,009	503,203

(Note 1) "Return on plan assets" for the year ended December 31, 2021 includes (¥39,230 million) of the difference due to remeasurement of fair value of plan assets arising from the implementation of the pension buy-in transaction.

(Note 2) Pursuant to laws and regulations, the Group and the pension fund review the financial condition of the pension plan regularly and recalculate contributions for allocating future benefit and keeping the balance of the pension financing when the plan is underfunded.

(Note 3) The Group plans to pay contributions of ¥5,750 million in the year ending December 31, 2022.

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, 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

As of December 31, 2021

(Millions of yen)

	Japan	Overseas	Total
Present value of the funded defined benefit obligations	44,852	421,577	466,429
Fair value of the plan assets	(50,193)	(453,009)	(503,203)
Subtotal	(5,342)	(31,432)	(36,773)
Present value of the unfunded defined benefit obligations	111,476	168,296	279,772
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	106,134	136,864	242,999
Retirement benefit liabilities	112,625	183,551	296,176
Retirement benefit assets	(6,491)	(46,686)	(53,177)
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	106,134	136,864	242,999

D. Major Breakdown of Plan Assets

The breakdown of plan assets by major category as of December 31 is as follows:

(Millions of yen)

Japan

	As of December 31, 2020			As of December 31, 2021		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	7,569	—	7,569	7,776	—	7,776
Equity instruments	3,524	—	3,524	2,453	—	2,453
Japan	1,653	—	1,653	838	—	838
Overseas	1,871	—	1,871	1,615	—	1,615
Debt instruments	7,550	—	7,550	8,055	—	8,055
Japan	6,299	—	6,299	6,695	—	6,695
Overseas	1,250	—	1,250	1,360	—	1,360
General account of life insurance companies (Note 1)	—	33,048	33,048	—	29,807	29,807
Other	751	1,011	1,762	1,070	1,033	2,103
Total	19,394	34,059	53,453	19,353	30,840	50,193

(Millions of yen)

Overseas

	As of December 31, 2020			As of December 31, 2021		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	33,999	—	33,999	54,026	—	54,026
Equity instruments	63,683	0	63,683	49,027	0	49,027
United Kingdom	3,805	—	3,805	2,781	—	2,781
North America	23,876	—	23,876	14,562	—	14,562
Other	36,001	0	36,001	31,684	0	31,684
Debt instruments	296,597	6,079	302,676	80,927	6,425	87,353
United Kingdom	206,048	—	206,048	686	—	686
North America	31,588	0	31,588	34,866	—	34,866
Other	58,962	6,079	65,040	45,376	6,425	51,801
Real estate	15,673	68	15,740	20,963	88	21,051
Other (Note 2)	10,571	9,592	20,164	11,190	230,363	241,553
Total	420,524	15,739	436,263	216,133	236,876	453,009

(Millions of yen)

	Total					
	As of December 31, 2020			As of December 31, 2021		
	Market price in an active market		Total	Market price in an active market		Total
	Quoted	Unquoted		Quoted	Unquoted	
Cash and cash equivalents	41,568	—	41,568	61,802	—	61,802
Equity instruments	67,206	0	67,207	51,479	0	51,480
Debt instruments	304,147	6,079	310,226	88,982	6,425	95,407
Real estate	15,673	68	15,740	20,963	88	21,051
General account of life insurance companies (Note 1)	—	33,048	33,048	—	29,807	29,807
Other (Note 2)	11,323	10,604	21,926	12,260	231,396	243,656
Total	439,917	49,798	489,715	235,486	267,716	503,203

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

(Note 2) “Other” as of December 31,2021 includes ¥220,408 million of the insurance agreement concluded in the U.K. pension buy-in transaction.

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

(Japan)

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

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

(Overseas)

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

E. Matters Related to Actuarial Assumptions

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

As of December 31, 2020

(%)

	Japan	Overseas
Discount rate	0.8	1.0
Inflation rate	—	2.3

(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)

As of December 31, 2021

(%)

	Japan	Overseas
Discount rate	0.7	1.4
Inflation rate	—	2.5

(years)

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

(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.

As of December 31, 2020

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(5,821)	(41,376)
	Decrease by 0.5%	6,252	46,245
Inflation rate	Increase by 0.5%	―	31,073
	Decrease by 0.5%	―	(28,236)
Mortality rate	Extended 1 year	3,367	21,707
	Shortened 1 year	(3,231)	(21,346)

As of December 31, 2021

(Millions of yen)

	Change in assumptions	Japan	Overseas
Discount rate	Increase by 0.5%	(5,260)	(41,816)
	Decrease by 0.5%	5,664	46,655
Inflation rate	Increase by 0.5%	―	31,542
	Decrease by 0.5%	―	(28,433)
Mortality rate	Extended 1 year	2,931	23,356
	Shortened 1 year	(2,802)	(22,949)

F. Breakdown of Defined Benefit Cost

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

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

Year ended December 31, 2021

(Millions of yen)

	Japan	Overseas	Total
Current service cost	9,042	11,960	21,003
Past service cost and gains and losses on settlement	—	1,610	1,610
Interest expense (income)	1,130	1,212	2,341
Defined benefit cost through profit or loss	10,172	14,782	24,954
Actuarial gains and losses arising from changes in demographic assumptions	1,362	(4,982)	(3,620)
Actuarial gains and losses arising from changes in financial assumptions	1,906	(24,216)	(22,310)
Actuarial gains and losses arising from experience adjustments	(1,240)	8,686	7,447
Return on plan assets (Note 1) (excluding amounts included in interest income)	(507)	25,741	25,235
Defined benefit cost through other comprehensive income	1,522	5,230	6,752
Total of defined benefit cost	11,694	20,012	31,706

(Note 1) "Return on plan assets" for the year ended December 31, 2021 includes ¥39,230 million in the difference due to remeasurement of fair value of plan assets arising in conjunction with the pension buy-in transaction.

(Note 2) The net amount of interest expense and interest income is included in "Financial costs." Other expenses are included in "Cost of sales" and "Selling, general and administrative expenses."

(Note 3) Contributions to the defined contribution plans were ¥9,698 million for the year ended December 31, 2020 and ¥10,175 million for the year ended December 31, 2021 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)

	2020	**2021**
Remuneration and salary	241,549	257,388
Bonus to employees	97,676	99,033
Legal welfare expenses	45,458	48,513
Welfare expenses	38,258	42,097
Termination benefits	85	29,552

23. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

A. Authorized Shares

The number of authorized shares as of December 31, 2020 and 2021 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, 2020	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2020	2,000,000	100,000	736,400
Increase (decrease)	—	—	—
As of December 31, 2021	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, 2020	226,197	492,469
Increase (decrease) (Note 2)	(442)	(962)
As of December 31, 2020	225,755	491,507
Increase (decrease) (Note 2)	(279)	(608)
As of December 31, 2021	225,475	490,899

(Note 1) The Company adopts share option plans, restricted stock remuneration plans and performance share unit plans and utilizes treasury shares for delivery of shares due to their exercises. Contract conditions and amounts are described in “32. Share-based Payments.”

(Note 2) Purchases of shares less than one unit are 0 thousand shares for the year ended December 31, 2020 and 0 thousand shares for the year ended December 31, 2021. Sale of shares less than one unit are 0 thousand shares for the year ended December 31, 2020 and 0 thousand shares for the year ended December 31, 2021. The number of shares delivered upon exercise of share options are 203 thousand shares for the year ended December 31, 2020 and 41 thousand shares for the year ended December 31, 2021. The number of shares disposed for restricted stock remuneration are 239 thousand shares for the year ended December 31, 2020 and 238 thousand shares for the year ended December 31, 2021.

(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, 2020

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	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

Year ended December 31, 2021

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2021)	Ordinary shares	136,617	77	December 31, 2020	March 25, 2021
Board of Directors (July 30, 2021)	Ordinary shares	115,344	65	June 30, 2021	September 1, 2021

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

Year ended December 31, 2020

	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Basis date	Effective date
(Resolution)					
Annual Shareholders' Meeting (March 24, 2021)	Ordinary shares	136,617	77	December 31, 2020	March 25, 2021

Year ended December 31, 2021

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

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, 2020

(Millions of yen)

	Reportable Segments					
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharma-ceuticals	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

Year ended December 31, 2021

(Millions of yen)

	Reportable Segments					
	Domestic Tobacco (Note 2)	International Tobacco (Note 3)	Pharma-ceuticals	Processed Food	Other	Consolidated
Core revenue from tobacco business (Note 1)	519,842	1,482,139	-	-	-	2,001,981
Other	39,606	53,535	80,392	147,245	2,078	322,857
Total	559,449	1,535,674	80,392	147,245	2,078	2,324,838

(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 ¥55,891 million and ¥59,846 million for the year ended December 31, 2020 and 2021, 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)

	2020	**2021**
South and West Europe	219,359	245,115
North and Central Europe	271,976	312,717
CIS+	294,283	342,399
Rest-of-the-World	465,190	581,907
Total	1,250,808	1,482,139

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 when 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)

	2020	**2021**
Gross turnover	7,555,062	8,391,869
Tobacco excise taxes and agency transaction amount	(5,462,501)	(6,067,032)
Revenue	2,092,561	2,324,838

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)

	2020	**2021**
Gain on sale of the former JT building	41,265	-
Gain on sale of property, plant and equipment, intangible assets and investment property (Note)	5,332	8,219
Other (Note)	8,327	7,403
Total	54,924	15,622

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

(Millions of yen)

	2020	**2021**
Gain on sale of property, plant and equipment, intangible assets and investment property	4,744	5,061
Other	60	27
Total	4,803	5,088

27. Selling, General and Administrative Expenses

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

(Millions of yen)

	2020	**2021**
Advertising expenses	27,254	29,286
Promotion expenses	92,149	108,656
Commission (Note 2)	57,614	66,895
Employee benefit expenses (Note 2)	307,181	354,979
Research and development expenses (Note 1)	60,847	65,016
Depreciation and amortization	103,666	108,963
Impairment losses on other than financial assets (Note 2)	12,571	22,768
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property (Note 2)	7,591	5,835
Cooperation fee for terminating leaf tobacco farming	-	6,560
Other (Note 2)	115,598	119,616
Total	784,472	888,574

(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)

	2020	**2021**
Employee benefit expenses	323	30,600
Impairment losses on other than financial assets	332	6,299
Losses on sale and disposal of property, plant and equipment, intangible assets and investment property	361	784
Other	2,100	2,126
Total	3,116	39,810

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	2020	**2021**
Dividend income		
Financial assets measured at fair value through other comprehensive income	929	936
Interest income		
Financial assets measured at amortized cost		
Deposits and bonds	6,389	12,435
Gain on net monetary position	3,143	5,087
Other	1,893	555
Total	12,353	19,013

(Millions of yen)

Financial Costs	2020	**2021**
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds and borrowings	21,039	21,668
Other	1,495	1,382
Foreign exchange losses (Note 1)	35,812	15,565
Employee benefit expenses (Note 2)	2,172	2,341
Other	826	4,688
Total	61,344	45,645

(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, 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)

Year ended December 31, 2021

(Millions of yen)

	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Items that will not be reclassified to profit or loss					
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	344	—	344	(461)	(116)
Remeasurements of defined benefit plans	(6,752)	—	(6,752)	505	(6,246)
Total of items that will not be reclassified to profit or loss	(6,407)	—	(6,407)	45	(6,363)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	204,911	(794)	204,117	2,391	206,508
Net gain (loss) on derivatives designated as cash flow hedges	(704)	606	(98)	30	(68)
Total of items that may be reclassified subsequently to profit or loss	204,207	(188)	204,019	2,421	206,440
Total	197,800	(188)	197,611	2,466	200,077

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)

	2020	**2021**
Profit for the period attributable to owners of the parent company	310,253	338,490
Profit not attributable to ordinary shareholders of the parent company	—	—
Profit for the period used for calculation of basic earnings per share	310,253	338,490

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

(Thousands of shares)

	2020	**2021**
Weighted-average number of shares during the period	1,774,128	1,774,419

(2) Basis of Calculating Diluted Earnings per Share

A. Profit Attributable to Diluted Ordinary Shareholders

(Millions of yen)

	2020	**2021**
Profit for the period used for calculation of basic earnings per share	310,253	338,490
Adjustment	(0)	—
Profit for the period used for calculation of diluted earnings per share	310,253	338,490

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

(Thousands of shares)

	2020	**2021**
Weighted-average number of ordinary shares during the period	1,774,128	1,774,419
Increased number of ordinary shares under subscription rights to shares	792	741
Weighted-average number of diluted ordinary shares during the period	1,774,921	1,775,161

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, 2020

(Millions of yen)

	As of January 1, 2020	Cash flows	Non-cash changes		As of December 31, 2020
			Foreign exchange movement	Other	
Short-term borrowings and commercial paper	192,581	(132,462)	(8,525)	39	51,633
Long-term borrowings (Note 1)	115,297	88,153	1,280	225	204,955
Bonds (Note 1)	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

Year ended December 31, 2021

(Millions of yen)

	As of January 1, 2021	Cash flows	Non-cash changes		As of December 31, 2021
			Foreign exchange movement	Other	
Short-term borrowings and commercial paper	51,633	22,887	(3,885)	—	70,636
Long-term borrowings (Note 1)	204,955	(9,146)	913	248	196,970
Bonds (Note 1)	702,292	(90,031)	37,438	1,316	651,016
Lease liabilities	66,531	(20,449)	2,655	11,799	60,536
Total	1,025,412	(96,739)	37,122	13,363	979,158

(Note 1) Current portion is included.

(Note 2) Of the bonds issued and redeemed for the year ended December 31, 2021, the portion corresponding to the modification is offset on the consolidated cash flow statement.

32. Share-based Payments

(1) Share Option

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

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

A. Share Option Contract Conditions of the Company

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

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

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

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

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

(Shares)

	2020			**2021**		
	Directors	Executive Officers	Total	Directors	Executive Officers	Total
Balance as of January 1	361,000	613,600	974,600	361,000	410,600	771,600
Exercised	—	(203,000)	(203,000)	—	(41,200)	(41,200)
Balance as of December 31	361,000	410,600	771,600	361,000	369,400	730,400
Exercisable balance as of December 31	—	85,200	85,200	—	44,000	44,000

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

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

(Note 3) The weighted-average share prices of share options at the time of exercise during the period were ¥2,256 and ¥2,089 for the years ended December 31, 2020 and 2021, respectively.

(Note 4) The weighted-average remaining contract years of unexercised share options at the end of each period were 25.6 years and 24.9 years for the years ended December 31, 2020 and 2021, respectively.

(2) Restricted Stock Remuneration

The Company has the restricted stock remuneration plan, which delivers the Company's ordinary shares which are subject to a certain transfer restriction period, to Directors also serving as Executive Officers and Executive Officers of the Company (hereinafter referred to as “Eligible Directors and Executive Officers”). The plan aims to further strengthen the initiatives to enhance the corporate value over the mid to long-term and to further develop the shared value with shareholders.

The Company enters into the restricted stocks allotment agreement with the Eligible Directors and Executive Officers and the Company’s ordinary shares shall be delivered if the Eligible Directors and Executive Officers, who continue to serve for a stipulated period, pay all of the monetary compensation claims provided by the Company by the method of contribution in kind. The transfer restriction period is 30 years from the grant date. With regard to the allotted restricted stocks (hereinafter referred to as “Allotted Shares”) the restricted stock allotment agreement states that each Eligible Directors and Executive Officers is prohibited to transfer Allotted Shares to a third party, pledge them, mortgage them, or use any arrangement to dispose them, and that the Company can acquire Allotted Shares without any compensation on certain conditions and so on. In case any Eligible Directors and Executive Officers who receive allotment retire due to expiration of the term or resign due to reasons deemed reasonable by the Company’s Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company’s Board of Directors even during the transfer restriction period, the transfer restrictions shall be removed on all Allotted Shares held by him/her.

Details of Restricted Stock Remuneration

	2020	**2021**
Grant date	May 26, 2020	May 25, 2021
Number of allotted shares	Directors: 94,200 Executive Officers: 145,000	Directors: 92,500 Executive Officers: 145,900
Fair value at the grant date	¥2,001	¥2,061
Calculation methodology of fair value	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors	Calculated based on the closing price of the Company's ordinary share at the Tokyo Stock Exchange as of the previous business day of the resolution of the share allotment by the Board of Directors

(3) Performance Share Unit Remuneration

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

The Eligible Directors and Executive Officers shall be paid monetary compensation claims and monies for the delivery of the Company's ordinary shares in accordance with the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period as determined through deliberations by the Advisory Panel on Nomination and Compensation of the Company after the performance evaluation period of 3 consecutive fiscal years on the condition that they continue to serve as Directors, etc. of the Company for a stipulated period. They shall receive the delivery of the Company's ordinary shares by paying all of such monetary compensation claims by the method of contribution in kind. The number of allotted shares and the amount of cash to be paid are calculated by multiplying basic number of share units determined in accordance with duties of each Eligible Directors and Executive Officers by the payment ratio calculated based on the rate of achievement, etc. of numerical targets such as performance during the performance evaluation period in the range of 0% - 200%.

The fair value in the plan is estimated based on the market price of the Company's share, which is not revised in consideration of the estimated dividend. The weighted average fair value at the reporting date for the year ended December 31, 2020 is ¥2,102 and for the year ended December 31, 2021 is ¥2,322.

(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)

	2020	**2021**
Share options (equity-settled)	30	—
Restricted stock remuneration (equity-settled)	479	491
Performance share unit remuneration (cash-settled)	84	451

(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)

	2020	**2021**
Carrying amounts of liability	84	535

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, the Group maintains a strong financial base that secures stability in the case of economic crises etc., 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)

	2020	**2021**
Interest-bearing debt (Note)	958,881	918,622
Cash and cash equivalents	(538,844)	(721,731)
Net interest-bearing debt	420,037	196,891
Capital (equity attributable to owners of the parent company)	2,522,834	2,809,258

(Note) Lease liabilities are excluded.

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

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

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

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

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

The Group policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, the Group 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, the Group 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 Department having jurisdiction over financial operations of the Company regularly monitors the status of the occurrence and collection of bad debts and reports them to the president and the Board of Directors of the Company.

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

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

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

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

(Millions of yen)

	Trade receivables	Other financial assets			Total
		Measured at an amount equal to the 12-month expected credit losses	Measured at an amount equal to the full lifetime expected credit losses		
			Non-credit-impaired financial assets	Credit-impaired financial assets	
As of January 1, 2020	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
Addition	618	―	10	4	632
Decrease (intended use)	(664)	―	(1)	(1)	(667)
Decrease (reversal)	(701)	―	(10)	(42)	(754)
Other	131	―	―	540	671
As of December 31, 2021	1,306	―	91	6,283	7,680

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

(4) Liquidity Risk

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

In accordance with the Group Financial Operation Basic Policy, the Group establishes a finance plan based on the annual business plan and the Department having jurisdiction over financial operations of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the president and the Board of Directors of the Company. In 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, 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

As of December 31, 2021

(Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	555,777	555,777	555,777	—	—	—	—	—
Short-term borrowings	70,636	70,636	70,636	—	—	—	—	—
Current portion of long-term borrowings	42,265	42,265	42,265	—	—	—	—	—
Long-term borrowings	154,705	155,453	—	11,905	23,334	55	58	120,102
Current portion of bonds	30,000	30,000	30,000	—	—	—	—	—
Bonds	621,016	630,083	—	60,000	—	96,801	—	473,282
Lease liabilities	60,536	67,060	18,446	13,823	10,020	4,840	2,548	17,383
Subtotal	1,534,935	1,551,274	717,124	85,728	33,354	101,696	2,606	610,767
Derivative financial liabilities								
Foreign exchange forward contract	10,926	10,926	10,926	—	—	—	—	—
Subtotal	10,926	10,926	10,926	—	—	—	—	—
Total	1,545,861	1,562,200	728,050	85,728	33,354	101,696	2,606	610,767

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

(Millions of yen)

	2020	**2021**
Total committed line of credit	478,200	477,985
Withdrawing	—	—
Unused balance	478,200	477,985

(5) Foreign Exchange Risk

The Group operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(i) The risk where the profit or loss and cash flow in each functional currency of the Group is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of the Group.

(ii) The risk that the equity of the Group is influenced by foreign exchange fluctuation when equity denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

(iii) The risk that the profit or loss of the Group is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of the Group is translated into Japanese yen and consolidated.

The Group hedges against risk (i) using derivatives or foreign currency-denominated interest-bearing debts for example, when future cash flow is projected or when receivables and payables are fixed, and some of them are designated as cash flow hedges. The Group hedges against risk (ii) using foreign currency-denominated interest-bearing debts for example, and part of these are designated as net investment hedges. The Group does not hedge against risk (iii) in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with the Group Financial Operation Basic Policy and under the supervision of the Treasury Committee of the Company, the Group establishes and implements a foreign currency hedge policy taking into consideration the impact on the Group’s performance and the current conditions of the foreign exchange market in a comprehensive manner. The Department having jurisdiction over financial operations of the Company regularly reports the performances to the president and the Board of Directors of the Company.

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by the Group as of each year end increases by 10% in value against the functional currency, the impact on profit before income taxes in the consolidated statement of income is as follows:

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

(Millions of yen)

	2020	**2021**
Profit before income taxes	(3,960)	(6,808)

(6) Interest Rate Risk

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

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

Interest Rate Sensitivity Analysis

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

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

(Millions of yen)

	2020	**2021**
Profit before income taxes	1,743	3,923

(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, 2020

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.
			Assets	Liabilities	
Foreign exchange risk					
Foreign exchange forward contract					
JPY / USD	USD 218 mil.	–	324	176	¥ 105.31

As of December 31, 2021

	Contract amount	Over one year	Carrying amount (Note) (Millions of yen)		Average rate, etc.
			Assets	Liabilities	
Foreign exchange risk					
Foreign exchange forward contract					
JPY / USD	USD 136 mil.	–	149	542	¥ 109.74

(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, 2020	(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
Other comprehensive income	
Amount arising (Note 1)	(704)
Reclassification adjustments (Note 2)	606
Tax effects	30
Other	(327)
As of December 31, 2021	(274)

(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, 2020

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
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.		—	543	289	€	0.011
JPY / USD	USD	300 mil.		—	519	—	¥	105.03
GBP / USD	USD	523 mil.		—	—	1,682	£	0.76

As of December 31, 2021

	Contract amount		Over one year		Carrying amount (Note) (Millions of yen)		Average rate, etc.	
					Assets	Liabilities		
Bonds in EUR	EUR	1,324 mil.	EUR	1,324 mil.	—	171,502	$	1.16
Bonds in GBP	GBP	400 mil.	GBP	400 mil.	—	60,733	$	1.32
Foreign exchange forward contract								
EUR / RUB	RUB	22,396 mil.		—	52	1,433	€	0.011
JPY / USD	USD	299 mil.		—	—	226	¥	114.02
USD / RUB	RUB	19,834 mil.		—	131	659	$	0.013
GBP / USD	USD	602 mil.		—	1,387	349	£	0.73
EUR / USD	USD	444 mil.		—	654	215	€	0.87

(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)

	2020	**2021**
As of January 1	10,338	11,480
Other comprehensive income		
Amount arising (Note 1)	3,887	(6,389)
Tax effects	(2,746)	2,391
As of December 31 (Note 2)	11,480	7,481

(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 ¥21,026 million and ¥9,985 million as of December 31, 2020 and 2021, 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, 2020

(Millions of yen)

	Carrying amount	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

As of December 31, 2021

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Long-term borrowings (Note)	196,970	–	198,290	–	198,290
Bonds (Note)	651,016	682,984	–	–	682,984

(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, 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

As of December 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3 (Note)	Total
Derivative assets	—	7,362	—	7,362
Equity securities	19,988	—	7,804	27,792
Other	562	6,518	7,725	14,805
Total	20,550	13,880	15,529	49,959
Derivative liabilities	—	10,926	—	10,926
Total	—	10,926	—	10,926

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

(Millions of yen)

	2020	**2021**
As of January 1	11,927	12,457
Total gain (loss)		
Profit or loss (Note 1)	(930)	(116)
Other comprehensive income (Note 2)	(804)	274
Purchases	2,674	3,042
Sales	(410)	(12)
Other	—	(116)
As of December 31	12,457	15,529

(Note 1) Gains and losses included in profit or loss for the years ended December 31, 2020 and 2021 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, 2020 and 2021 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, 2021, 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 ¥177,170 million and ¥219,135 million for the years ended December 31, 2020 and 2021, respectively. The Group held trade receivables of ¥27,668 million and ¥51,685 million from CJSC TK Megapolis as of December 31, 2020 and 2021, 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)

	2020	**2021**
Remuneration and bonuses	1,139	1,335
Share-based payments	251	374
Total	1,390	1,709

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:

	2020		**2021**	
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	173	8	169	8
Pharmaceuticals	2	—	2	—
Processed Food	28	2	28	2
Other	19	2	23	2
Total	235	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, 2021.

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)

	2020	**2021**
Acquisition of property, plant and equipment	33,768	28,817
Acquisition of intangible assets	3,130	3,173
Total	36,897	31,990

(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	406
31 December 2016	102	373
31 December 2017	112	339
31 December 2018	152	250
31 December 2019	194	196
31 December 2020	281	135
31 December 2021	379	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

One or more members of the Group 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, 2021, 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.

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

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

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

B. Class Actions

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

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

This class action was brought in September 1998 against three Canadian tobacco manufacturers including JTI-Mac. Plaintiffs were seeking a total of approximately ¥413.4 billion (approximately CAD 4.6 billion) in compensatory damages, an amount for which all the defendants are jointly and severally liable, and a total amount of approximately ¥413.4 billion (approximately CAD 4.6 billion) in punitive damages, to be divided among all the defendants based on their respective market shares.

The Quebec Superior Court published the first instance judgment in favor of the plaintiffs in June 2015. In June 2015, JTI-Mac and other tobacco manufacturers appealed the judgment to the Quebec Court of Appeal, and the appeal on the merits was heard and concluded in November 2016.

In March 2019, the Quebec Court of Appeal dismissed the appeal of defendants by substantively upholding the first instance judgment and ordering a punitive damage award against the appellants of approximately ¥14.5 billion (approximately CAD 161 million), in which the share of the total damage award against JTI-Mac is approximately ¥1.4 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 ¥1,119.9 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 ¥73.0 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 ¥1,218.1 billion (approximately CAD 13.5 billion), in which the share of the total damage award against JTI-Mac is approximately ¥158.4 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 ¥104.6 billion (approximately CAD 1.2 billion), in which the share of JTI-Mac is approximately ¥13.1 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 ¥29,713.2 billion (CAD 330 billion). The case is stayed by the CCAA Proceedings.

Canada Newfoundland and Labrador Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Newfoundland and Labrador in February 2011 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Manitoba Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Manitoba in May 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Quebec Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Quebec in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The statement of claim contains allegations of joint and several liabilities among all the defendants but does not specify any individual amount or percentages within the total amount of the claim approximately ¥5,461.6 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 ¥900.4 billion (CAD 10.0 billion). The case is stayed by the CCAA Proceedings.

Canada Saskatchewan Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Saskatchewan in June 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Prince Edward Island Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Prince Edward Island in September 2012 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

Canada Nova Scotia Health-Care Cost Recovery Litigation:

This health-care cost recovery litigation was filed by the Province of Nova Scotia in January 2015 against tobacco industry members including JTI-Mac and the Company's indemnitees based on legislation similar to that introduced in the Province of British Columbia. The claim amount is unspecified. The case is stayed by the CCAA Proceedings.

(2) Other Legal Proceedings

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

(Note) The amount of damages sought denominated in foreign currencies is translated into Japanese yen at the rates as of December 31, 2021.

39. Subsequent Events

The Group decided to suspend all new investments and marketing activities in Russia considering the state of affairs of Russia and Ukraine. The challenges of operating in Russia at this time are unprecedented and would lead to a wide range of impacts on the Group’s business. Unless the operating environment and geopolitical situation improve significantly, the Group cannot exclude the possibility of a suspension of its manufacturing operations in the country.

As of the filing date, the future outlook and the impact on business performance are not practicable to reasonably estimate.

(2) Others

A. Quarterly Information for the Year ended December 31, 2021

(Millions of yen)

	Q1 January 1, 2021 to March 31, 2021	Q2 January 1, 2021 to June 30, 2021	Q3 January 1, 2021 to September 30, 2021	2021 January 1, 2021 to December 31, 2021
Revenue	547,366	1,144,539	1,766,075	2,324,838
Profit before income taxes for the period (year)	156,342	314,095	463,821	472,390
Profit attributable to owners of the parent company for the period (year)	113,786	225,190	338,813	338,490
Basic earnings per share for the period (year) (yen)	64.13	126.92	190.95	190.76

	Q1 January 1, 2021 to March 31, 2021	Q2 April 1, 2021 to June 30, 2021	Q3 July 1, 2021 to September 30, 2021	Q4 October 1, 2021 to December 31, 2021
Basic earnings per share for the quarter(losses) (yen)	64.13	62.78	64.03	(0.18)

B. Significant Lawsuits

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

2. Nonconsolidated Financial Statements

(1) Nonconsolidated Financial Statements

A. Nonconsolidated Balance Sheet

As of December 31, 2020 and 2021

(Millions of yen)

		2020		**2021**
Assets				
Current assets				
Cash and deposits		299,366		238,127
Accounts receivable-trade	*2	34,815	*2	37,614
Securities		20,000		20,000
Merchandise and finished goods		27,142		26,768
Semi-finished goods		76,402		83,612
Work in process		2,247		1,725
Raw materials and supplies		32,234		29,364
Advance payments-trade		1,886		1,714
Prepaid expenses		4,850		5,669
Short-term loans receivable from subsidiaries and affiliates		43,406		4,967
Other	*2,*3	19,455	*2,*3	18,579
Allowance for doubtful accounts		(25)		(24)
Total current assets		561,777		468,113
Noncurrent assets				
Property, plant and equipment				
Buildings		80,030		77,170
Structures		2,375		2,404
Machinery and equipment		51,567		41,889
Vehicles		1,307		832
Tools, furniture and fixtures		14,221		11,898
Land		48,909		48,113
Construction in progress		445		384
Total property, plant and equipment		198,854		182,690
Intangible assets				
Patent right		154		91
Right of trademark		82,120		65,629
Software		18,299		14,818
Goodwill		178,855		143,084
Other		2,662		2,834
Total intangible assets		282,089		226,457
Investments and other assets				
Investment securities		16,862		19,136
Shares of subsidiaries and affiliates		1,487,617		1,492,833
Long-term loans receivable from subsidiaries and affiliates		17,792		51,299
Long-term prepaid expenses		9,090		7,881
Deferred tax assets		13,514		28,751
Other		14,118		14,998
Allowance for doubtful accounts		(3,783)		(4,179)
Total investments and other assets		1,555,210		1,610,719
Total noncurrent assets		2,036,153		2,019,866
Total assets		2,597,930		2,487,979

(Millions of yen)

		2020		**2021**
Liabilities				
Current liabilities				
Accounts payable-trade	*2	7,069	*2	5,675
Current portion of bonds	*1	77,624	*1	30,000
Current portion of long-term borrowings		—		30,000
Lease obligations	*2	2,450	*2	2,050
Accounts payable-other	*2	51,780	*2	124,329
National tobacco excise taxes payable		65,605		69,066
National tobacco special excise taxes payable		8,536		8,298
Local tobacco excise taxes payable		74,707		78,114
Income taxes payable		29,527		10,910
Accrued consumption taxes		37,973		30,596
Cash management system deposits received	*4	326,353	*4	360,786
Provision for bonuses		6,330		5,898
Other		5,914		11,584
Total current liabilities		693,867		767,305
Noncurrent liabilities				
Bonds payable	*1	206,717	*1	125,000
Long-term borrowings		170,000		140,000
Lease obligations	*2	4,529	*2	3,061
Provision for retirement benefits		128,333		102,960
Other	*2	4,472	*2	4,957
Total noncurrent liabilities		514,051		375,978
Total liabilities		1,207,918		1,143,283

(Millions of yen)

	2020	**2021**
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Total capital surplus	736,400	736,400
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	377	356
Reserve for reduction entry	41,711	37,715
Special account for reduction entry	327	425
Retained earnings brought forward	966,416	935,204
Total retained earnings	1,027,608	992,476
Treasury shares	(491,507)	(490,899)
Total shareholders' equity	1,372,501	1,337,977
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,069	5,833
Deferred gains or losses on hedges	12,189	(316)
Total valuation and translation adjustments	16,259	5,517
Subscription rights to shares	1,252	1,202
Total net assets	1,390,011	1,344,696
Total liabilities and net assets	2,597,930	2,487,979

B. Nonconsolidated Statement of Income
Years Ended December 31, 2020 and 2021

(Millions of yen)

		2020		2021
Net sales	*1,*6	596,887	*1,*6	592,220
Cost of sales	*6	166,144	*6	154,227
Gross profit		430,742		437,993
Selling, general and administrative expenses	*2,*6	329,792	*2,*6	344,154
Operating income		100,950		93,839
Non-operating income				
Interest income	*6	1,224	*6	91
Dividends income	*6	142,558	*6	182,091
Other	*6	7,548	*6	8,660
Total non-operating income		151,329		190,842
Non-operating expenses				
Interest expenses	*6	1,634	*6	1,697
Interest on bonds		3,895		2,188
Other	*6	6,260	*6	1,986
Total non-operating expenses		11,789		5,871
Ordinary income		240,491		278,809
Extraordinary income				
Gain on sales of noncurrent assets	*3	4,861	*3	6,688
Gain on sale of the former JT building	*7	45,806		—
Other		2,426		101
Total extraordinary income		53,094		6,789
Extraordinary losses				
Loss on sales of noncurrent assets	*4	289	*4	103
Loss on retirement of noncurrent assets	*5,*6	5,551	*5,*6	3,263
Impairment loss		999		1,402
Business restructuring costs		—	*6,*8	31,592
Cooperation fee for terminating leaf tobacco farming		—		6,560
Loss on redemption of bonds		—		4,105
Other	*6	2,051		2,371
Total extraordinary losses		8,889		49,397
Income before income taxes		284,695		236,202
Income taxes-current		44,675		30,996
Income taxes-deferred		(1,732)		(11,690)
Total income taxes		42,943		19,306
Net income		241,752		216,896

C. Nonconsolidated Statement of Changes in Net Assets
Years ended December 31, 2020 and 2021

(Millions of yen)

	Shareholders' equity								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	Total retained earnings
As of January 1, 2020	100,000	736,400	736,400	18,776	378	45,373	1,747	992,930	1,059,205
Changes of items during the period									
Provision of reserve for investment loss on developing new business					377			(377)	–
Reversal of reserve for investment loss on developing new business					(378)			378	–
Provision of reserve for reduction entry						2,924		(2,924)	–
Reversal of reserve for reduction entry						(6,586)		6,586	–
Provision of special account for reduction entry							327	(327)	–
Reversal of special account for reduction entry							(1,747)	1,747	–
Dividends from surplus								(273,200)	(273,200)
Net income								241,752	241,752
Purchase of treasury shares									
Disposal of treasury shares								(150)	(150)
Net changes of items other than shareholders' equity									
Total changes of items during the period	–	–	–	–	(1)	(3,662)	(1,421)	(26,514)	(31,597)
As of December 31, 2020	100,000	736,400	736,400	18,776	377	41,711	327	966,416	1,027,608

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments				
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	Subscription rights to shares	Total net assets
As of January 1, 2020	(492,469)	1,403,136	7,283	5,390	12,673	1,556	1,417,365
Changes of items during the period							
Provision of reserve for investment loss on developing new business		–					–
Reversal of reserve for investment loss on developing new business		–					–
Provision of reserve for reduction entry		–					–
Reversal of reserve for reduction entry		–					–
Provision of special account for reduction entry		–					–
Reversal of special account for reduction entry		–					–
Dividends from surplus		(273,200)					(273,200)
Net income		241,752					241,752
Purchase of treasury shares	(1)	(1)					(1)
Disposal of treasury shares	963	813					813
Net changes of items other than shareholders' equity			(3,213)	6,799	3,586	(304)	3,281
Total changes of items during the period	962	(30,635)	(3,213)	6,799	3,586	(304)	(27,354)
As of December 31, 2020	(491,507)	1,372,501	4,069	12,189	16,259	1,252	1,390,011

(Millions of yen)

	Shareholders' equity								
		Capital surplus		Retained earnings					
					Other retained earnings				
	Capital stock	Legal capital surplus	Total capital surplus	Legal retained earnings	Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	Total retained earnings
As of January 1, 2021	100,000	736,400	736,400	18,776	377	41,711	327	966,416	1,027,608
Changes of items during the period									
Provision of reserve for investment loss on developing new business					356			(356)	–
Reversal of reserve for investment loss on developing new business					(377)			377	–
Provision of reserve for reduction entry						764		(764)	–
Reversal of reserve for reduction entry						(4,761)		4,761	–
Provision of special account for reduction entry							425	(425)	–
Reversal of special account for reduction entry							(327)	327	–
Dividends from surplus								(251,961)	(251,961)
Net income								216,896	216,896
Purchase of treasury shares									
Disposal of treasury shares								(67)	(67)
Net changes of items other than shareholders' equity									
Total changes of items during the period	–	–	–	–	(22)	(3,997)	98	(31,212)	(35,132)
As of December 31, 2021	100,000	736,400	736,400	18,776	356	37,715	425	935,204	992,476

(Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
As of January 1, 2021	(491,507)	1,372,501	4,069	12,189	16,259	1,252	1,390,011
Changes of items during the period							
Provision of reserve for investment loss on developing new business		–			–		–
Reversal of reserve for investment loss on developing new business		–			–		–
Provision of reserve for reduction entry		–			–		–
Reversal of reserve for reduction entry		–			–		–
Provision of special account for reduction entry		–			–		–
Reversal of special account for reduction entry		–			–		–
Dividends from surplus		(251,961)			–		(251,961)
Net income		216,896			–		216,896
Purchase of treasury shares	(0)	(0)			–		(0)
Disposal of treasury shares	609	542			–		542
Net changes of items other than shareholders' equity			1,764	(12,505)	(10,742)	(51)	(10,792)
Total changes of items during the period	608	(34,524)	1,764	(12,505)	(10,742)	(51)	(45,316)
As of December 31, 2021	(490,899)	1,337,977	5,833	(316)	5,517	1,202	1,344,696

D. Notes to Nonconsolidated Financial Statements
Years ended December 31, 2020 and 2021

(Preparation Policy)

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

(Significant Accounting Policies)

1. Basis and Method of Valuation for Securities

(1) Shares of Subsidiaries and Affiliates:

Stated at cost determined by the moving-average method.

(2) Available-for-sale Securities:

A. Securities with a Fair Value:

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

B. Securities without a Fair Value:

Stated at cost determined by the moving-average method.

2. Basis and Method of Valuation for Derivatives

Stated based on the fair value method.

3. Basis and Method of Valuation for Inventories

Stated at cost as determined by the average cost method.

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

4. Depreciation Methods for Depreciable Assets

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

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

The main useful lives are as follows:

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

(2) Intangible Assets (Excluding Lease Assets)

The straight-line method is applied.

The main useful lives are as follows:

Patent right:	8 years
Right of trademark:	10 years
Software:	5 years
Goodwill:	10 years

(3) Lease Assets

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

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

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

6. Policy on Accounting of Provisions

(1) Allowance for Doubtful Accounts

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

(2) Provision for Bonuses

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

(3) Provision for Retirement Benefits

Provided in preparation for the payment of retirement benefits to employees based on the estimated retirement benefit obligations and fair value of plan assets as of the end of this fiscal year. In calculating retirement benefit obligations, the benefit formula basis is used as the method of attributing expected benefit to periods up to the year ended December 31, 2019.

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

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

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

7. Method of Hedge Accounting

Deferral hedge accounting is applied.

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

8. Other Significant Accounting Policies

(1) Accounting Treatment relating to Retirement Benefits

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

(2) Consumption Taxes

National consumption tax and local consumption tax are excluded from each amount in the nonconsolidated statement of income.

(3) Adoption of Consolidated Taxation System

The Company adopted the consolidated taxation system.

(4) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

Concerning items which transitioned to the group tax sharing system established under the “Act for Partial Amendment of the Income Tax Act and Relevant Acts” (Act No. 8 of 2020) and those for which the non-consolidated tax payment system was reviewed in line with the transition to the group tax sharing system, the Company will not apply the provisions of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (hereinafter, "ASBJ") Guidance No.28, February 16, 2018), in accordance with Paragraph 3 of “the Practical Solution on the Treatment of the Tax Effect Accounting from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No.39 March 31, 2020). As a result, the amounts of deferred tax assets and deferred tax liabilities are reported based on the provisions of the tax act before the amendment.

(Changes in Presentation Methods)

(Application of the "Accounting Standard for Disclosure of Accounting Estimates")

The "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31, March 31, 2020) has been applied from the current fiscal year and stated regarding accounting estimates are included in the nonconsolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso of paragraph 11 of the accounting standard in question, these notes do not contain information about the fiscal year ended December 31, 2020.

(Significant accounting estimates)

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

For the impact of the spread of COVID-19, please refer to "4. Significant Accounting Estimates and Judgments" in "Notes to Consolidated Financial Statements".

Evaluation of shares of subsidiaries and affiliates

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

Shares of subsidiaries and affiliates ¥1,492,833 million

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

Of the shares of subsidiaries and affiliates recorded in the balance sheet at the end of the current fiscal year, the shares of JT International Group Holding B.V., a subsidiary, amounted to ¥1,355,146 million. Whether or not to recognize impairment of the shares of that company is determined by comparing the carrying amount of those shares to the actual value calculated based on net assets of that company. In addition, the Company determines whether the actual value of those shares has declined significantly or not based on the result of impairment test of goodwill allocated per cash-generating unit in the consolidated financial statements in accordance with IFRS. (For details of the impairment test, please refer to "14. Goodwill and Intangible Assets (3) Impairment Test for Goodwill" in "Consolidated Financial Statements".) The assumptions used in the impairment test are based on management's best estimates and judgement. However, they may be affected by the results of changes in uncertain future economic conditions, and if a review is necessary, it may have a significant impact on the amounts recognized in the nonconsolidated financial statements in future periods.

(Accounting Standards Not Yet Adopted)

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

(1) Overview

These are the comprehensive accounting standards for revenue recognition. 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

(2) Scheduled Date of Adoption

This accounting standard will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of Adoption

Expenses previously recognized in “Selling, general and administrative expenses” will be partially recognized as a reduction of “Net sales,” for example.

(Notes to Nonconsolidated Balance Sheet)

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

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

(Millions of yen)

	2020	**2021**
Short-term receivables	14,173	17,166
Short-term payables	26,255	37,348
Long-term payables	3,830	2,677

*3. Repurchase agreement of ¥5,000 million is included in "Other" of Current assets in this year and the fair value of securities received as collateral is ¥5,000 million.

*4. "Cash management system deposits received" represent the fund entrusted in the cash management system of domestic group companies.

5. Contingent obligations

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

Bank loans and others

2020				**2021**			
(Millions of yen)				(Millions of yen)			
JT International Company Netherlands B.V.	60,414	(EUR	477 million)	JT International Company Netherlands B.V.	31,530	(EUR	242 million)
JT International Holding B.V.	34,274	(EUR	270 million)	JT International Hellas A.E.B.E.	27,807	(EUR	213 million)
JT International Hellas A.E.B.E.	27,891	(EUR	220 million)	JT International Holding B.V.	26,232	(EUR	180 million)
		(CHF	57 million)				others
JT International S.A.	11,001	(EUR	20 million)	JT International spol. s r.o	13,612	(CZK	2,595 million)
			others			(CHF	57 million)
				JT International S.A.	12,212	(EUR	21 million)
							others
				PT. Karyadibya Mahardhika	10,595	(IDR	1,311,940 million)
Other (54 companies)	126,532			Other (58 companies)	120,787		
Total	260,114			Total	242,775		

Bonds

2020				2021			
	(Millions of yen)				(Millions of yen)		
JT International Financial Services B.V.	421,878	(EUR (USD (GBP	2,050 million) 1,025 million) 400 million)	JT International Financial Services B.V.	505,083	(EUR (USD (GBP	2,050 million) 1,525 million) 400 million)
Total	421,878			Total	505,083		

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

(Notes to Nonconsolidated Statement of Income)

*1. Net sales including tobacco excise taxes for each year are as follows:

(Millions of yen)

	2020	**2021**
Net sales including tobacco excise taxes	1,514,560	1,506,274

(Note) Net sales including tobacco excise taxes are net sales plus the amount equivalent to tobacco excise taxes.

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

(Millions of yen)

	2020	**2021**
Promotion expenses	45,198	47,173
Compensations, salaries and allowances	29,735	30,205
Provision for bonus	4,145	4,019
Employee benefit expenses	10,572	7,852
Commission	31,856	43,522
Depreciation and amortization	64,349	63,170
Research and development expenses	57,733	53,902
Selling expenses ratio	53%	51%
General and administrative expenses ratio	47%	49%

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

(Millions of yen)

	2020	**2021**
Land	4,732	6,684

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

(Millions of yen)

	2020	**2021**
Buildings	9	32
Structures	7	4
Tools, furniture and fixtures	249	12

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

(Millions of yen)

	2020	**2021**
Buildings	1,274	710
Machinery and equipment	2,133	1,501

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

(Millions of yen)

	2020	**2021**
Net sales	51,669	49,410
Purchase of goods	55,995	51,013
Selling, general and administrative expenses	49,949	62,312
Dividends income	142,312	182,578
Amount of non-operating transactions	12,480	12,910

*7. "Gain on sale of the former JT building" in previous fiscal year is mainly composed of gain and loss on sales of fixed assets, including following major items.

Gain on sale of land	¥	49,655	million
Loss on sale of building	¥	3,680	million

*8. Business restructuring costs is related to strengthen business operation in the Domestic Tobacco Business, mainly relate to redundancy pay associated with early retirement and impairment losses on non-current assets associated with Kyushu Factory closure.

(Securities)

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

2020

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	49,584	8,004
Total	41,580	49,584	8,004

2021

(Millions of yen)

Type	Balance sheet amount	Fair value	Difference
Investments in subsidiaries	41,580	44,318	2,737
Total	41,580	44,318	2,737

(Note) Balance sheet amount of investments in subsidiaries and affiliates whose fair value is deemed extremely difficult to determine as of December 31 is as follows:

(Millions of yen)

Type	2020	**2021**
Investments in subsidiaries	1,445,883	1,451,114
Investments in affiliates	153	138

The above are not included in "Investments in subsidiaries and affiliates" because their market values are not available and their fair values are deemed extremely difficult to determine.

(Tax Effect Accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause
As of December 31, 2020 and 2021

(Millions of yen)

	2020	**2021**
Deferred tax assets		
Provision for retirement benefits	29,375	22,916
Obligations pertaining to mutual assistance pension benefits	9,220	7,800
Investments in subsidiaries	12,232	12,232
Accounts payable to employees who have agreed to early retirement	—	15,670
Other	31,668	36,791
Subtotal	82,495	95,409
Less valuation allowance	(22,950)	(24,447)
Total	59,545	70,962
Deferred tax liabilities		
Reserve for reduction entry	(18,245)	(16,496)
Deferred gains or losses on hedges	(13,661)	(11,157)
Valuation difference on available-for-sale securities	(1,640)	(1,933)
Other	(12,485)	(12,625)
Total	(46,030)	(42,211)
Net deferred tax assets/liabilities	13,514	28,751

2. Reconciliation between the effective statutory tax rate and the actual effective tax rate after applying tax effect accounting, if there is a significant difference
As of December 31, 2020 and 2021

(%)

	2020	**2021**
Effective statutory tax rate	30.43	30.43
(Adjustments)		
Permanent difference arising from non-deductible items including entertainment expenses	0.22	0.41
Permanent difference arising from non-taxable items including dividends income	(14.45)	(22.26)
Tax credit of items including research and development expenses	(1.07)	(1.04)
Other	(0.05)	0.64
Actual effective tax rate after applying tax effect accounting	15.08	8.17

(Business Combination)

No items to report.

(Significant Subsequent Events)

No items to report.

E. Supplementary Statements

Detailed Schedule of Property, Plant and Equipment and Others

(Millions of yen)

	Type of assets	As of January 1, 2021	Increase in the year ended December 31, 2021	Decrease in the year ended December 31, 2021	Depreciation during the year ended December 31, 2021	As of December 31, 2021	Accumulated depreciation or accumulated amortization as of December 31, 2021
Property, plant and equipment	Buildings	80,030	3,380	438 (72)	5,803	77,170	173,594
	Structures	2,375	314	34 (1)	250	2,404	10,378
	Machinery and equipment	51,567	5,520	4,549 (1,336)	10,649	41,889	179,031
	Vehicles	1,307	42	96	421	832	2,008
	Tools, furniture and fixtures	14,221	4,022	326 (46)	6,019	11,898	67,581
	Land	48,909	17	813	—	48,113	—
	Construction in progress	445	373	434 (51)	—	384	—
	Total property, plant and equipment	198,854	13,669	6,690 (1,506)	23,142	182,690	432,592
Intangible assets	Patent right	154	16	—	78	91	—
	Right of trademark	82,120	6	4	16,492	65,629	—
	Software	18,299	5,142	1,525 (1,236)	7,098	14,818	—
	Goodwill	178,855	—	—	35,771	143,084	—
	Other	2,662	1,768	1,499	97	2,834	—
	Total intangible assets	282,089	6,931	3,028 (1,236)	59,536	226,457	—

(Note 1) The figures in parentheses in the “Decrease in the year ended December 31, 2021” column represent decreases due to impairment loss included in the figures above.

(Note 2) Other includes software in progress.

Detailed Schedule of Reserve Allowances

(Millions of yen)

Category	As of January 1, 2021	Increase in the year ended December 31, 2021	Decrease in the year ended December 31, 2021	As of December 31, 2021
Allowance for doubtful accounts	3,808	396	1	4,203
Provision for bonuses	6,330	5,898	6,330	5,898

(2) Major Assets and Liabilities

Note is omitted due to the fact that the relevant parts are prepared in the consolidated financial statements.

(3) Others

No items to report.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

Opinion

We have audited the consolidated financial statements of Japan Tobacco Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Contingencies of Smoking and Health Litigation in Canada</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in Note 38 to the consolidated financial statements "Contingencies," JTI-Macdonald Corp., 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 ¥159.7 billion).

The judgment of the Quebec Court of Appeal exceeded JTI-Macdonald Corp.'s capacity to pay, and JTI-Macdonald Corp. filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"), which was approved by the Ontario Superior Court, and is continuing as of the end of this fiscal year. Legal proceedings including the execution of the judgment against JTI-Macdonald Corp. have been stayed by the CCAA proceedings.

The amount of compensation ordered by the Quebec Court of Appeal and the amount of compensatory and punitive damages sought by plaintiffs in the other Canadian cases are considered significant for the consolidated financial statements, and the Canadian cases also include some cases for which the amount of damages sought by plaintiffs has not been specified.

Management is required to determine whether the recognition of provisions is necessary in accordance with the following recognition requirements for provisions defined in International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets":

• The company has a present obligation (legal or constructive) as a result of a past event;

• The outflow of resources embodying economic benefits is probable (i.e., more likely than not) to settle the obligation; and

• A reliable estimate can be made of the amount of the obligation.

Since the determination of whether the recognition of provisions is necessary involves subjective judgments made by management and uncertainty that is difficult to prove, we have determined this matter regarding the Canadian cases to be a key audit matter.</td><td>We developed an audit plan and performed the following audit procedures to address this key audit matter:

• We inquired of management and the Legal and Compliance Division of the Company to obtain updates on the statuses of the Canadian cases as of the end of this fiscal year, and assessed the appropriateness of management's judgment on whether the recognition requirements for provisions regarding the Canadian cases were met.

• We instructed the component auditor to perform the following audit procedures and assessed the appropriateness of component management's judgment on the recognition of provisions based on discussions with the component auditor:

✓ Evaluating internal controls over the internal 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 on whether JTI-Macdonald Corp. has a present obligation (legal or constructive) as a result of a past event and whether the outflow of resources embodying economic benefits is probable to settle the obligation among the recognition requirements for provisions.

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

<table>
<tr><th colspan="2">Evaluation of goodwill allocated to international tobacco cash-generating unit</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in Note 14 to the consolidated financial statements "Goodwill and Intangible Assets," the Group allocates goodwill generated by business combinations to the 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 ¥1,769,706 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 the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Group sets a growth rate from 6.9% in the fourth year to 2.0% 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 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 the consolidated financial statements and the three-year business plan used in the impairment test and the underlying assumptions for the growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the international tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards.

Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of the goodwill allocated to the international tobacco cash-generating unit to be a key audit matter.</td>
<td>In response to this key audit matter, we developed an audit plan for the impairment test of goodwill allocated to the 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 for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the 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 the assistance of the valuation specialists in our network firm.

• We discussed with management regarding the results of the impairment test of goodwill allocated to the international tobacco cash-generating unit and assessed the appropriateness of management's conclusion on the impairment test.</td></tr>
</table>

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 23, 2022

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Japan Tobacco Inc.:

Opinion

We have audited the nonconsolidated financial statements of Japan Tobacco Inc. (the "Company"), which comprise the nonconsolidated balance sheet as of December 31, 2021, and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 37th fiscal year from January 1, 2021 to December 31, 2021, and notes to the nonconsolidated financial statements, including a summary of significant accounting policies, and supplemental schedules.

In our opinion, the accompanying nonconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matter

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

<table>
<tr><th colspan="2">Evaluation of Shares of Subsidiaries</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in "Significant accounting estimates" in notes to the nonconsolidated financial statements, on the Company's balance sheet as of the end of this fiscal year, Shares of subsidiaries and affiliates was ¥1,492,833 million (approximately 60.0% of Total assets), including shares of JT International Group Holding B.V., one of the subsidiaries, of ¥1,355,146 million.

The international tobacco business manufactures and sells tobacco products overseas mainly through JT International S.A., which controls manufacturing and sales operations. The Company invests in JT International Group Holding B.V., which consolidates the financial results of the international tobacco business, including JT International S.A.

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

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

The recoverable amount of the international tobacco cash-generating unit is calculated by the value in use based on the three-year business plan that was prepared by reflecting past experiences and external information, and approved by management (hereinafter, "the three-year business plan"). After the three-year business plan, the Company sets a growth rate from 6.9% in the fourth year to 2.0% in the ninth year, and the same growth rate as the ninth year from the tenth year as a continued growth rate for inflation. As a result of the consideration, the Company concluded that it was not necessary to recognize an impairment on JT International Group Holding B.V. shares.</td>
<td>In response to this key audit matter, we developed the audit plan for the evaluation of JT International Group Holding B.V. shares, obtained and inspected the results of Company's evaluation.

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

• In order to assess the reasonableness of the three-year business plan and the underlying assumptions for the growth rates developed by component management, we 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 for the corresponding period, as well as assessing the feasibility of the current three-year business plan considering the market conditions and performance of the major markets in which the 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 the assistance of the valuation specialists in our network firm.</td></tr>
</table>

The three-year business plan used in the evaluation of JT International Group Holding B.V. shares, and the underlying assumptions for growth rates used to develop the plan for the fourth year and onwards are greatly affected by management's subjective judgments. In addition, in the international tobacco business, the Group is placed in an environment with the tightening regulations on tobacco products, increased taxes levied on tobacco and a fierce competition with rival companies. These external factors affect to the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards. Since the three-year business plan and the growth rates used in developing the plan for the fourth year and onwards involve uncertainties and require management's judgment, we have determined the evaluation of JT International Group Holding B.V. shares to be a key audit matter.	• We discussed with the management regarding the results of the impairment test of goodwill allocated to the 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 Nonconsolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 23, 2022