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February 13, 2024

Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 <under IFRS>

Name of the Listed Company: **JAPAN TOBACCO INC.** (Stock Code: 2914)
 Listed Stock Exchange: Tokyo Stock Exchange
 URL: <https://www.jti.co.jp/>
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 Chief Executive Officer
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 Scheduled date of Annual General Meeting of Shareholders: March 22, 2024
 Scheduled date to file Securities Report: March 22, 2024
 Scheduled starting date of the dividend payments: March 25, 2024
 Drawing up supplementary documents on financial results: Yes
 Holding investors' meeting: Yes (for analysts and institutional investors)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit for the year	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended								
December 31, 2023	2,841,077	6.9	672,410	2.9	621,601	4.7	485,310	9.3
December 31, 2022	2,657,832	14.3	653,575	31.0	593,450	25.6	444,174	30.6

	Profit attributable to owners of the parent company		Comprehensive income for the year		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Year ended						
December 31, 2023	482,288	8.9	668,217	(33.1)	271.69	271.63
December 31, 2022	442,716	30.8	998,229	84.8	249.45	249.36

	Ratio of profit to equity attributable to owners of the parent company	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
	%	%	%
Year ended			
December 31, 2023	13.1	9.0	23.7
December 31, 2022	13.9	9.6	24.6

Reference: Share of profit (loss) in investments accounted for using the equity method:

Fiscal year ended December 31, 2023: ¥8,332 million; Fiscal year ended December 31, 2022: ¥8,009 million

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity attributable to owners of the parent company per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2023	7,282,097	3,912,491	3,830,156	52.6	2,157.46
December 31, 2022	6,548,078	3,616,761	3,540,435	54.1	1,994.78

(3) Consolidated Cash Flows

	Net cash flows from (used in) operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at the end of the year
Year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2023	567,014	(126,129)	(270,500)	1,040,206
December 31, 2022	483,799	(101,822)	(306,176)	866,885

2. Cash Dividends

	Annual dividends per share					Total amount of dividends (total)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the parent company (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
Year ended December 31, 2022	Yen -	Yen 75.00	Yen -	Yen 113.00	Yen 188.00	Millions of yen 333,672	% 75.4	% 10.5
Year ended December 31, 2023	-	94.00	-	100.00	194.00	344,387	71.4	9.3
Year ending December 31, 2024 (Forecast)	-	97.00	-	97.00	194.00		75.7	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2024 (January 1, 2024 to December 31, 2024)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit attributable to owners of the parent company		Basic earnings per share
Year ending December 31, 2024	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	3,016,000	6.2	648,000	(3.6)	455,000	(5.7)	256.29

[Additional Information] Growth rate in adjusted operating profit at constant FX:

The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant FX, at mid to high single-digit over the mid- to long-term, and will continue to pursue this goal. The Group expects an annual average of mid-single digit growth during the period of the “Business Plan 2024” (fiscal year ending December 31, 2024 to fiscal year ending December 31, 2026), which was announced on February 13, 2024.

(Percentages indicate year-on-year changes.)

	Adjusted operating profit at constant FX	
	Millions of yen	%
Year ended December 31, 2023	765,725	5.2
Year ending December 31, 2024 (Forecast)	728,000	(0.0)

The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group’s target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group’s performance. For details of these financial measures, please refer to “1. Business Results” in attached materials.

For detailed information on the consolidated financial results, please refer to the materials for investors’ meeting that were released on the Company’s website (<https://www.jt.com/investors/>) on February 13, 2024.

Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in change in scope of consolidation): Yes
Excluded: One company (JT INTERNATIONAL GROUP HOLDING B.V.)
- (2) Changes in accounting policies and changes in accounting estimates
 - a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: Yes

For details, please refer to “3. Consolidated Financial Statements and Major Notes (IFRS), (6) Notes to Consolidated Financial Statements (Changes in accounting policies / Changes in accounting estimates).”
- (3) Number of shares issued (ordinary shares)
 - a. Total number of shares issued at the end of the period (including treasury shares)

As of December 31, 2023	2,000,000,000 shares
As of December 31, 2022	2,000,000,000 shares
 - b. Number of treasury shares at the end of the period

As of December 31, 2023	224,692,028 shares
As of December 31, 2022	225,146,463 shares
 - c. Average number of shares during the period

Fiscal year ended December 31, 2023	1,775,141,654 shares
Fiscal year ended December 31, 2022	1,774,749,410 shares

[Reference] Overview of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

(1) Non-consolidated Operating Results

(Percentages indicate year-on-year changes.)

Year ended	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2023	537,261	(0.9)	20,131	(68.8)	185,665	(32.2)	184,788	(34.8)
December 31, 2022	542,181	(8.4)	64,574	(31.2)	273,734	(1.8)	283,461	30.7

Year ended	Net income per share	Diluted earnings per share
	Yen	Yen
December 31, 2023	104.10	104.07
December 31, 2022	159.72	159.66

(2) Non-consolidated Financial Position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2023	2,293,951	1,179,577	51.4	664.12
December 31, 2022	2,363,267	1,368,643	57.9	770.57

Reference: Equity:

As of December 31, 2023: ¥1,179,020 million; As of December 31, 2022: ¥1,367,642 million

Reason for difference compared with the previous fiscal year's actual non-consolidated financial results

For the current fiscal year, a difference has arisen in ordinary income and net income between the actual results for the current fiscal year and the actual results for the previous fiscal year due to the impact from a decrease in non-operating income, and other factors.

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions and suppositions deemed to be reasonable by the Company. Actual business and other results may differ substantially due to various factors. These forward-looking statements are not intended to be construed as our assurance for it to materialize in the future. Please refer to "FORWARD-LOOKING STATEMENTS" for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

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1. Business Results

(Non-GAAP Financial Measures)

The Group also discloses certain non-GAAP financial measures that are not required or defined under IFRS, which is the accounting standard the Company applies. These non-GAAP financial measures are used internally to manage each of the business operations to understand their underlying performance, in view of the Group's target for mid- to long-term sustainable growth, and the Group believes that these financial measures are useful information for users of the financial statements to assess the Group's performance.

Adjusted operating profit

Adjusted operating profit presented is operating profit (loss) less amortization cost of acquired intangibles arising from business acquisitions and adjustment items (income and costs). Adjustment items (income and costs) are impairment losses on goodwill, restructuring income and costs, and other items.

Furthermore, growth rate in adjusted operating profit at constant FX is also presented as additional information. The Group has set its group-wide target for annual average growth rate in adjusted operating profit at constant FX, at mid to high single-digit over the mid- to long-term, and will continue to pursue this goal.

Constant FX

Adjusted operating profit at constant FX is a financial measurement that excludes foreign exchange effects calculated and translated using the foreign exchange rates of the same period of the previous year from adjusted operating profit, core revenue, or from core revenue from tobacco business for the current period in the Tobacco Business. Adjusted operating profit results at constant FX excludes the increase in revenue or profit caused by inflation in some markets calculated using certain methods.

Core revenue

The sum of core revenue from the Tobacco Business and revenue from the Pharmaceutical Business, Processed Food Business and other.

Core revenue from tobacco business

Regarding tobacco business, core revenue is disclosed. Core revenue excludes revenue related to the distribution business and contract manufactured products, among others.

(Hyperinflationary Accounting Adjustments)

The Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies according to the requirements stipulated in IAS 29 "Financial Reporting in Hyperinflationary Economies."

(1) Consolidated Business Results

a. General summary

(Billions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Revenue	2,657.8	2,841.1	6.9%
Adjusted operating profit	727.8	728.0	0.0%
Operating profit	653.6	672.4	2.9%
Profit attributable to owners of the parent company	442.7	482.3	8.9%
Core revenue at constant FX	2,555.7	2,712.5	6.1%
Adjusted operating profit at constant FX	727.8	765.7	5.2%

Revenue

Revenue increased by 6.9% from the previous year to ¥2,841.1 billion due to increases in the Tobacco Business and the Pharmaceutical Business. Core revenue at constant FX increased by 6.1% from the previous year.

Adjusted operating profit

Adjusted operating profit at constant FX increased by 5.2% from the previous year mainly driven by growth in the Tobacco Business. Adjusted operating profit including foreign exchange effects was ¥728.0 billion, the same level as the previous fiscal year, due to unfavorable currency movements as a result of the Japanese yen appreciating against several local currencies.

Operating profit

Operating profit increased by 2.9% from the previous year to ¥672.4 billion due to a decrease in amortization cost of acquired intangibles arising from business acquisitions and an increase in gains on sale of real estate in adjustment items.

Profit attributable to owners of the parent company

Profit attributable to owners of the parent company increased by 8.9% from the previous year to ¥482.3 billion due to an increase in operating profit as well as decreases in financing costs and income taxes.

b. Review of operations by business segment

Please refer to the 2023 Earnings Report posted on the Company's website (<https://www.jt.com/investors/results/forecast/index.html>).

(2) Consolidated Financial Position

Cash and cash equivalents at the end of the current fiscal year increased by ¥173.3 billion from the end of the previous fiscal year to ¥1,040.2 billion. Cash and cash equivalents at the end of the previous fiscal year was ¥866.9 billion.

a. Cash flows from (used in) operating activities

Net cash flows from operating activities during the current fiscal year were ¥567.0 billion, compared with ¥483.8 billion provided in the previous fiscal year. This was mainly due to the generation of a stable cash inflow from the tobacco business, despite payments of income taxes and increases in inventories and prepaid tobacco excise taxes.

b. Cash flows from (used in) investing activities

Net cash flows used in investing activities during the current fiscal year were ¥126.1 billion, compared with ¥101.8 billion used in the previous fiscal year. This was mainly due to the purchase of property, plant and equipment, intangible assets, and securities.

c. Cash flows from (used in) financing activities

Net cash flows used in financing activities during the current fiscal year were ¥270.5 billion, compared with ¥306.2 billion used in the previous fiscal year. This was mainly due to the payment of cash dividend and redemption of bonds, despite an increase in short-term borrowings.

(3) Outlook for the Next Fiscal Year

a. Consolidated earnings forecasts

(Billions of yen)

	Fiscal year ended December 31, 2023	Fiscal year ending December 31, 2024 (Forecast)	Change
Revenue	2,841.1	3,016.0	6.2%
Adjusted operating profit	728.0	688.0	(5.5)%
Operating profit	672.4	648.0	(3.6)%
Profit attributable to owners of the parent company	482.3	455.0	(5.7)%
Core revenue at constant FX	2,728.8	2,836.0	3.9%
Adjusted operating profit at constant FX	728.0	728.0	(0.0)%

Revenue

Core revenue at constant FX is expected to increase by 3.9% from the current fiscal year due to increases in sales in the Tobacco Business and the Processed Food Business despite a decrease in sales in the Pharmaceutical Business. Revenue is expected to increase by 6.2% from the current fiscal year to ¥3,016.0 billion after factoring in favorable foreign exchange effects in the Tobacco Business.

Adjusted operating profit

Adjusted operating profit at constant FX is expected to be flat from the current fiscal year due to decreases in the Pharmaceutical Business despite increases in the Tobacco Business. Adjusted operating profit including foreign exchange effects is expected to decrease by 5.5% from the current fiscal year to ¥688.0 billion, due to the unfavorable foreign exchange effects.

Operating profit and profit attributable to owners of the parent company

Operating profit is expected to decrease by 3.6% from the current fiscal year to ¥648.0 billion due to a decrease in adjusted operating profit and a loss of income of real estate recorded in the current fiscal year..

Profit attributable to owners of the parent company is forecast to decrease by 5.7% from the current fiscal year to ¥455.0 billion due mainly to a decrease in operating profit and an increase in income taxes.

b. Review of operations by business segment

Please refer to the 2023 Earnings Report posted on the Company's website (<https://www.jt.com/investors/results/forecast/index.html>).

(4) Basic Policy on Profit Distribution and Dividends for Fiscal Years 2023 and 2024

The Company has adopted a management resource allocation policy, prioritizing business investments^(Note 1) for sustainable profit growth in the medium and long terms as well as balancing profit growth through business investments and shareholder returns.

In addition, the shareholder return policy has been set forth as follows:

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

Note 1: Grow adjusted operating profit at constant FX by placing top priority on growth-oriented investment in the tobacco business, while realizing high-quality, top-line growth through continuing provision of new value and satisfaction to consumers and society.

Note 2: The Company will maintain a strong financial base that secures stability in case of changes in the business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

Note 3: To be in the range of approximately $\pm 5\%$.

Note 4: Monitor the shareholder return trends of Fast-Moving Consumer Goods companies which have a stakeholder model similar to our 4S model and have realized strong business growth.

Based on the above policies, the Company is planning to pay 100 yen per share as a year-end dividends for fiscal year 2023, taking into comprehensive consideration various factors, including financial results of fiscal year 2023 as well as expected profit levels of fiscal year 2024. Therefore, the annual dividend per share of fiscal year 2023 is scheduled to be 194 yen, including the interim dividend of 94 yen for fiscal year 2023.

Regarding the dividend for the fiscal year ending December 31, 2024, the Company plans to pay an annual dividend of ¥194 per share (including a ¥97 interim dividend).

2. Basic Principle on the Choice of Accounting Standards

The Group has used the International Financial Reporting Standards (IFRS) since the fiscal year ended March 31, 2012 in order to enhance the international comparability of its financial information in capital markets and to aim to diversify its financing methods in global markets.

FORWARD-LOOKING STATEMENTS

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

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

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

Notes on the Russia-Ukraine War

The Group is fully committed to complying with applicable regulations and international sanctions while continuing business operations. In parallel, given the continued challenging and complex environment, we continue to evaluate various options, including the potential transfer of ownership of our Russian tobacco business. As this moment, the Company is unable to reasonably estimate the outlook and the impact on its financial results. The Company will promptly make announcements regarding this matter if anything occurs that should be disclosed.

3. Consolidated Financial Statements and Major Notes (IFRS)

(1) Consolidated Statement of Financial Position

	As of December 31, 2022	(Millions of yen) As of December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	866,885	1,040,206
Trade and other receivables	477,239	535,302
Inventories	691,906	832,611
Other financial assets	37,677	58,633
Other current assets	649,181	789,888
Subtotal	2,722,889	3,256,639
Assets held for sale	702	2,921
Total current assets	2,723,591	3,259,561
Non-current assets		
Property, plant and equipment	775,957	821,499
Goodwill	2,446,063	2,616,440
Intangible assets	246,442	206,982
Investment property	9,495	9,338
Retirement benefit assets	57,792	65,856
Investments accounted for using the equity method	56,943	56,726
Other financial assets	140,366	156,316
Deferred tax assets	91,430	89,379
Total non-current assets	3,824,487	4,022,536
Total assets	6,548,078	7,282,097

	As of December 31, 2022	(Millions of yen) As of December 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	540,089	592,802
Bonds and borrowings	137,308	233,333
Income tax payables	37,470	29,647
Other financial liabilities	40,065	44,470
Provisions	26,610	18,634
Other current liabilities	781,093	1,008,390
Subtotal	1,562,635	1,927,276
Liabilities directly associated with assets held for sale	29	-
Total current liabilities	1,562,664	1,927,276
Non-current liabilities		
Bonds and borrowings	821,003	908,926
Other financial liabilities	41,735	40,678
Retirement benefit liabilities	244,116	279,443
Provisions	26,490	45,527
Other non-current liabilities	195,248	127,170
Deferred tax liabilities	40,061	40,586
Total non-current liabilities	1,368,653	1,442,329
Total liabilities	2,931,317	3,369,605
Equity		
Share capital	100,000	100,000
Capital surplus	736,400	736,478
Treasury shares	(490,183)	(489,194)
Other components of equity	104,309	290,550
Retained earnings	3,089,909	3,192,323
Equity attributable to owners of the parent company	3,540,435	3,830,156
Non-controlling interests	76,326	82,336
Total equity	3,616,761	3,912,491
Total liabilities and equity	6,548,078	7,282,097

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income**Consolidated Statement of Income**

	(Millions of yen)	
	Year ended December 31, 2022	Year ended December 31, 2023
Revenue	2,657,832	2,841,077
Cost of sales	(1,090,989)	(1,225,974)
Gross profit	<u>1,566,843</u>	<u>1,615,103</u>
Other operating income	20,262	30,027
Share of profit in investments accounted for using the equity method	8,009	8,332
Selling, general and administrative expenses	(941,538)	(981,052)
Operating profit	<u>653,575</u>	<u>672,410</u>
Financial income	31,147	44,414
Financial costs	(91,272)	(95,222)
Profit before income taxes	<u>593,450</u>	<u>621,601</u>
Income taxes	(149,277)	(136,292)
Profit for the period	<u><u>444,174</u></u>	<u><u>485,310</u></u>
Attributable to:		
Owners of the parent company	442,716	482,288
Non-controlling interests	1,458	3,021
Profit for the period	<u><u>444,174</u></u>	<u><u>485,310</u></u>
Earnings per share		
Basic (Yen)	249.45	271.69
Diluted (Yen)	249.36	271.63

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

	(Millions of yen)	
	Year ended December 31, 2022	Year ended December 31, 2023
Operating profit	653,575	672,410
Amortization cost of acquired intangibles arising from business acquisitions	71,392	58,836
Adjustment items (income)	(15,865)	(18,651)
Adjustment items (costs)	18,677	15,407
Adjusted operating profit	<u><u>727,779</u></u>	<u><u>728,002</u></u>

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended December 31, 2022	Year ended December 31, 2023
Profit for the period	444,174	485,310
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	1,741	2,414
Remeasurements of defined benefit plans	49,744	(13,538)
Total of items that will not be reclassified to profit or loss	51,485	(11,123)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	493,986	189,299
Net gain (loss) on derivatives designated as cash flow hedges	8,584	4,749
Hedge costs	-	(17)
Total of items that may be reclassified subsequently to profit or loss	502,570	194,031
Other comprehensive income (loss), net of taxes	554,055	182,908
Comprehensive income (loss) for the period	998,229	668,217
Attributable to:		
Owners of the parent company	996,687	660,663
Non-controlling interests	1,542	7,554
Comprehensive income (loss) for the period	998,229	668,217

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Other components of equity		
					Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Hedge costs
As of January 1, 2022	100,000	736,400	(490,899)	1,202	(408,175)	(274)	-
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	493,971	8,584	-
Comprehensive income (loss) for the period	-	-	-	-	493,971	8,584	-
Acquisition of treasury shares	-	-	(1)	-	-	-	-
Disposal of treasury shares	-	-	717	(200)	-	-	-
Share-based payments	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	-
Other increase (decrease)	-	-	-	-	-	236	-
Total transactions with the owners	-	-	716	(200)	-	236	-
As of December 31, 2022	100,000	736,400	(490,183)	1,001	85,796	8,546	-
Profit for the period	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	185,014	4,749	(17)
Comprehensive income (loss) for the period	-	-	-	-	185,014	4,749	(17)
Acquisition of treasury shares	-	-	(1)	-	-	-	-
Disposal of treasury shares	-	78	990	(444)	-	-	-
Share-based payments	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Changes in the scope of consolidation	-	-	-	-	-	-	-
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-	-	-	-
Other increase (decrease)	-	-	-	-	-	(4,150)	-
Total transactions with the owners	-	78	989	(444)	-	(4,150)	-
As of December 31, 2023	100,000	736,478	(489,194)	557	270,810	9,145	(17)

(Millions of yen)

Equity attributable to owners of the parent company							
	Other components of equity			Retained earnings	Total	Non-controlling interests	Total equity
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
As of January 1, 2022	7,161	-	(400,086)	2,863,843	2,809,258	76,823	2,886,081
Profit for the period	-	-	-	442,716	442,716	1,458	444,174
Other comprehensive income (loss)	1,880	49,535	553,970	-	553,970	85	554,055
Comprehensive income (loss) for the period	1,880	49,535	553,970	442,716	996,687	1,542	998,229
Acquisition of treasury shares	-	-	-	-	(1)	-	(1)
Disposal of treasury shares	-	-	(200)	(516)	0	-	0
Share-based payments	-	-	-	460	460	21	481
Dividends	-	-	-	(266,203)	(266,203)	(1,631)	(267,834)
Changes in the scope of consolidation	-	-	-	-	-	(429)	(429)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	(1)	(1)	(0)	(1)
Transfer from other components of equity to retained earnings	(75)	(49,535)	(49,610)	49,610	-	-	-
Other increase (decrease)	-	-	236	-	236	-	236
Total transactions with the owners	(75)	(49,535)	(49,575)	(216,650)	(265,510)	(2,039)	(267,548)
As of December 31, 2022	8,966	-	104,309	3,089,909	3,540,435	76,326	3,616,761
Profit for the period	-	-	-	482,288	482,288	3,021	485,310
Other comprehensive income (loss)	2,199	(13,571)	178,375	-	178,375	4,533	182,908
Comprehensive income (loss) for the period	2,199	(13,571)	178,375	482,288	660,663	7,554	668,217
Acquisition of treasury shares	-	-	-	-	(1)	-	(1)
Disposal of treasury shares	-	-	(444)	(505)	119	-	119
Share-based payments	-	-	-	505	505	22	526
Dividends	-	-	-	(367,415)	(367,415)	(2,945)	(370,360)
Changes in the scope of consolidation	-	-	-	-	-	(33)	(33)
Changes in the ownership interest in a subsidiary without a loss of control	-	-	-	(0)	(0)	1,413	1,413
Transfer from other components of equity to retained earnings	(1,111)	13,571	12,460	(12,460)	-	-	-
Other increase (decrease)	-	-	(4,150)	-	(4,150)	-	(4,150)
Total transactions with the owners	(1,111)	13,571	7,866	(379,875)	(370,942)	(1,544)	(372,486)
As of December 31, 2023	10,054	-	290,550	3,192,323	3,830,156	82,336	3,912,491

(4) Consolidated Statement of Cash Flows

	Year ended December 31, 2022	(Millions of yen) Year ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	593,450	621,601
Depreciation and amortization	199,651	179,652
Impairment losses	27,539	13,710
Interest and dividend income	(26,535)	(42,816)
Interest expense	27,019	28,493
Share of profit in investments accounted for using the equity method	(8,009)	(8,332)
(Gains) losses on sale and disposal of property, plant and equipment, intangible assets and investment property	(4,891)	(16,810)
(Gains) losses on sale of investments in subsidiaries	(849)	104
(Increase) decrease in trade and other receivables	26,574	(30,169)
(Increase) decrease in inventories	(93,910)	(136,232)
Increase (decrease) in trade and other payables	(38,251)	40,998
Increase (decrease) in retirement benefit liabilities	(4,156)	455
(Increase) decrease in prepaid tobacco excise taxes	(6,825)	(106,987)
Increase (decrease) in tobacco excise tax payables	24,989	102,787
Increase (decrease) in consumption tax payables	(11,461)	23,249
Other	(28,608)	41,534
Subtotal	675,728	711,238
Interest and dividends received	25,530	41,189
Interest paid	(23,728)	(26,324)
Income taxes paid	(193,731)	(159,088)
Net cash flows from operating activities	483,799	567,014
Cash flows from investing activities		
Purchase of securities	(37,414)	(113,010)
Proceeds from sale and redemption of securities	18,208	84,363
Purchase of property, plant and equipment	(81,411)	(94,861)
Proceeds from sale of investment property	7,583	19,653
Purchase of intangible assets	(17,997)	(26,353)
Payments into time deposits	(350)	—
Proceeds from withdrawal of time deposits	1,602	—
Proceeds from sale of investments in subsidiaries	2,963	—
Proceeds from sale of investments in associates	63	1,369
Other	4,930	2,710
Net cash flows from investing activities	(101,822)	(126,129)

	(Millions of yen)	
	Year ended December 31, 2022	Year ended December 31, 2023
Cash flows from financing activities		
Dividends paid to owners of the parent company	(266,175)	(367,331)
Dividends paid to non-controlling interests	(1,536)	(2,594)
Capital contribution from non-controlling interests	27	431
Increase (decrease) in short-term borrowings and commercial paper	(27,610)	143,042
Proceeds from long-term borrowings	1,522	2,890
Repayments of long-term borrowings	(42,849)	(14,909)
Proceeds from issuance of bonds	69,175	59,795
Redemption of bonds	(30,000)	(68,194)
Repayments of lease liabilities	(21,009)	(23,613)
Acquisition of treasury shares	(1)	(1)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(1)	(17)
Proceeds from settlement of derivatives	12,281	—
Other	0	0
Net cash flows from financing activities	<u>(306,176)</u>	<u>(270,500)</u>
Net increase (decrease) in cash and cash equivalents	75,801	170,385
Cash and cash equivalents at the beginning of the period	721,731	866,885
Effect of exchange rate changes on cash and cash equivalents	69,353	2,935
Cash and cash equivalents at the end of the period	<u><u>866,885</u></u>	<u><u>1,040,206</u></u>

(5) Notes on Premise of Going Concern

No items to report.

(6) Notes to Consolidated financial statements

(Significant accounting estimates)

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

(Changes in accounting policies)

The Group has adopted the following new accounting standards, amended standards and new interpretations from the fiscal year ended December 31, 2023.

IFRS		Description of new standards and amendments
IAS 1	Presentation of Financial Statements	Amendments to require companies to disclose their material accounting policy information rather than their significant accounting policies
IAS 12	Income taxes	Introduction of temporary exceptions to the income tax accounting and disclosure requirements arising from tax law enacted or substantively enacted to implement International Tax Reform-Pillar Two Model Rules and amendments to require companies to disclose information relating to income taxes arising from that tax law

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

IAS 12 states a temporary exception to eliminate the need for recognition and disclosure of deferred tax assets and liabilities related to the Pillar Two Model Rules. The Group has adopted this exception retroactively.

The Group does not recognize any deferred tax assets and liabilities related to the Pillar Two Model Rules.

(Changes in accounting estimates)

Previously, the Group used the estimated useful life of 10 to 15 years for tobacco manufacturing machinery. However, in consideration of changes in the business environment, the estimated useful lives of some tobacco manufacturing machines have been revised to 18 years from the current fiscal year based on the economically usable forecast period in line with actual conditions and this change will also be applied prospectively.

As a result of this change, operating income for the year ended December 31, 2023 increased by ¥8,333 million compared with the previous method.

(Segment information)

a. 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.

The reportable segments of the Group are composed of three segments: “Tobacco Business,” “Pharmaceutical Business,” and “Processed Food Business.”

The “Tobacco Business” consists of the manufacture and sale of tobacco products in domestic areas and overseas. The “Pharmaceutical Business” consists of the research and development, manufacture, and sale of prescription drugs.

The “Processed Food Business” consists of the manufacture and sale of frozen and ambient processed foods and seasonings.

b. 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, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,417,409	82,908	155,539	2,655,856	1,976	-	2,657,832
Intersegment revenue	332	-	3	335	7,518	(7,853)	-
Total revenue	<u>2,417,741</u>	<u>82,908</u>	<u>155,542</u>	<u>2,656,191</u>	<u>9,495</u>	<u>(7,853)</u>	<u>2,657,832</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>753,996</u>	<u>11,146</u>	<u>3,509</u>	<u>768,651</u>	<u>(40,821)</u>	<u>(52)</u>	<u>727,779</u>
Other items							
Depreciation and amortization (Note 3)	183,828	5,438	7,221	196,486	3,173	(7)	199,651
Impairment losses on other than financial assets	23,020	-	1,229	24,249	3,290	-	27,539
Reversal of impairment losses on other than financial assets	282	-	-	282	-	-	282
Share of profit (loss) in investments accounted for using the equity method	8,193	-	(4)	8,189	(181)	-	8,009
Capital expenditures (Note 4)	83,839	2,420	8,158	94,418	6,626	(0)	101,044

¥2,315,242 million of the external revenue from the tobacco business is core revenue.

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

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	804,874	538,828	971,539	2,315,242
Adjusted operating profit	267,517	219,332	267,147	753,996

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Revenue							
External revenue	2,590,910	94,875	153,854	2,839,638	1,439	-	2,841,077
Intersegment revenue	393	-	31	425	2,783	(3,208)	-
Total revenue	<u>2,591,303</u>	<u>94,875</u>	<u>153,885</u>	<u>2,840,063</u>	<u>4,222</u>	<u>(3,208)</u>	<u>2,841,077</u>
Segment profit (loss)							
Adjusted operating profit (Note 1)	<u>749,757</u>	<u>17,409</u>	<u>6,848</u>	<u>774,014</u>	<u>(46,136)</u>	<u>124</u>	<u>728,002</u>
Other items							
Depreciation and amortization (Note 3)	165,491	4,620	7,058	177,169	2,490	(7)	179,652
Impairment losses on other than financial assets	13,613	-	28	13,641	70	-	13,710
Reversal of impairment losses on other than financial assets	486	-	-	486	-	-	486
Share of profit (loss) in investments accounted for using the equity method	8,294	-	58	8,352	(21)	-	8,332
Capital expenditures (Note 4)	105,139	7,339	5,820	118,297	7,064	-	125,361

¥2,478,625 million of the external revenue from the tobacco business is core revenue.

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

(Millions of yen)

	Clusters			
	Asia	Western Europe	EMA	Total
Core revenue (Note 5)	796,919	603,254	1,078,451	2,478,625
Adjusted operating profit	245,845	231,446	272,466	749,757

Asia: All over Asia including Japan

Western Europe: Western Europe region

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

Asia includes Taiwan, Japan, the Philippines, etc.

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

EMA includes Turkey, Romania, Russia, etc.

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

Year ended December 31, 2022

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	753,996	11,146	3,509	768,651	(40,821)	(52)	727,779
Amortization cost of acquired intangibles arising from business acquisitions	(71,392)	-	-	(71,392)	-	-	(71,392)
Adjustment items (income) (Note 6)	6,366	-	2,392	8,758	7,106	-	15,865
Adjustment items (costs) (Note 7)	(9,594)	-	(1,730)	(11,324)	(7,352)	-	(18,677)
Operating profit (loss)	679,375	11,146	4,171	694,693	(41,067)	(52)	653,575
Financial income							31,147
Financial costs							(91,272)
Profit before income taxes							593,450

Year ended December 31, 2023

(Millions of yen)

	Reportable Segments				Other (Note 2)	Elimination	Consolidated
	Tobacco	Pharmaceuticals	Processed Food	Total			
Adjusted operating profit (Note 1)	749,757	17,409	6,848	774,014	(46,136)	124	728,002
Amortization cost of acquired intangibles arising from business acquisitions	(58,836)	-	-	(58,836)	-	-	(58,836)
Adjustment items (income) (Note 6)	444	-	867	1,311	17,339	-	18,651
Adjustment items (costs) (Note 7)	(14,265)	-	(24)	(14,289)	(1,117)	-	(15,407)
Operating profit (loss)	677,101	17,409	7,691	702,201	(29,914)	124	672,410
Financial income							44,414
Financial costs							(95,222)
Profit before income taxes							621,601

(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)	
	Year ended December 31, 2022	Year ended December 31, 2023
Tobacco	20,070	21,530
Pharmaceuticals	681	656
Processed Food	602	518
Other	1,411	1,364
Depreciation of right-of-use assets	22,763	24,068

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

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

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

	(Millions of yen)	
	Year ended December 31, 2022	Year ended December 31, 2023
Restructuring incomes	2,776	18,207
Other	13,089	444
Adjustment items (income)	15,865	18,651

Restructuring incomes for the year ended December 31, 2022 and 2023 mainly related to gains on sale of real estate. Other (income) for the year ended December 31, 2022 mainly related to gains on sale of real estate, reversal of liabilities recognized at the time of acquisition and gains on sale of shares of subsidiaries.

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

	(Millions of yen)	
	Year ended December 31, 2022	Year ended December 31, 2023
Restructuring costs	11,302	4,534
Other	7,375	10,873
Adjustment items (costs)	18,677	15,407

Restructuring costs for the year ended December 31, 2022 mainly related to loss on disposal of real estate and costs of measures to strengthen the operations in the "Tobacco Business." Other (costs) for the year ended December 31, 2022 mainly related to impairment losses on trademarks in the "Tobacco Business" and loss on sale of shares of a subsidiary. Other (costs) for the year ended December 31, 2023 mainly related to losses on changes in estimates of asset retirement obligations and impairment loss on trademark in the "Tobacco Business."

c. Geographic information

The regional breakdown of non-current assets and external revenue as of each fiscal year end is as follows:

Non-current Assets

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Japan	659,541	636,639
Overseas	2,818,416	3,017,621
Consolidated	<u>3,477,957</u>	<u>3,654,260</u>

(Note) Non-current assets, exclusive of financial instruments, deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue

	(Millions of yen)	
	Year ended December 31, 2022	Year ended December 31, 2023
Japan	705,366	685,373
Overseas	1,952,466	2,155,704
Consolidated	<u>2,657,832</u>	<u>2,841,077</u>

(Note) Revenue is segmented by the sales destination.

d. Major customers information

The “Tobacco Business” of the Group sells products to the Megapolis Group that engages in distribution and wholesale business in Russia and other countries. The external revenues from the Megapolis Group were ¥387,542 million (14.6% of consolidated revenue) for the year ended December 31, 2022 and ¥370,970 million (13.1% of consolidated revenue) for the year ended December 31, 2023.

(Per share information)**(1) Basis of Calculating Basic Earnings per Share****a. Profit attributable to ordinary shareholders of the parent company**

(Millions of yen)

	Year ended December 31, 2022	Year ended December 31, 2023
Profit for the period attributable to owners of the parent company	442,716	482,288
Profit not attributable to ordinary shareholders of the parent company	-	-
Profit for the period used for calculation of basic earnings per share	442,716	482,288

b. Weighted-average number of ordinary shares outstanding during the period

(Thousands of shares)

	Year ended December 31, 2022	Year ended December 31, 2023
Weighted-average number of shares during the period	1,774,749	1,775,142

(2) Basis of Calculating Diluted Earnings per Share**a. Profit attributable to diluted ordinary shareholders**

(Millions of yen)

	Year ended December 31, 2022	Year ended December 31, 2023
Profit for the period used for calculation of basic earnings per share	442,716	482,288
Adjustment	-	-
Profit for the period used for calculation of diluted earnings per share	442,716	482,288

b. Weighted-average number of diluted ordinary shares outstanding during the period

(Thousands of shares)

	Year ended December 31, 2022	Year ended December 31, 2023
Weighted-average number of ordinary shares during the period	1,774,749	1,775,142
Increased number of ordinary shares under subscription rights to shares	633	415
Weighted-average number of diluted ordinary shares during the period	1,775,383	1,775,557

(Significant subsequent events)

No items to report.

4. Non-consolidated Financial Statements and Major Notes (Japanese GAAP)

(1) Non-consolidated Balance Sheet

	As of December 31, 2022	(Millions of yen) As of December 31, 2023
Assets		
Current assets		
Cash and deposits	193,376	177,685
Accounts receivable - trade	31,739	33,949
Securities	18,000	-
Merchandise and finished goods	25,424	38,008
Semi-finished goods	84,534	80,783
Work in process	1,815	988
Raw materials and supplies	32,017	38,491
Advance payments - trade	2,440	400
Prepaid expenses	5,040	6,165
Short-term loans receivable from subsidiaries and affiliates	38,649	33,831
Other	26,255	15,967
Allowance for doubtful accounts	(29)	(31)
Total current assets	<u>459,260</u>	<u>426,237</u>
Noncurrent assets		
Property, plant and equipment		
Buildings	69,893	67,108
Structures	2,066	1,891
Machinery and equipment	34,722	27,462
Vehicles	536	305
Tools, furniture and fixtures	9,996	9,652
Land	47,298	46,171
Construction in progress	533	5,994
Total property, plant and equipment	<u>165,044</u>	<u>158,583</u>
Intangible assets		
Patent right	194	163
Right of trademark	49,196	32,783
Software	11,652	8,331
Goodwill	107,313	71,542
Other	7,337	13,668
Total intangible assets	<u>175,692</u>	<u>126,487</u>
Investments and other assets		
Investment securities	22,358	21,753
Shares of subsidiaries and affiliates	1,495,647	1,502,043
Long-term loans receivable from subsidiaries and affiliates	6,069	5,558
Long-term prepaid expenses	7,335	10,593
Deferred tax assets	16,987	24,694
Other	15,030	18,110
Allowance for doubtful accounts	(154)	(108)
Total investments and other assets	<u>1,563,271</u>	<u>1,582,644</u>
Total noncurrent assets	<u>1,904,007</u>	<u>1,867,714</u>
Total assets	<u><u>2,363,267</u></u>	<u><u>2,293,951</u></u>

	As of December 31, 2022	(Millions of yen) As of December 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	10,445	7,279
Short-term borrowings	-	158,000
Current portion of bonds	60,000	-
Current portion of long-term borrowings	-	20,000
Lease obligations	230	138
Accounts payable - other	72,620	42,765
National tobacco excise taxes payable	72,925	70,378
National tobacco special excise taxes payable	8,791	8,484
Local tobacco excise taxes payable	82,013	79,077
Income taxes payable	1,863	5,624
Accrued consumption taxes	28,711	27,323
Cash management system deposits received	318,412	300,833
Provision for bonuses	5,675	5,498
Other provisions	-	1,331
Other	20,565	28,933
Total current liabilities	<u>682,250</u>	<u>755,663</u>
Noncurrent liabilities		
Bonds payable	65,000	125,000
Long-term borrowings	140,000	120,000
Lease obligations	152	45
Provision for retirement benefits	101,421	101,387
Other	5,800	12,278
Total noncurrent liabilities	<u>312,374</u>	<u>358,711</u>
Total liabilities	<u>994,623</u>	<u>1,114,374</u>

	As of December 31, 2022	(Millions of yen) As of December 31, 2023
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus		
Legal capital surplus	736,400	736,400
Other capital surplus	-	78
Total capital surpluses	<u>736,400</u>	<u>736,478</u>
Retained earnings		
Legal retained earnings	18,776	18,776
Other retained earnings		
Reserve for investment loss on developing new business	331	326
Reserve for reduction entry	34,780	32,922
Special account for reduction entry	574	914
Retained earnings brought forward	<u>956,333</u>	<u>775,229</u>
Total retained earnings	<u>1,010,794</u>	<u>828,167</u>
Treasury shares	<u>(490,183)</u>	<u>(489,194)</u>
Total shareholders' equity	<u>1,357,011</u>	<u>1,175,451</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6,903	6,545
Deferred gains or losses on hedges	<u>3,728</u>	<u>(2,975)</u>
Total valuation and translation adjustments	<u>10,631</u>	<u>3,569</u>
Subscription rights to shares	<u>1,001</u>	<u>557</u>
Total net assets	<u>1,368,643</u>	<u>1,179,577</u>
Total liabilities and net assets	<u><u>2,363,267</u></u>	<u><u>2,293,951</u></u>

(2) Non-consolidated Statement of Income

(Millions of yen)

	Year ended December 31, 2022	Year ended December 31, 2023
Net sales	542,181	537,261
Cost of sales	173,609	191,861
Gross profit	368,572	345,399
Selling, general and administrative expenses	303,998	325,269
Operating income	64,574	20,131
Non-operating income		
Interest income	78	135
Dividends income	204,825	162,991
Other	8,205	11,937
Total non-operating income	213,108	175,064
Non-operating expenses		
Interest expenses	1,686	1,633
Interest on bonds	456	846
Foreign exchange losses	-	5,960
Other	1,806	1,090
Total non-operating expenses	3,948	9,529
Ordinary income	273,734	185,665
Extraordinary income		
Gain on sales of noncurrent assets	6,459	17,001
Gain on sale of businesses	39,005	-
Other	5,504	1,698
Total extraordinary income	50,968	18,699
Extraordinary losses		
Loss on sales of noncurrent assets	478	214
Loss on retirement of noncurrent assets	3,857	2,715
Impairment loss	4,381	4,506
Business restructuring costs	1,642	-
Other	4,290	1,854
Total extraordinary losses	14,647	9,289
Income before income taxes	310,055	195,075
Income taxes - current	17,701	14,905
Income taxes - deferred	8,893	(4,618)
Total income taxes	26,594	10,287
Net income	283,461	184,788

(3) Non-consolidated Statement of Changes in Net Assets

Year ended December 31, 2022

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings				Total retained earnings
		Legal capital surplus	Total capital surplus		Other retained earnings				
					Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	736,400	18,776	356	37,715	425	935,204	992,476
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	1,117	1,117
Restated balance	100,000	736,400	736,400	18,776	356	37,715	425	936,321	993,593
Changes of items during the period									
Provision of reserve for investment loss on developing new business	-	-	-	-	331	-	-	(331)	-
Reversal of reserve for investment loss on developing new business	-	-	-	-	(356)	-	-	356	-
Provision of reserve for reduction entry	-	-	-	-	-	690	-	(690)	-
Reversal of reserve for reduction entry	-	-	-	-	-	(3,624)	-	3,624	-
Provision of special account for reduction entry	-	-	-	-	-	-	574	(574)	-
Reversal of special account for reduction entry	-	-	-	-	-	-	(425)	425	-
Dividends from surplus	-	-	-	-	-	-	-	(266,203)	(266,203)
Net income	-	-	-	-	-	-	-	283,461	283,461
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Disposal of treasury shares	-	-	-	-	-	-	-	(57)	(57)
Net changes of items other than shareholders' equity	-	-	-	-	-	-	-	-	-
Total changes of items during the period	-	-	-	-	(25)	(2,934)	149	20,012	17,201
Balance at the end of current period	100,000	736,400	736,400	18,776	331	34,780	574	956,333	1,010,794

	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		
Balance at the beginning of current period	(490,899)	1,337,977	5,833	(316)	5,517	1,202	1,344,696
Cumulative effects of changes in accounting policies	-	1,117	-	-	-	-	1,117
Restated balance	(490,899)	1,339,094	5,833	(316)	5,517	1,202	1,345,813
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	-	(266,203)	-	-	-	-	(266,203)
Net income	-	283,461	-	-	-	-	283,461
Purchase of treasury shares	(1)	(1)	-	-	-	-	(1)
Disposal of treasury shares	717	660	-	-	-	-	660
Net changes of items other than shareholders' equity	-	-	1,070	4,045	5,114	(200)	4,914
Total changes of items during the period	716	17,917	1,070	4,045	5,114	(200)	22,831
Balance at the end of current period	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643

Year ended December 31, 2023

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings					
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
						Reserve for investment loss on developing new business	Reserve for reduction entry	Special account for reduction entry	Retained earnings brought forward	
Balance at the beginning of current period	100,000	736,400	-	736,400	18,776	331	34,780	574	956,333	1,010,794
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Restated balance	100,000	736,400	-	736,400	18,776	331	34,780	574	956,333	1,010,794
Changes of items during the period										
Provision of reserve for investment loss on developing new business	-	-	-	-	-	326	-	-	(326)	-
Reversal of reserve for investment loss on developing new business	-	-	-	-	-	(331)	-	-	331	-
Provision of reserve for reduction entry	-	-	-	-	-	-	628	-	(628)	-
Reversal of reserve for reduction entry	-	-	-	-	-	-	(2,487)	-	2,487	-
Provision of special account for reduction entry	-	-	-	-	-	-	-	914	(914)	-
Reversal of special account for reduction entry	-	-	-	-	-	-	-	(574)	574	-
Dividends from surplus	-	-	-	-	-	-	-	-	(367,415)	(367,415)
Net income	-	-	-	-	-	-	-	-	184,788	184,788
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Disposal of treasury shares	-	-	78	78	-	-	-	-	-	-
Net changes of items other than shareholders' equity	-	-	-	-	-	-	-	-	-	-
Total changes of items during the period	-	-	78	78	-	(5)	(1,858)	341	(181,104)	(182,627)
Balance at the end of current period	100,000	736,400	78	736,478	18,776	326	32,922	914	775,229	828,167

	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		
Balance at the beginning of current period	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-
Restated balance	(490,183)	1,357,011	6,903	3,728	10,631	1,001	1,368,643
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	-	(367,415)	-	-	-	-	(367,415)
Net income	-	184,788	-	-	-	-	184,788
Purchase of treasury shares	(1)	(1)	-	-	-	-	(1)
Disposal of treasury shares	990	1,068	-	-	-	-	1,068
Net changes of items other than shareholders' equity	-	-	(358)	(6,704)	(7,062)	(444)	(7,506)
Total changes of items during the period	989	(181,560)	(358)	(6,704)	(7,062)	(444)	(189,066)
Balance at the end of current period	(489,194)	1,175,451	6,545	(2,975)	3,569	557	1,179,577

(4) Notes on Premise of Going Concern

No items to report.

(5) Notes to Non-consolidated Financial Statements

(Significant subsequent events)

The Company resolved at the Board of Directors held on February 13, 2024 to the effect that the Company will submit a proposal for a reduction in the amount of legal capital surplus to the 39th Ordinary General Meeting of Shareholders to be held on March 22, 2024.

1. Purpose of the reduction in the amount of legal capital surplus

To ensure that future capital policies will be executed in a prompt and flexible manner, the Company will reduce a portion of legal capital surplus and reclassify the reduced amount as other capital surplus, in accordance with the provision stipulated in Paragraph 1, Article 448 of the Companies Act.

2. Outline of the reduction in the amount of legal capital surplus

(1) Amount to be reduced in legal capital surplus

Legal capital surplus will be reduced by ¥ 100,000 million, from ¥ 736,400 million to ¥ 636,400 million.

(2) Method of reducing amount of legal capital surplus

A portion of legal capital surplus will be reduced and reclassified as other capital surplus.

3. Schedule for the reduction in the amount of legal capital surplus

(1) Resolution at the Board of Directors: February 13, 2024

(2) Resolution at the Ordinary General Meeting of Shareholders: March 22, 2024 (planned)

(3) Creditor objection statement notice: April 8, 2024 (planned)

(4) Creditor objection statement final deadline: May 8, 2024 (planned)

(5) Effective date: June 28, 2024 (planned)

4. Future Outlook

This matter is a transfer between accounts within the Company's Net assets and will affect neither the amount of the Company's Net assets nor its operating performance.