



Integrated Report 2022

Japan Tobacco Inc.

JT Group Purpose

**Fulfilling Moments,
Enriching Life**



Fulfilling Moments, Enriching Life

We at JT Group have always been a part of moments that foster a more enriching life.

Regardless of the changing times, from advances in science and technology to diversifying values, we will continue to cherish a life that finds fulfillment in the moment.

The times we accept our true selves. The times we share the joy with loved ones, and the times we lift each other up. These strings of moments add to the beautiful days that make up a wonderful life. And we hope that these make a better society, a better world, and even a better future.

These were the times we shared over the years.

JT Group will take these fulfilling moments to the next level.

We will continue enriching lives through our businesses and endeavors with our growing customers and partners.

JT Group will do everything it can to make the world say that today is another good day.



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“The moments that give consumers and people in society fulfillment change with the times. Staying close to their diversifying needs, the JT Group strive to realize ‘fulfilling moments’ through our evolving business operations, without limiting ourselves to what we are now.”



028 Message from the Executive Vice President

“The significance of designating ‘Fulfilling Moments, Enriching Life’ as the JT Group Purpose is in continuously communicating to the world the reason for our existence through our work to realize it.”



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“We will strive further by creating and providing values unique to the JT Group. We wish to continue our journey to achieve sustainable growth, together with our stakeholders, local communities and the society that we are a part of.”



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“Even in a highly uncertain business environment, we are working to maintain a firm financial foundation and accelerate investment to secure profit growth over the medium and long terms and raise shareholder returns.”



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“We are working to further enhance governance to ensure that we remain a corporation that can fulfill and win the trust of our many stakeholders.”



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Cover story
The first few pages of the report describe the image of the JT Group Purpose, which has been described to clarify the JT Group’s direction for its sustainable existence. We, the JT Group, will not stay in our current form, but will move forward towards the realization of “Fulfilling Moments, Enriching Life” in order to further contribute to the enrichment of society.

We would like to express our gratitude towards our stakeholders for the many comments we receive each year on our Integrated Report. We have incorporated these comments as an important element during the planning process and the production of this report.

Our Integrated Report

In this report, we integrate financial information, such as our management policy, business strategy and performance trends, with sustainability information such as non-financial information that gives an insight into our growth over the medium and long terms. The purpose of this report is to inform the wide range of our stakeholders, including shareholders and investors, about the JT Group’s current and future value creation story.

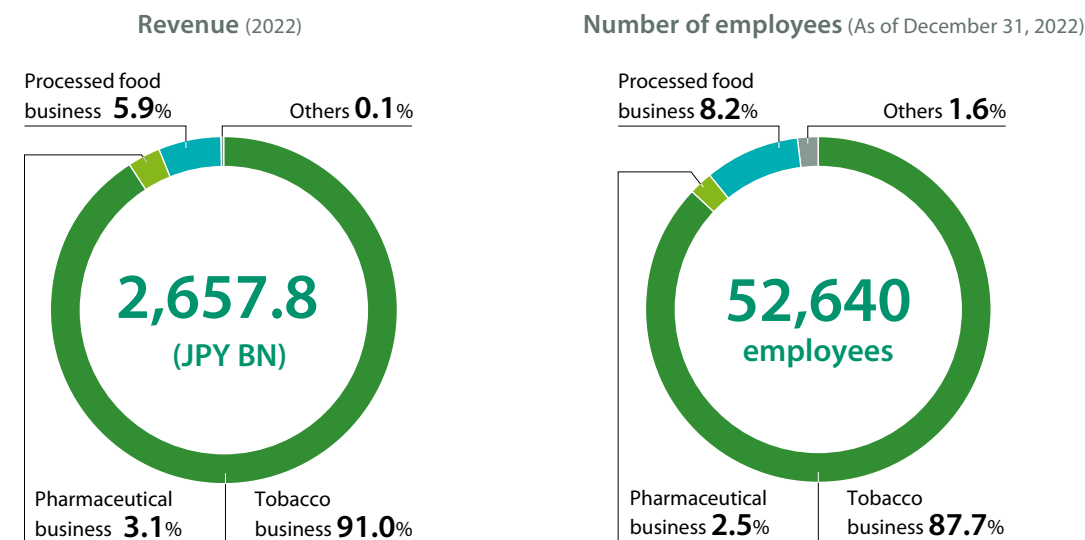
Aiming to facilitate our readers to better understand the contents, a HTML version of this report will be available on our website from the end of June 2023 onwards.



Forward-looking statements contained in this document are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown 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. Please see “FORWARD-LOOKING STATEMENTS” on P. 131 for further details.

At a glance

The JT Group is a leading global tobacco company and our products are sold in over 130 markets. In addition to the tobacco business, we operate pharmaceutical and processed food businesses.



Tobacco business

The tobacco business, headquartered in Geneva, Switzerland since 2022, manufactures and offers tobacco products all over the world.

Its key markets include Italy, Japan, Romania, Russia, Spain, Taiwan, the Philippines, the U.K., and Turkey, with leading brands in combustibles, such as Winston, Camel, MEVIUS and LD, as well as in RRP (Reduced-Risk Products),* such as Ploom and Logic.

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



Pharmaceutical business

The pharmaceutical business focuses on the R&D, manufacturing, and sale of prescription drugs, concentrating on three specific therapeutic areas: Cardiovascular, Renal and Metabolism (CVRM); immunology; and neuroscience.

Its products include CORECTIM® Ointment 0.25% and CORECTIM® Ointment 0.5%, Riona® Tablets 250mg and ENAROY® Tablets 2 mg • 4 mg, among others.



Processed food business

The processed food business is present in the frozen and ambient food business, mainly for frozen noodles, frozen okonomiyaki (Japanese savory pancakes), and packaged cooked rice, and the seasonings business, focusing on seasonings including yeast extracts.

Major products include Reito-Sanuki-Udon (frozen noodles), Gottsu-umai okonomiyaki (Japanese savory pancakes), and HIMAX (yeast extract seasoning) in particular.



Global business foundation

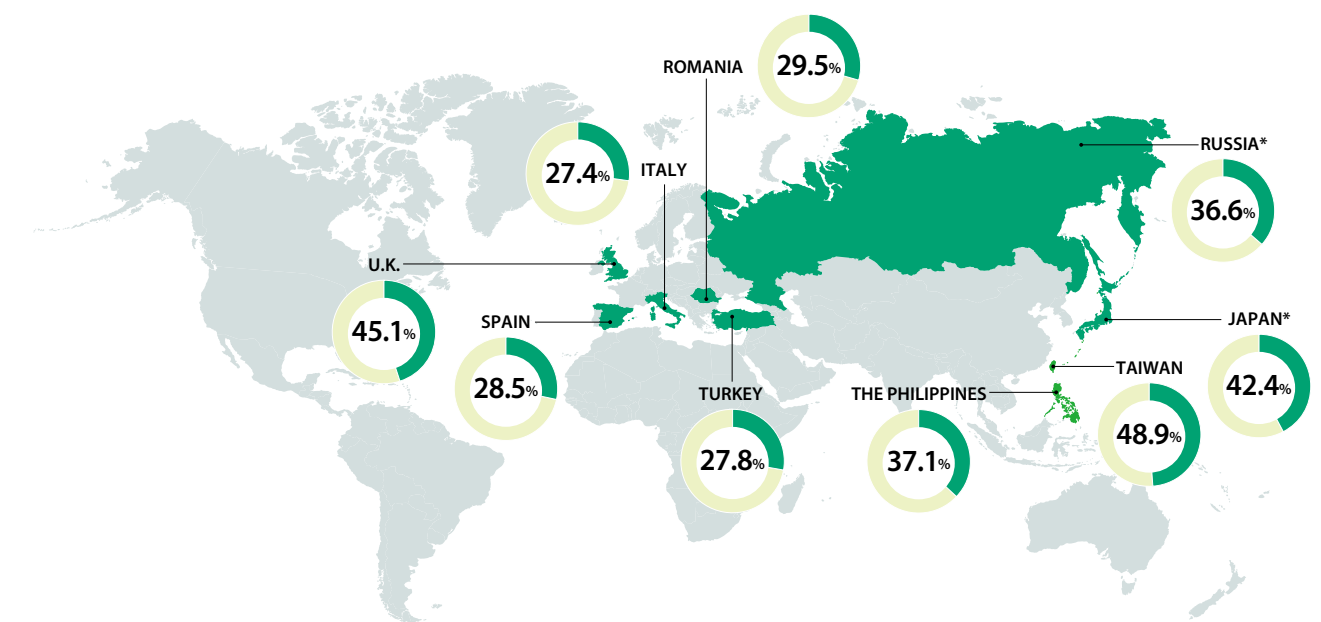
The Group's tobacco business has the third largest sales volume in the world* and includes 3 of the top 10 global selling combustible brands in its product portfolio.

The Group has a global manufacturing footprint and aims to manufacture quality tobacco products that secure

consumers' trust. As of the end of 2022, the Group operates 5 factories in Japan (3 manufacturing tobacco and 2 tobacco-related factories), and 33 factories in 27 other countries (including tobacco-related factories).

* Excluding China National Tobacco Corporation

Key market shares in tobacco business (As of December 31, 2022)



* Market size data for Japan and Russia reflects total tobacco figures of combustibles and RRP

Factories (As of December 31, 2022)



Tobacco business **38** factories
(Japan: 5, other countries: 33)

Processed food business **23** factories
(Japan: 15, other countries: 8)

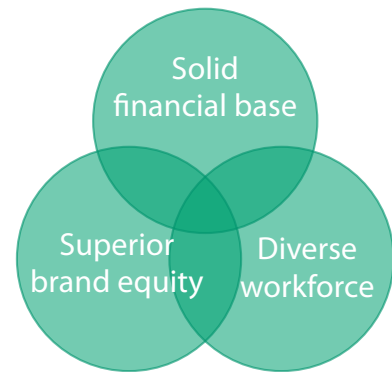
Note: There are no factories in the pharmaceutical business

- **Tobacco factories**
 - Europe: 11
 - Middle East/Africa: 8
 - Asia: 9
 - North America: 1
 - Central and South America: 1
- **Other tobacco-related factories**
 - Europe: 2
 - Middle East/Africa: 2
 - Asia: 3
 - North America: 1
- **Processed food factories**
 - Asia: 22
 - North America: 1

Our value chains

The JT Group strives to provide products and services that exceed our consumers' expectations, with each of its businesses demonstrating its strengths and adding value at each stage of the value chain.

Three strengths driving
our global growth



Tobacco business



- 8 R&D centers covering scientific research, technology & product development
- Consumer-driven R&D focusing on what matters most to consumers^{*1}
- 1,962 IP filings, 90+ innovation partnerships with third-party players

- Leaf supply diversified across vertically integrated operations and third parties
- Reliability of leaf supply regardless of weather or market fluctuations
- Full compliance with regulations; assurance of leaf integrity and origin

- 38 factories across our footprint, out of which six produce RRP (Reduced-Risk Products)
- State-of-the-art equipment and manufacturing processes
- Industry-leading quality standards for all our products

- Strong brand equity, notably Winston, Camel, MEVIUS & LD
- Consumers^{*1} at center of our offerings: We provide freedom of choice and superior quality
- Full compliance with local regulation in all countries where we operate

- Sales in 130+ markets
- Tailored RTC^{*2} on market-by-market basis
- Motivated salesforce with strong ties with trade

Pharmaceutical business



- Development of innovative drugs

- Ability to stably manufacture high-quality pharmaceuticals

- Conduct responsible detailing activities

Processed food business



- Proprietary yeast, processing and freezing technologies
- Ability to develop high-value-added products that meet consumer needs and preferences

- Stable, cost-competitive sourcing of high-quality ingredients (extensive supplier network and inspection program)

- Management systems that ensure stable, efficient manufacturing of high-quality food products based on food safety management

- Top-market-share^{*3} products/brands (Sanuki Udon, Gottsu-umai)
- Market insight based on communication with consumers (identification of consumers' increasingly diverse needs/preferences, e.g. by using fan sites)

- Sales force capable of proposing products that meet consumer needs with an extensive product lineup

^{*1} Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country

^{*2} Route to consumer

^{*3} Fuji Keizai Co., Ltd., Foodstuff Marketing Handbook 2023: Vol. 2, 3, 2021 results

Our value chains

Each of the JT Group's business is also working to further exploit its strength in the value chain, in order to increase the value it can provide to our consumers.

		R&D 	Procurement 	Manufacturing 	Marketing 	Distribution/Sales
Tobacco business	Initiatives to maintain/upgrade strengths	<ul style="list-style-type: none"> Moving from "site-based" teams to "outcome-based" global teams Enhancing cascading in R&D of consumers-related* data and analytics Protecting innovation with sound Intellectual Property (IP) strategy 	<ul style="list-style-type: none"> Continuously balancing risk mitigation and sourcing flexibility Advanced planning and inventory management for uninterrupted manufacturing Increasing emphasis on social and environmental sustainability of supply 	<ul style="list-style-type: none"> Constantly reviewing and optimizing our manufacturing footprint Ongoing capital expenditures to increase our RRP production capacity Kaizen approach for all our manufacturing processes 	<ul style="list-style-type: none"> Continued investment in GFB's (Global Flagship Brands) brand equity and in establishing the Ploom brand Nurturing consumer-centric mindset across the entire organization Additional internal initiatives as self-regulation and JT Group Code of Conduct 	<ul style="list-style-type: none"> Regularly assessing entries in new markets/channels considering present and future profitability Optimizing RTC* based on evolving environment Strengthening relationships with key distributors and tobaccoconists <p>*Route to consumer</p>
	Priorities and actions to achieve them	<ul style="list-style-type: none"> As RRP (Reduced-Risk Products) industry innovation cycles get shorter, the JT Group is implementing initiatives to accelerate the development of new RRP platforms 	<ul style="list-style-type: none"> As the JT Group exposure to RRP grows, we are adapting our device-procurement strategy to be more resilient in case of disruptions 	<ul style="list-style-type: none"> To support the Paris Agreement on global climate change, we are accelerating the pace of our environmental impact reduction initiatives 	<ul style="list-style-type: none"> Given growing importance, expanding our capabilities in areas of digital, advanced analytics and B2C 	<ul style="list-style-type: none"> Looking to enhance our e-commerce capabilities in markets where it is legal for nicotine and tobacco products
Pharmaceutical business	Initiatives to maintain/upgrade strengths	<ul style="list-style-type: none"> Improving R&D efficiency through concentration of resources in targeted disease domains Promoting efficient and expeditious clinical development through coordination among domestic and foreign R&D sites Proactively pursuing opportunities to out- and in-license compounds 		<ul style="list-style-type: none"> Formulated guidelines to verify conformity between drugs' approved specifications and actual manufacturing processes Continuing annual inspections of contract manufacturing plants based on guidelines 	<ul style="list-style-type: none"> Formulated internal standards based on Guidelines for Sales Information Provision Activities for Ethical Drugs issued by Ministry of Health, Labour and Welfare Thoroughly complying with said standards through training of Torii Pharmaceutical's medical sales reps 	
	Priorities and actions to achieve them	<ul style="list-style-type: none"> Add more research themes and expedite progress Develop proprietary drug discovery technology 		<ul style="list-style-type: none"> Continuously monitor in compliance with laws/regulations 	<ul style="list-style-type: none"> Continue above initiative 	
Processed food business	Initiatives to maintain/upgrade strengths	<ul style="list-style-type: none"> Develop new products tailored to consumer needs based on market/competition research and analysis Develop new technologies and production methods through external collaborations 	<ul style="list-style-type: none"> Verifying ingredients' safety based on quality specification certifications submitted by suppliers Monitoring main ingredients' pesticide residue content and periodically inspecting ingredient production plants in accord with applicable laws/regulations and our own standards Inspecting source farms' soil and water quality, verifying crop conditions, checking pesticide management practices, and inspecting livestock and fish farms 	<ul style="list-style-type: none"> Mandatory certification of compliance with ISO 22000 or FSSC 22000 international food safety standard across all JT-affiliated plants and contract manufacturing plants globally Verifying end products' compliance with pesticide content and other safety standards through monitoring inspections Reducing contamination risk by establishing and complying with food defense guidelines 	<ul style="list-style-type: none"> Conducting consumer-centric market analysis to develop product proposals that add new value Building more brand equity through product line expansion and effective sales promotion Stepping up marketing/sales activities that prioritize highly profitable products 	<ul style="list-style-type: none"> Expanding in-store product selection and gaining preferential display locations through aggressive sales approach targeted primarily at supermarkets and convenience stores Strengthening communication with consumers through online disclosure of product information and labeling of products with production location, main ingredients' place of origin, and contact information for consumer inquiries/feedback Improving safety visibility through traceability of inspection/audit results across the entire value chain from raw material sourcing through production, processing, distribution and sales
	Priorities and actions to achieve them	<ul style="list-style-type: none"> Develop high-value-added products that meet consumer needs and preferences Develop new products that take into account environmental impact and sustainability 	<ul style="list-style-type: none"> Strengthen supply chain to enable sourcing of safe, high-quality ingredients Building a sustainable supply chain by fostering transparent relationships with suppliers and taking human rights and environment into account when sourcing ingredients 	<ul style="list-style-type: none"> Manufacture safe, high-quality food products Building optimal production systems that ensure efficiency and product quality Install energy-efficient equipment to reduce environmental impacts Pursuing transition to clean energy 	<ul style="list-style-type: none"> Propose products and promote sales strategies in response to increasingly diverse consumer needs and trends Proposing products personalized to consumers' individual preferences and lifestyles 	<ul style="list-style-type: none"> Strengthen sales capabilities and disclose information to reassure consumers Disclosing more information, e.g. on website and product packaging Stable supply to consumers Building an optimal logistics network that maximally utilizes in-house logistics (in response to Japanese government's logistics reform initiative)

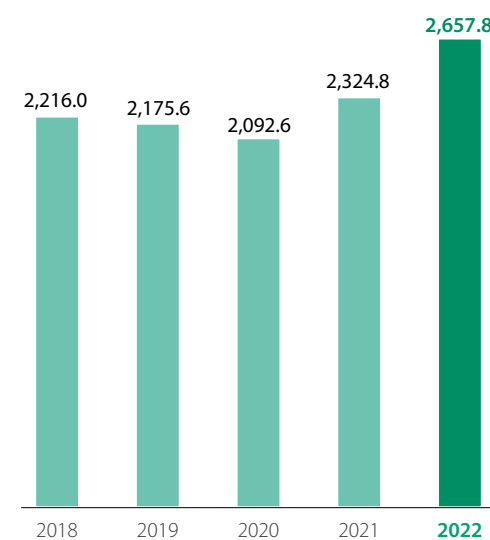
*Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country

Key performance indicators

Financial performance review

Revenue

(JPY BN)

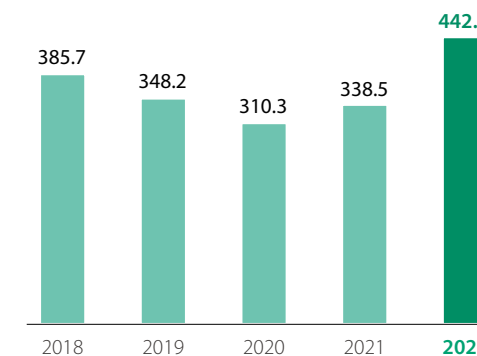


JPY2,657.8BN
14.3% YoY increase

Since 2021 our consolidated revenue has been growing, mainly due to positive foreign exchange effects in addition to market-share growth and positive pricing effects. In 2022 revenue grew by 14.3% year on year to 2,657.8 billion yen. Until 2020, revenue decreased for two consecutive years, mainly as a result of negative foreign exchange effects, growth in the Japanese RRP (Reduced-Risk Products) market, and a continuing downward trend in the Japanese domestic market as a whole.

Profit

(JPY BN)

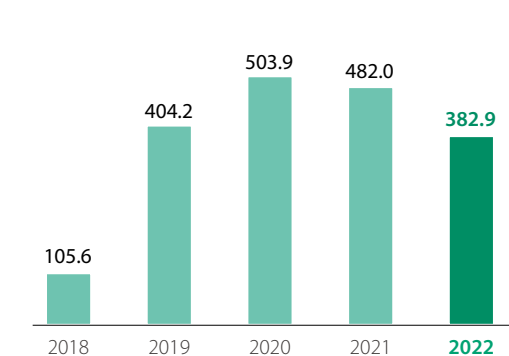


JPY442.7BN
30.8% YoY increase

Profit grew 30.8% year on year to 442.7 billion yen, driven largely by operating profit growth far greater than the increase in financial costs.

Free cash flow

(JPY BN)

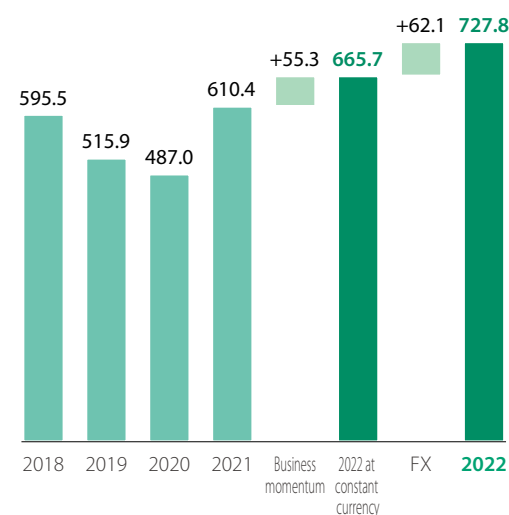


JPY382.9BN
JPY99.1BN YoY decrease

In terms of free cash flow, the cash-generating capacity of our businesses is stable. Free cash flow for 2022, however, decreased by 99.1 billion yen year on year to 382.9 billion yen despite AOP growth, due to a deterioration in working capital as well as increasing corporate taxes and one time costs for measures to enhance tobacco-business systems operations in Japan.

Adjusted operating profit

(JPY BN)

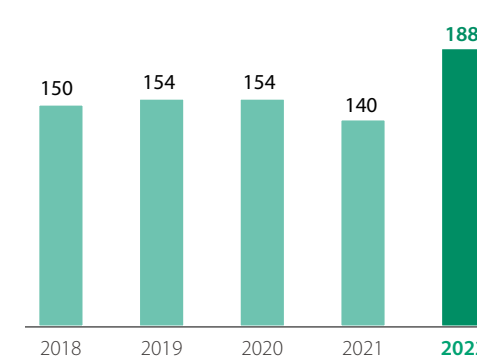


9.0% YoY increase in constant currency
JPY727.8BN (reported basis)
19.2% YoY increase

Adjusted operating profit on a reported basis grew by 19.2% year on year to 727.8 billion yen, mainly due to growth in the tobacco and pharmaceutical businesses and positive exchange effects. AOP in constant currency grew by 9.0% year on year to 665.7 billion yen.

Dividend per share

(JPY)



JPY188

We paid total dividends of 188 yen per share for 2022. In 2021 we changed our policy on shareholder returns, and to increase those returns by realizing medium and long term profit growth for the Group while maintaining a strong financial base*¹, we benchmarked our payout ratio at 75%*², a competitive level in the capital markets*³.

*¹ The Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities

*² To be in the range of approximately ±5%

*³ We monitor the shareholder return trends of Fast-Moving Consumer Goods companies which have a stakeholder model similar to our 4S model and have realized strong business growth

Key performance indicators

Non-financial performance review

2022 sustainability highlights

Summarized here are some of our sustainability achievements and the progress we have made. It is of paramount importance that we continue to monitor and report on our strategy, initiatives, goals, and progress. By assessing the

impact not only on our Group but on our value chain as a whole, we seek to create shared value for our planet and for the communities in which we operate.



The JT Group's materiality has been updated in this report. **The new JT**

Group Materiality reflects key issues

that are currently important to our stakeholders, our society and the JT Group. In updating our materiality, the changes in the business environment and social conditions surrounding our Group were taken into account, while paying attention to our relationship with society and by listening even more closely to the opinions of our stakeholders.

► Read more on [P. 38](#).



The JT Group is committed to **achieve Net-Zero Greenhouse Gas (GHG)**

emissions by 2050. We are taking proactive initiatives to reduce our GHG emissions for the entire value chain. We aim to be Carbon Neutral by 2030 through initiatives including increasing the proportion of renewable electricity that we use. GHG reduction targets for 2030 from our operations have been validated by the Science Based Targets initiative (SBTi) as being in line with the 1.5°C global warming scenario.

► Read more on [P. 78](#).



Agricultural Labor Practices (ALP) is one of the key programs for our to-

bacco business's leaf supply chain management and an integral part of the Leaf Supply Chain Due Diligence process. Our target is to implement ALP in all sourcing countries by 2025. In 2022, ALP was fully implemented in Bangladesh and Ethiopia, and this contributed significantly toward meeting our ALP target.

► Read more on [P. 69](#). Read more about the progress of ALP in 2022 on [JT.com](#).



We are committed to promoting gender equality in the workplace.

Our Group-wide target for **women's representation in leadership** is set to reach 25% by 2030. We find it desirable that this should be more than 40% over time. In 2022, women's representation in leadership reached 16.9%, as we continue with our efforts to meet the Group-wide target.

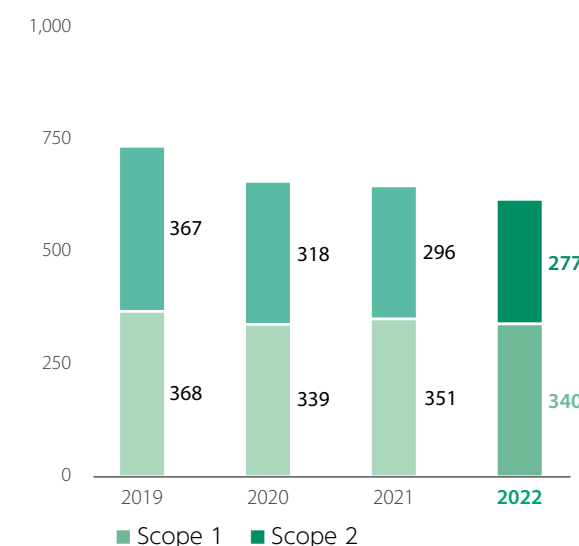
► Read more on [P. 83](#).

JT Group environmental performance data

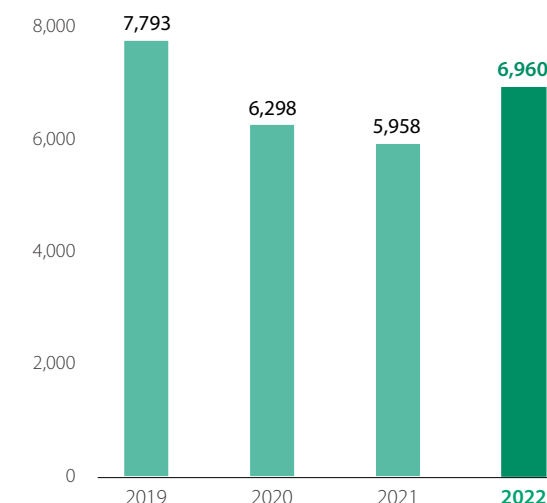
As a global organization, we recognize that we have a key role to play in reducing our environmental impact – not only in our own business operations, but across our value chain.

We will continue to measure performance across a range of environmental topics and set ourselves targets along the way.

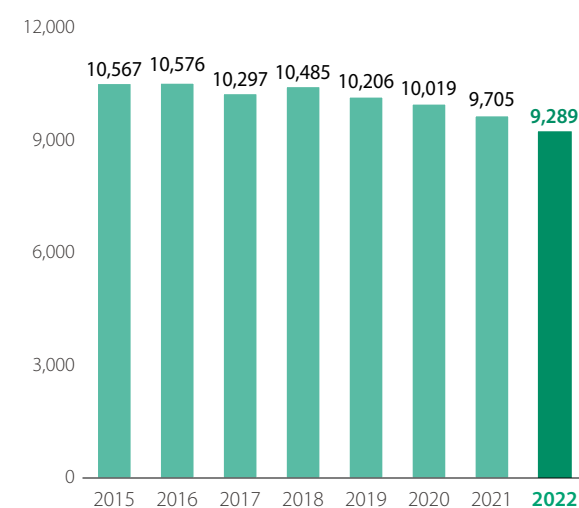
Greenhouse Gas emissions Scope 1 and 2
(CO₂e thousand tons)



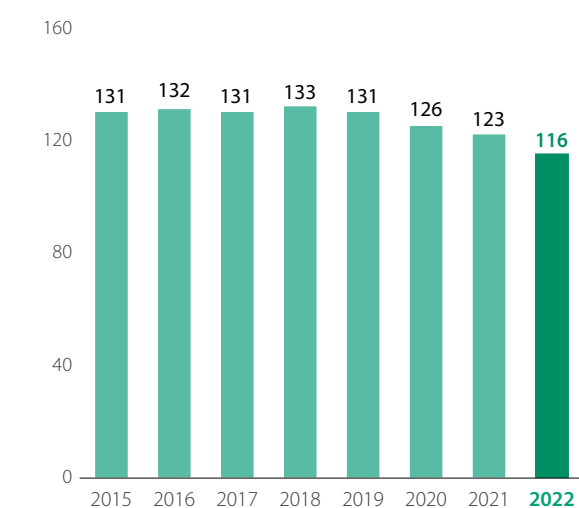
Greenhouse Gas emissions Scope 3 Category 1
(CO₂e thousand tons)



Water withdrawal
(Thousand m³)



Waste generated
(Thousand tons)



IDENTITY

We established the JT Group Purpose to describe the group's direction in which we aims to ensure the sustainability of society and our businesses. In this section our CEO and Executive Vice President discuss the Purpose in detail, touching on the ideas behind it, the future of society that the Group hopes to help create, and the specific ways in which we can contribute.

We will also share our thoughts about value creation for the future in the context of our Purpose as our value creation process.

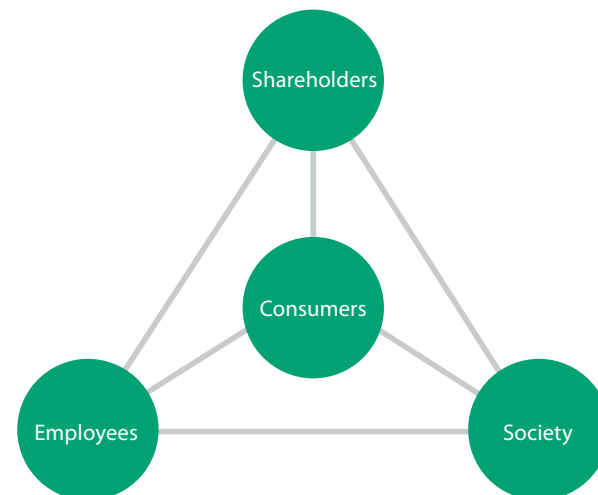
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Our management principle

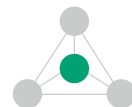
To pursue the 4S model

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

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



Consumers



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

Shareholders



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

Employees

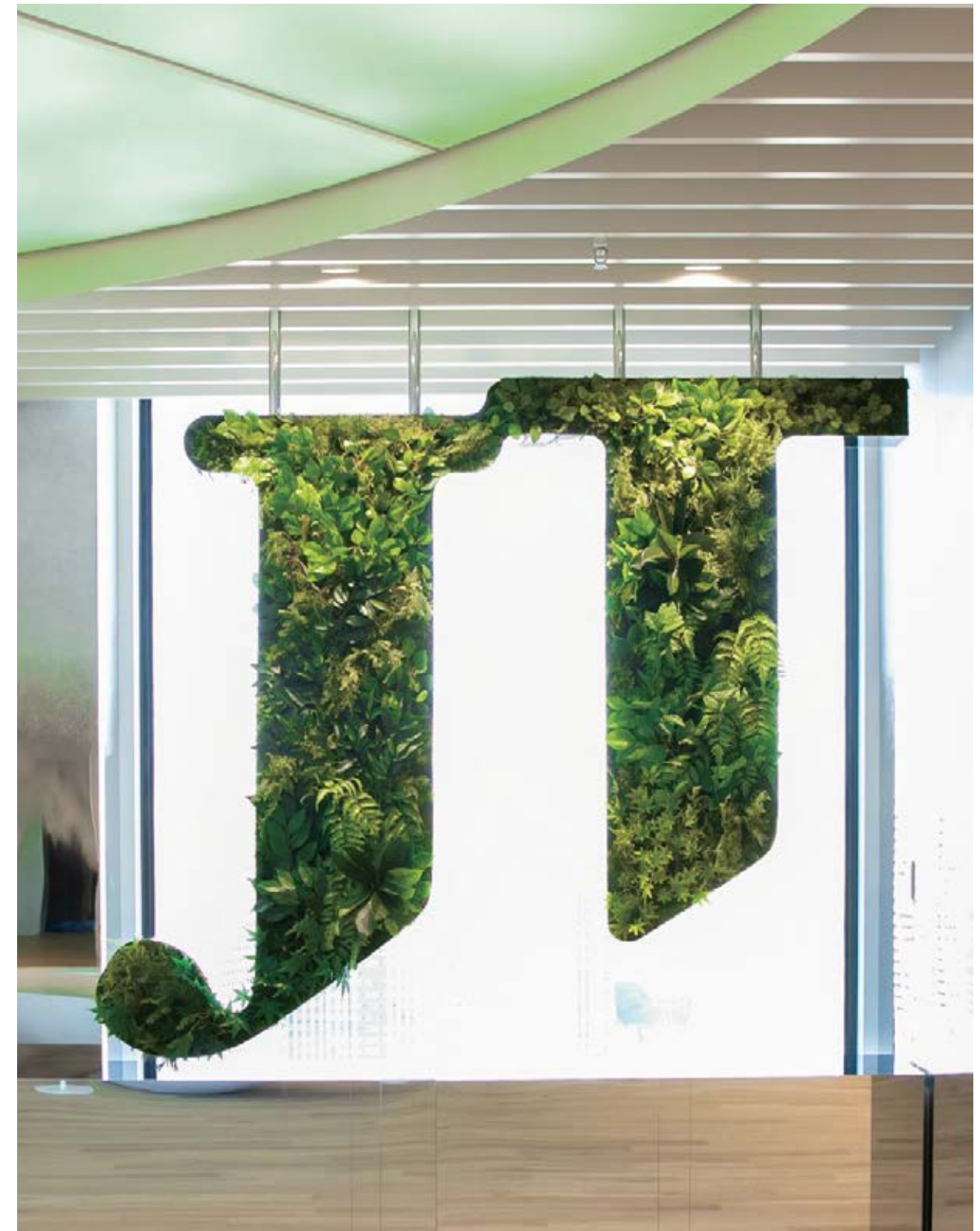


We aim to be an appealing, highly esteemed company for which our employees are proud to work. While evaluating employees fairly and transparently and supporting their personal growth, we aim to foster a corporate culture that respects and embraces diverse values.

Society

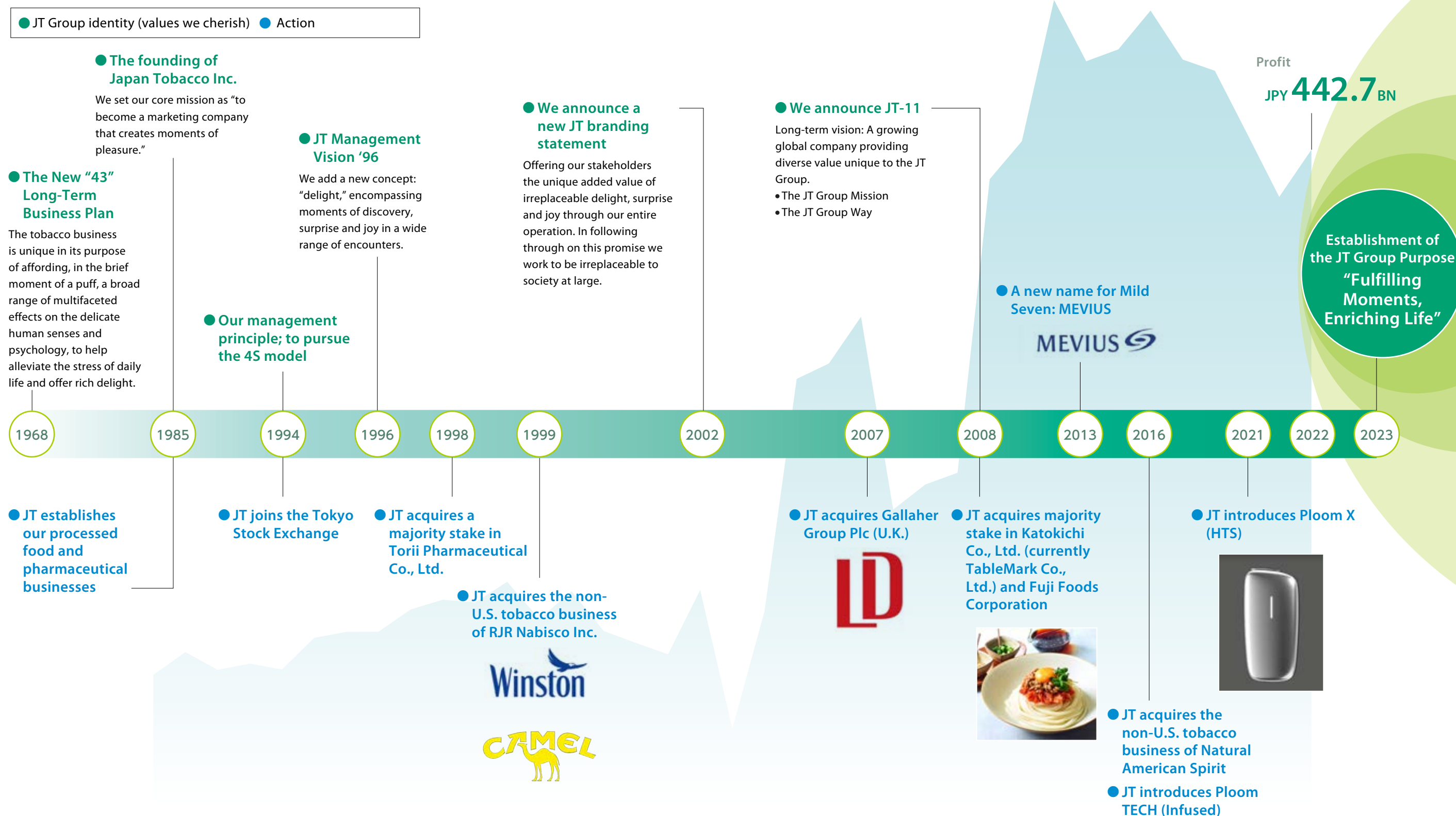


In order to fulfill our responsibility as a member of society and contribute to the sustainable development of society through our business, we will work with a wide range of stakeholders and strive to resolve various issues together.



JT Group history and the values we cherish

Since 1968, when JT was a government corporation, we have been through various important changes. In 2023, we defined the area where we will continue to contribute with confidence as "fulfilling moments" and designated "Fulfilling Moments, Enriching Life" as the Purpose for the Group.



Message from the CEO

“The moments that give consumers and people in society fulfillment change with the time. Staying close to their diversifying needs, the JT Group strive to realize ‘fulfilling moments’ through our evolving business operations, without limiting ourselves to what we are now.”



Masamichi Terabatake
Representative Director and President,
Chief Executive Officer

M. Terabatake

Ideas behind the JT Group Purpose

How we determined our Purpose

To show us the way forward in a social and business environment defined by discontinuous change, we opened discussion of a JT Group Purpose that will help assure the sustainability of our businesses and the society in which we operate.

To define that Purpose we focused on what the JT Group wants to become, as well as what the society of the future expects us to be, and what kinds of contributions we can make to society in embodying those ideals. “Staying close to people in fulfilling moments through our products and services, and creating such moments together,” we thought, would describe the area where the JT Group can do most to create value.

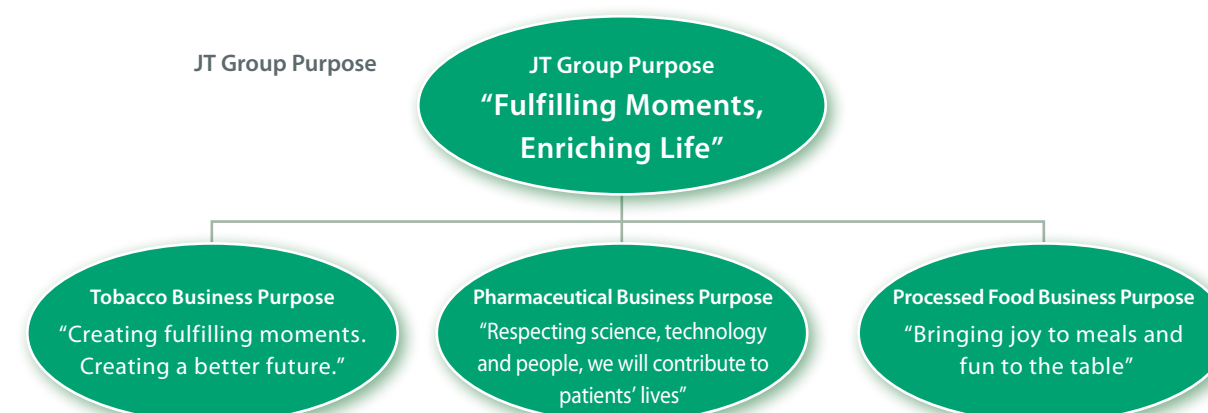
Our objectives in determining our Purpose

“Fulfilling moments” represents a core value that the JT Group has traditionally offered through its products and services. Establishing the JT Group Purpose, therefore, does not mean introducing an entirely new set of values. To maintain the trust that society gives us as a facilitator of “fulfilling moments” and continue making our share of social contributions, I think the JT Group must be constantly evolving, flexibly changing the ways in which we help create “fulfilling moments” to best suit the changing values of people and society.

By clarifying our focus on “fulfilling moments” and the direction for our evolution, which will require us to flexibly adjust our means to those ends as necessary, I believe that our Group Purpose, along with the rock-solid philosophy expressed in the 4S model, will enable our corporate Group, business divisions and employees to consider for themselves what to offer to whom from the broader viewpoint of “value,” and take action.

We have also decided to replace the JT Group Mission and Vision, which expressed our reasons for the Group’s existence and the ideals we aspire to embody, with the new JT Group Purpose, which inherits their essence and takes them to a higher evolutionary level.

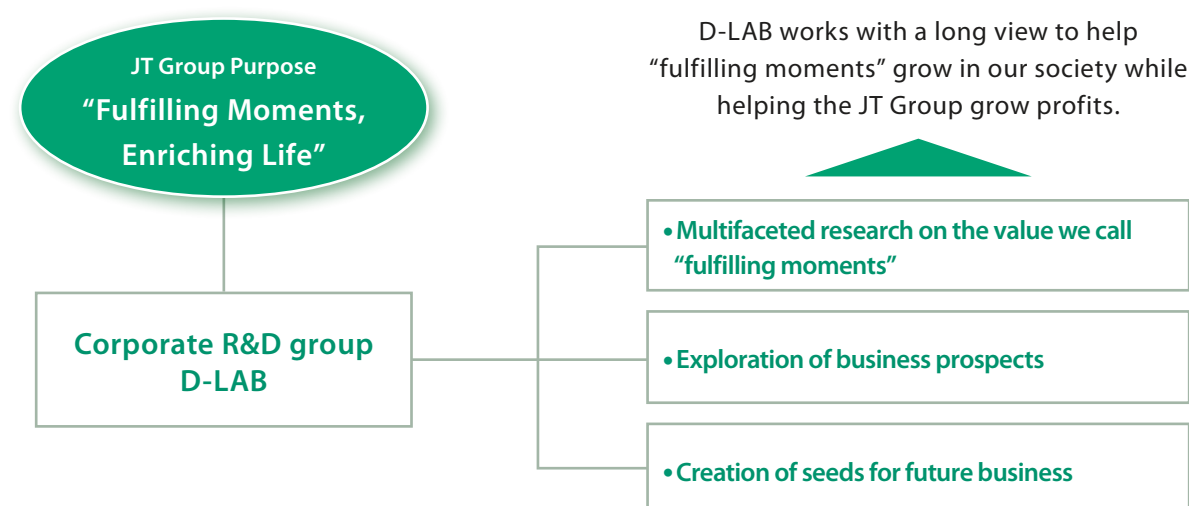
In our existing business divisions, we put our top priority on the strategies we’ve shown you so far, and with that as our premise, we are evolving our initiatives and efforts to achieve our goals. One specific example is the new Business Purposes for each division (see pages 57, 70, and 74) as shown below, based on the JT Group Purpose. This is meant to link the Group Purpose to the evolution of the operations of each business. By actualizing its Business Purpose, each division will help realize the JT Group Purpose for the organization as a whole. To accelerate the operations of each division with clear awareness of its Business Purpose, we are also creating a code of conduct for each division.



Message from the CEO

Initiatives for growth (D-LAB)

Independent of the established business divisions, we set up D-LAB, a corporate R&D organization to actualize the JT Group Purpose through research centered on “fulfilling moments,” and effort to explore prospects and create seeds for future business. The areas connecting with “fulfilling moments” are broad. Some appeal to the five senses, like aromas and food, and others are related to wellness, such as breathing and sleep. They offer us ample, diverse fields to operate in.



D-LAB works with a long term view to help “fulfilling moments” grow in our society while helping the JT Group grow profits as well. Its operations can be roughly divided into three aspects: multifaceted research on the value we call “fulfilling moments,” exploration of business prospects, and creation of seeds for future business. Following trial and error, several dozen projects are always ongoing.

D-LAB works with a long view to help “fulfilling moments” grow in our society while helping the JT Group grow profits.

- Multifaceted research on the value we call “fulfilling moments”
- Exploration of business prospects
- Creation of seeds for future business

Updating material issues

To help make our planet and society more sustainable through our efforts to realize the JT Group Purpose, we have conducted a review of our materiality to which we should give priority. The external conditions and business environment have changed since we last identified our materiality. Through our engagement with internal as well as external stakeholders, we have performed a fresh assessment of our material issues. With the new JT Group Materiality in mind, we will update our sustainability initiatives and goals for the Group and for each business division.

Understanding our business environment

The business environment surrounding the JT Group remains highly unpredictable due to major changes in society and consumer behavior following the pandemic, and other factors including worldwide inflation, economic slowdown, the Russia-Ukraine war, and major exchange fluctuations.

The environment for each business division is increasingly challenging. In the tobacco business, shrinking industry volume, continuing downtrading, cost increases due to inflation, tighter regulations, and expansion of the RRP (Reduced-Risk Products) market, mainly for HTS (heated tobacco sticks), are the main trends. Our pharmaceutical business is under pressure to follow government reductions of official drug prices, and affected by progress with industry reorganization due to increasing M&A and corporate alliances. The processed food business is also influenced by higher costs for raw materials due to fluctuations in international commodity prices and exchange rates, as well as increasing labor and distribution costs due to labor shortages.

In addition to the changing environment that our management and operations face, the needs and expectations

of society and our shareholders are changing as well, influenced by the advancement of digital technology and greater public awareness of ESG, SDGs and sustainability. I have a fresh realization that we have to maintain constant effort to be perceptive about the potential effects of environmental change we see today and take appropriate steps to address them.

While I’m on this topic, I’d like to express my sincere condolences to the people and families who have been affected by the earthquake that hit Turkey in February 2023. Through humanitarian organizations, the JT Group is taking part in emergency support, participating in rescue operations and providing relief supplies. We will stay close to local needs in providing support, and we plan to offer additional aid. We are also deeply concerned about developments in the war in Ukraine, where many people are facing tragedy and devastation, and we sincerely hope that peace will return soon.

Our top priority remains the safety of our employees and their families, and the JT Group will spare no effort in providing as much support as we can to the people suffering.

Business Plan 2023

The Group as a whole

Through 2022 we had to operate in a difficult business environment. That said, thanks to the contribution of our tobacco business, the JT Group saw adjusted operating profit at constant currency and profit rise substantially over the year, and over our initial targets as well. As a result, we achieved new record highs for all metrics from revenue to profit on the income statement.

As announced in February 2023, Business Plan 2023, our three-year business plan, marks the continuation of our fundamental pursuit of sustainable medium- and long-term profit growth.

To achieve this goal, the core tobacco business will further strengthen its organizational capabilities globally. In addition, we are working to increase return on investment in our combustibles operation, accelerate investment in RRP,

especially HTS, and pursue higher efficiency throughout our businesses.

We designate 2023 as a year for reinforcing our foundations for future profit growth, actively investing in our businesses, particularly towards HTS. We are projecting adjusted operating profit at constant currency for 2023 on a par with that for 2022, due mainly to worldwide inflation pushing up supply chain costs. As we increase investments between 2023 and 2025, we project low single digit profit growth.

Over the medium and long terms, we will continue generating sustainable profit growth, specifically in the mid to high single digit on annual average for adjusted operating profit at constant currency, by increasing our share of the RRP market as well as the profitability of the entire product category. We also expect to steadily grow both profit and shareholder returns in line with our shareholder return policy.

Message from the CEO

With the prolongation and increasingly complex situation of the Russia-Ukraine war, the JT Group has been operating in strict compliance with all sanctions and regulations imposed, nationally and internationally. As we announced in March 2022, we are continuing our operations while suspending new investment and marketing efforts.

As we respond to changes in the situation, we will remain committed to decision-making based on the 4S model.

Tobacco business

In the tobacco business, under the new unified business structure that began in January 2022, we are making steady progress by designing and executing globally unified strategies and effectively applying our global resources. Our new tobacco business structure began with the goal to raise the JT Group to a new level in its evolution as a truly global firm in both name and substance. I believe this will help the Group grow for years to come.

We are working to enhance the quality and speed of our decision-making by strengthening our effective and efficient business structure, while offering increasing value to consumers* through optimal resource allocation based on priorities set with a global view.

Specifically we think that pricing, which we have been doing strategically, will remain our top-line growth driver for combustibles. We are also establishing priorities for investment targets with the strategic roles of each market in mind.

We plan to invest more than 300 billion yen in RRP, mainly HTS, during the current business plan. Over the medium and long terms, we project to more than double our revenue from the 2022 level by 2025, hold a mid-teens share of the HTS category in the key HTS markets, and turn a profit from the RRP business by 2028. To make this happen, we will accelerate our global operation for Ploom X, adding momentum from the debut in the U.K. in October 2022 and in Italy in April 2023, to introduce the product in 28 countries by the end of 2024. Along with accelerating the introduction of Ploom X, we plan to actively invest in marketing for HTS.

We project growing demand for RRP, which we define as

products with the potential to reduce the risks associated with smoking. Smoking is considered a health risk due mainly to substances in the smoke generated from burning tobacco leaves. This new style of tobacco products that do not involve burning, we believe, has the potential to reduce those associated risks. As they produce no smoke and less odor, we think they also reduce inconvenience to non-smokers.

However, all in all, we believe that tobacco-consumer needs are diverse and require a broad range of choices, ensuring that every consumer can find a product offering a high level of satisfaction. To that end the JT Group continues to expand product categories to meet global changes and improve the product value of all tobacco products.

To reinforce the foundations of our business, we conducted the JTI “transformation” and measures to enhance our competitiveness in Japan. These efforts bore expected fruit, valued at over 40 billion yen during the three-year period starting in 2020. We will never cease our work to increase supply chain efficiency.

Pharmaceutical business/Processed food business

The pharmaceutical and processed food businesses also face challenging business environments, but their role of supplementing profit growth for the JT Group remains unchanged. In the pharmaceutical business, we plan to broaden research themes and revamp our drug discovery processes to build up our capabilities for developing new drugs. In partnership with Torii Pharmaceutical, we will optimize the value of our products and enhance licensing operations to reinforce the business foundations. In the processed food business, we will carry out price revisions, mainly on frozen and ambient foods, to defray the current surge in costs for materials. We are making the shift to a high-earning business structure by allocating more resources to groups of high-value-added products as part of our work to achieve more sustainable profit growth. With the future of food in mind, we are accelerating initiatives to secure long-term growth and promote value creation for our consumers.

Resource allocation policy

Based on the 4S model and the JT Group Purpose, there is no change in our resource allocation policy to put top priority on investment in business that leads to sustainable profit growth, especially the tobacco business.

We will also work to increase returns to shareholders through medium- and long-term profit growth, while

maintaining a target payout ratio of about 75%*.

Our dividend for 2022 was 188 yen per share, an all-time high. We plan to pay 188 yen per share for 2023 as well.

* To be in the range of approximately $\pm 5\%$

To our stakeholders

As I’ve said previously, we have established the JT Group Purpose to clarify the best direction for the JT Group. The Group will never cease to evolve to maintain the trust of society in creating the value of “fulfilling moments,” which will change in diverse ways with the times and each individual, and will continue to make important contributions.

In an environment growing more unpredictable and complex than ever, the JT Group will maintain across-the-board effort under the 4S model to offer products and services that transcend consumer expectations and support sustainable business growth. With firm commitment, I am personally striving to promote the continuous evolution of the JT Group to ensure that it remains necessary to our consumers, shareholders, employees and society.



* The word “consumers” in the context of the tobacco business means adult consumers. Minimum legal age for smoking varies in accordance with legislation in each country. In Japan, smoking is not permitted for those under 20 years of age

Message from the Executive Vice President



Kiyohide Hirowatari
Representative Director and Executive
Vice President

“The significance of designating ‘Fulfilling Moments, Enriching Life’ as the JT Group Purpose is in continuously communicating to the world the reason for our existence through our work to realize it.”

Ideas behind the JT Group Purpose

Today’s complex interaction of macro and micro factors amid unrelenting change in our society and economy is so far beyond imagining that it might seem presumptuous to assume that one can read ahead. Change is happening across the board, with exponential advancement of science and technology, new kinds of pandemics, the rising scale of natural disasters, terrorism, international conflict, superpower moves to defend national security, rising protectionism, inflation worldwide and marked fluctuations in exchange rates. We know this will probably have both direct and indirect influence on our lives and senses of value, as well as the businesses and status of the JT Group.

The Group has been building profits with the tobacco business as its core, assisted by the pharmaceutical and processed food businesses. Repeated trial and error and the courage to rise to any challenge with a forward-looking view have made this possible, which is also proof that our stakeholders appreciate the resulting value we offer. Will this remain practical in this age of continuous, dramatic change? If we were to continue doing things as we always

have, with familiar markets, consumers and competitors, maintaining traditions of industry practice, “common sense,” rules and customs, I fear it would be hard even just to cope with the scale of the global changes we face.

For the Group to be sustainable in this highly unpredictable and complex society, we have to show anew the direction in which we should be moving. In other words, circumstances dictated that we define the ideal society we envision, clarify those parts of life that society can entrust to the Group with the greatest confidence in our value, and show how we can contribute. The new JT Group Purpose is the result of our self-examination along these lines. As our CEO Masamichi Terabatake says in his message, we decided we can offer our greatest value by “staying close to people in fulfilling moments through our products and services, and creating such moments together.” To realize our Purpose, we continue to embrace evolutionary challenges by deepening our commitment to go beyond established ideas in our operations and initiatives.

Message from the Executive Vice President

Creating the JT Group Purpose

The short-term goals of the Group and the ideals we're working to achieve over the long haul may seem contiguous, but they're difficult to directly connect in a given time frame. Bridging this gap was the highest hurdle we faced in designating the Group Purpose, because we had to connect two perspectives—one of forecasting to improve the Group's value to our stakeholders and society through initiatives based on an awareness of the current social and business environment, and the other of backcasting from our imagined futures. The issues we identified in backcasting and the initiatives to resolve them are not exactly the same as those the Group has to address in achieving its nearer-term goals. While we are committed to contributing to the sustainable development of society through our business operations as we build corporate value, we must also produce positive nearer-term results, specifically in the achievement of the performance projections we disclose for the public and capital markets and the goals we set out in our medium-term business plans, necessary to securing the funds for realizing our ideals.

In this context the task of designating our Purpose may put pressure on each business division to choose whether to prioritize initiatives to achieve short-term goals, or to accelerate initiatives to embody our ideals over the long term. To avoid this we put a lot of time into discussion, with particular emphasis on two points—confirming that "JT's ideal future form is an extension of what we have achieved in our past and present initiatives," and stressing that "current initiatives are not the only ways to become what JT hopes to be" given the diversifying range of values among people at large.

Despite the hurdles ahead, our discussions have brought positive results, not least our Business Purposes. As I mentioned, in designating and publicizing the JT Group Purpose there has been concern about employees perceiving a gap

between long-term ideals and short-term challenges. On the individual level, that boils down to what each of us can do to realize the JT Group Purpose. Our Business Purposes are a way of answering this question, outlining a path for each employee and each business division in understanding specifically what kinds of actions to undertake.

Creating the JT Group Purpose process



Significance of designating the JT Group Purpose

In formulating the Group Purpose we put special thought into two factors: the future we envision for society and the values the Group cherishes.

The future we envision

First, working from leading trends we considered what could happen going forward, particularly in terms of changes in daily life and our sense of value. With the continuing advancement of science and technology we can presume a high probability of trending toward greater convenience and rationality, in other words a more optimal society. But as living creatures, humans don't make decisions based entirely on any measure of optimization. That understanding brought us to a hypothesis: the pursuit of an optimal state can place new limits on life, causing stress, and in reaction people may begin to see greater value in the meaning and significance of inconvenience and irrationality, raising the possibility of backlash. This kind of emotional reaction, to a different degree for each person, will diversify endlessly and remain in play because of what it means to each person.

We believe that what may seem irrational or wasteful can lead to an awareness of fulfilling moments. By staying with those moments, we believe, experiences of emotional fulfillment build up, influence one another and enrich the lives of the people in society as a whole, the world and the future. We also think that the value the Group offers in that context helps create a society and future of enrichment for all, regardless of individual challenges, so that more people can feel, "I had another good day today."

Cherished values of the JT Group

Offering that value has been integral to JT Group operations for decades. The long-term business plan the Company instituted in 1968, as Japan Tobacco and Salt Public Corporation, includes the phrase, "We enrich people's lives by offering fulfilling and delightful moments." Since then, we have undergone privatization, diversification and internationalization, and we now operate tobacco, pharmaceutical and processed food businesses. All through these years, we have asked ourselves what constitutes fulfilling moments. The ability to enjoy such moments will grow even more important to society going forward.

The kinds of moments people feel are fulfilling will vary with changing times and the social background of each individual, as diverse as the number of people in the world and continually changing. The fulfilling moments that people will need in the future may be well served by the products and services the Group is currently offering, or by completely different products. For the Group to continue leading this field with the trust and full confidence of society, we will have to continue evolving. We see this as a commitment that we must meet in order to fulfill the Purpose of "Enriching Life."

We realize that achieving the Purpose will take a long time, and not all we do in that regard will be clearly visible. To that end we must respond to change, and any preset course may require adjustment. What's important in an uncertain environment, I believe, is the will of the Group to become its ideal self and help create the ideal society we envision. That will help us find meaning in our daily tasks and greater value in the results. Through continuing initiatives to realize our Purpose, "Fulfilling Moments, Enriching Life," we will steadfastly communicate to the world the reason for our Group's existence. This is the significance of designating the JT Group Purpose.

Message from the Executive Vice President

Realizing the JT Group Purpose

To manifest the Group Purpose we have reorganized our value creation processes with the basic understanding that people's lives and corporate activities are sustainable only where the natural environment and society are sustainable. Those conditions help us stay close to the moments in which each person feels fulfilled, and for that purpose we offer a variety of products and services, taking advantage of the capital the Group has been building up for years as well as its natural and social capital. In doing this we commit to collaborating with our stakeholders and encouraging everyone to collaborate with one another, so the fulfilling moments of individuals can interact, coalesce, and help build a society in which everyone feels fulfilled. The diagram

shown below, titled "Ideas for value creation," is a visual representation of the stories I've been telling.

For the Group to be a trusted actor in creating the kind of life-enriched society we envision, every member of the Group must consider the values behind our Purpose, discover the meaning of their responsibilities from that standpoint, step up effort to evolve, and win the trust of our stakeholders. Everything the Group does begins with our fellow employees, so it's essential that the understanding of the Purpose reaches us all. I and our management team are currently putting extra effort into building that understanding. Specifically, in addition to internal communications to

inform employees, we on the management team regularly hold town hall meetings and visit offices and plants to share directly, in our own words, our ideas, hopes and feelings about the Purpose. It's important to understand "fulfilling moments," but that concept is personal and can manifest in many ways depending on time and place. In conversations with employees we make it a rule to emphasize that there is no fixed path for achieving the Purpose, and how we think, act, and evolve are important. Our approach has been generally accepted positively by employees who've participated in those meetings. We are encouraged in hearing them say that the Purpose "agrees with the values I cherish,"

or "now I have a road map." At the same time we're aware of comments like, "Applying the Purpose to specific tasks or actions is hard." So we'll continue to put effort into detailed communications using specific examples and case studies.

Our journey to manifesting the JT Group Purpose has only just begun, and discussion continues internally on specific ideas for achieving that with its deeper meaning in mind. In that effort we hope to make the Purpose as clear as a high-definition image. To realize the ideal society we envision and help create, the entire Group is embracing the challenge of constant evolution.

Dialogue session with employees



Masamichi Terabatake
Representative Director and President,
Chief Executive Officer



Kiyohide Hirowatari
Representative Director and Executive Vice
President



Kei Nakano
Representative Director and Executive Vice
President

Ideas for value creation

A society in which people's lives are enriched

Greater trust in and hope
for the JT Group

Collaboration

Offering more fulfilling moments created
through collaboration, interaction and coalescence,
and accumulation with stakeholders.

Stakeholders

JT Group

Capital
Financial
Non-financial

Initiatives to
realize the JT
Group Purpose

Offering value

Employees

Consumers

Society

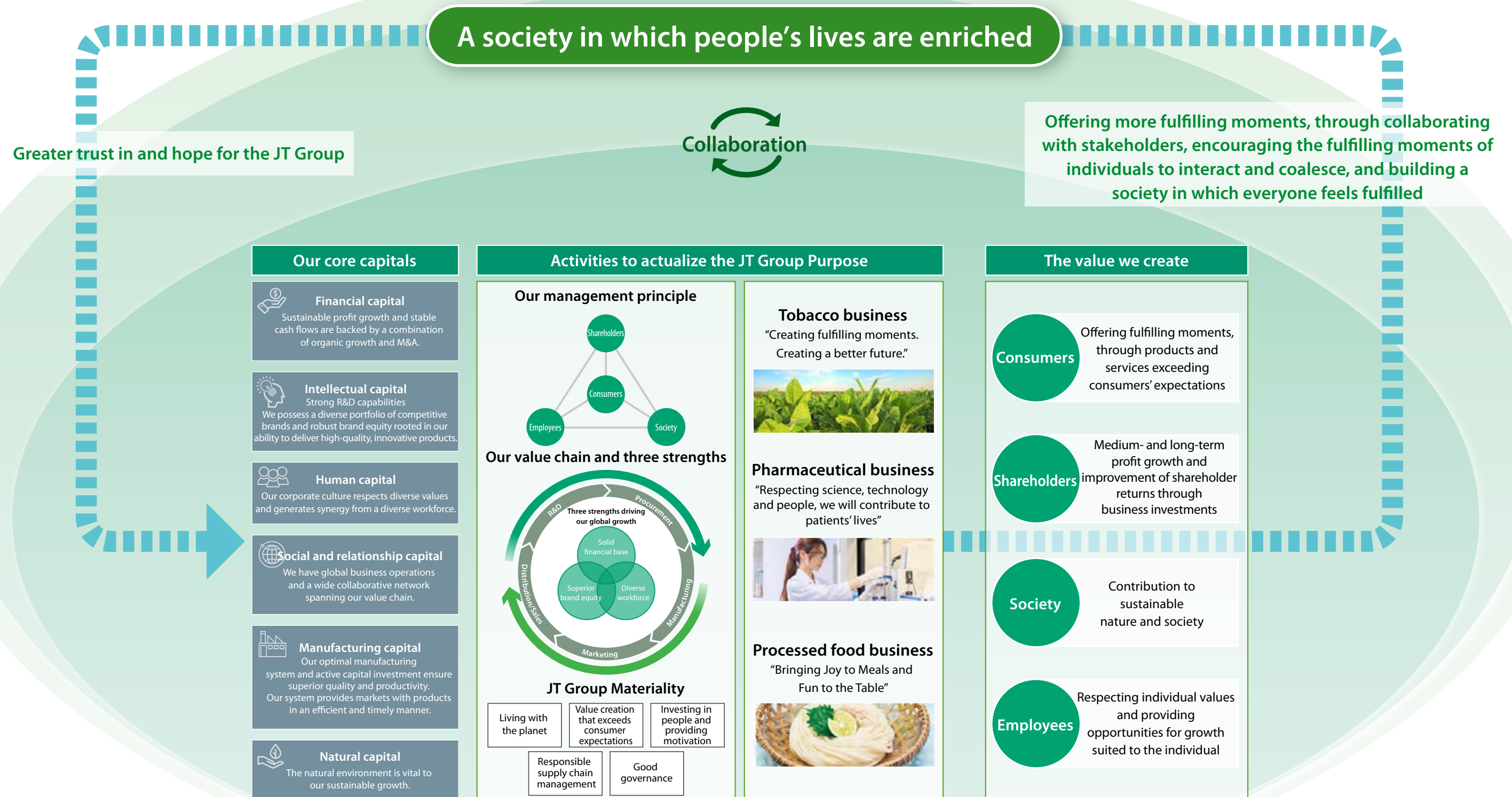
Accumulating capital

Value creation process

The JT Group believes that people's lives and corporate activities can only be sustainable if the natural environment and society are sustainable.

Based on this belief, we will leverage our various capitals and deliver value beyond the expectations of our stakeholders, to realize the JT Group Purpose, "Fulfilling Moments, Enriching Life."

Through collaborations with our stakeholders, we will contribute to the creation of a society in which everyone feels fulfilled, enhance the value we create by using the capitals we gain, and continue to contribute to the area of "Fulfilling Moments."



MATERIALITY and SUSTAINABILITY

This section introduces the JT Group's new and updated materiality. The sustainability initiatives of the Group, initiatives by each business and the activities of the Sustainability Advisory Forum are also explained in this section. In the CSO interview, you will find a more detailed account of our new JT Group Materiality and the outlook for 2023 and beyond.

038 The JT Group Materiality and sustainability
044 CSO interview

Photo taken at the canteen of the JT HQ office in Tokyo

The JT Group Materiality and sustainability

Updating the Group materiality

We started our materiality assessment in 2013, and in 2015 for the first time through interviews with our external and internal stakeholders, we completed our original materiality assessment to cover the entire JT Group.

Since we selected our original materiality topics, external circumstances and the business environment in which we operate have changed. In 2021, we began updating the Group's materiality framework by identifying and analyzing our materiality topics.

Through interviews with internal as well as external

stakeholders, we have selected and prioritized our materiality topics and updated the materiality matrix accordingly. We then identified issue groups for the Group materiality consideration to set out the JT Group Materiality.

Our materiality is based on the concept of double materiality, taking into account the significance to and impact on our stakeholders and the society, and the significance and impact to the JT Group for sustainable growth. The whole process was conducted in accordance with the advice of an external consultant.

Updating the JT Group Materiality – the process

The JT Group Materiality was updated through the following four phases.

Phase 1

Identifying materiality topics

- Identifying topics that may have impact on the sustainable growth or sustainability challenges of our Group, bearing in mind the changes in our external operating environment and the business challenges.
- Identifying topics by researching and analyzing a wide range of information including but not limited to sustainability disclosure standards or frameworks such as SDGs, SASB or GRI, risk factors found through our enterprise risk management process, or materiality coverage of our competitor firms, among others.

Phase 2

Stakeholder interviews and desktop searches

- Integrating internal and external stakeholder opinions by conducting interviews and surveys, using the topics identified in the phase 1 process.
- Prioritizing the topics for our external and internal stakeholders through desktop analysis of information issued by external rating agencies, global mega-trends or media reports, ensuring there are no gaps and that all relevant topics have been included.
- Conducting interviews with a wide range of stakeholders to maintain quality of the materiality assessment, bearing in mind that the priority of materiality topics may vary depending on the individual stakeholder.

Track record of stakeholder interviews, surveys

- Primarily senior vice presidents of corporate and business functions of the Group: 119 SVPs or others in similar positions
- Suppliers, customers, NGOs, other external parties: 27 cases
- Investors, banks: 38 cases
- Employees and others: Approximately 450 cases

Phase 3

Plotting the matrix and prioritizing

- Plotting the matrix: As with our original matrix, we first set out the materiality matrix of our tobacco business, which was subsequently expanded to include the entire Group.
- Visualizing individual materiality topics by plotting priorities of significance to and impact on our stakeholders on the vertical axis and, priorities to our Group's long-term business on the horizontal axis.

Read more about the materiality analysis on [JT.com](https://www.jt.com).



Phase 4

Identifying the issue groups

- Selecting priority topics or issues for the JT Group as well as for our stakeholders for sustainable growth of the Group and our society.
- Then arranging the topics into five groups with similar issues or expected effects, namely, preserving our environment, product and services, people, supply chain management and governance.



The JT Group Materiality and sustainability

As nature, society and people's lives are intertwined, sustaining our ways of living, and the activities of entities, will depend on the sustainability of the environment and society in which we exist. The JT Group's management principle is the 4S model. In pursuing this principle and by realizing the JT Group Purpose, we are contributing to the sustainability of our environment and our society, through our commitment to working on the five groups of material issues identified.

Having discussed these material issues with the Board of Directors, we have set them out as the JT Group Materiality as shown below.

Based on the JT Group Materiality, the Group sustainability targets and the targets for each business segment will be reviewed accordingly.

The JT Group Materiality will be examined regularly at Sustainability Advisory Forum and will be updated as necessary.

The JT Group Materiality

As nature, society, and people's lives are intertwined, sustaining our ways of living, and the activities of corporate entities, will depend on the sustainability of the environment and society in which we exist.

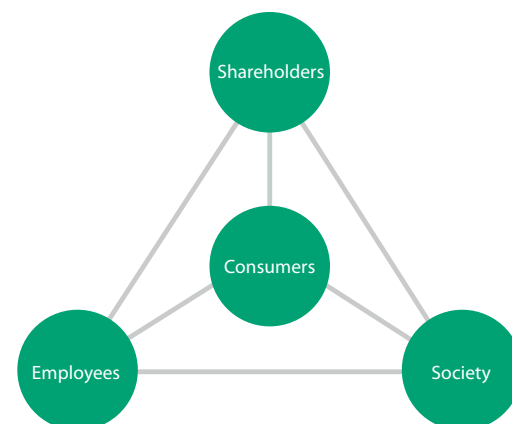
In realizing the JT Group Purpose, we are contributing to that sustainability through our commitment to working on the issues identified in our materiality.

JT Group Purpose

Fulfilling Moments, Enriching Life

Our management principle

The 4S model



Living with the Planet	Value Creation that Exceeds Consumer Expectations	Investing in People and Provide Motivation	Responsible Supply Chain Management	Good Governance
<p>Preserve a harmonious relationship between our environment, people, and corporate organizations through initiatives to improve our impact on our environment</p> <ul style="list-style-type: none"> Undertake initiatives to tackle climate change and conserve our environment Promote resource recycling and develop sustainable products with high environmental value 	<p>Create diverse products and services beyond consumer expectations</p> <ul style="list-style-type: none"> Develop innovative products and services and offer variety of situations to experience our products <ul style="list-style-type: none"> Develop and offer RRP (Reduced-Risk Products) Develop innovative original drugs Develop food products in response to diverse consumer values and interests Research, explore and create seeds for future business centered on the concept of "enriching life" 	<p>Invest in people to support their development with attention to diversity, and enhance human capital by fostering a corporate culture that maximizes individuality and ability of each person</p> <ul style="list-style-type: none"> Establish a fair and safe working environment, provide each employee with the opportunity for growth and promote diversity, equity and inclusion Establish a structure that encourages our employees to participate in and create with our society 	<p>Create a sustainable supply chain capable of withstanding sudden changes in the business environment, by tackling social issues such as respecting human rights or preservation of our environment</p> <ul style="list-style-type: none"> Engage with the suppliers through human rights/environmental due diligence Deliver initiatives that contribute to resolving social issues together with our suppliers 	<p>Enhance our governance by improving our stakeholder satisfaction and continue to be a trustworthy corporate entity</p> <ul style="list-style-type: none"> Construct and implement a framework for transparent, fair, prompt, and decisive decision-making Engage proactively with diverse stakeholders

The JT Group Materiality and sustainability

Setting out the JT Group Materiality: Stakeholder comments

Through the process of updating our materiality matrix and identifying the JT Group Materiality, we engaged with

a variety of stakeholders in order to gather their views and opinions. Here are some in their own words:

“We provide advice and proposals to a wide range of companies facing sustainability issues. Materiality is the starting point of prioritizing your sustainability issues and a vital process which could influence on mid- to long-term sustainability initiatives of a firm. Our role was to provide feedback to the JT Group post its materiality selection. By looking at the process that the Group has taken in selecting its materiality, we learned that not only was the firm concerned with its own business issues, but it also took into consideration issues that our society is currently facing, checking them one by one. The stakeholder interview was thoroughly conducted with high awareness for the challenges to the JT Group in identifying its materiality.”

External stakeholder

“Agricultural Labor Practices (ALP) is one of key programs for our leaf supply chain management and integral part of our Leaf Supply Chain Due Diligence process. The ALP program started in 2012, by launching ALP guidance, with minimum expectation vs. Child Labor Elimination, Improving Rights of Workers and Health and Safety conditions on a farm level. JTI extended the implementation of the ALP program from own operations to third party suppliers in 2015. The program has evolved through continuous learning and engagement with all the stakeholders (growers, International Labour Organization, OECD, own operations, third-party suppliers etc.). ALP today is a part of the broader Leaf Supply Chain Due Diligence process. We continue to deliver against JT Group ALP target ‘we will implement ALP in all sourcing countries by 2025’. A significant progress made is full ALP implementation in newly acquired businesses in Bangladesh and Ethiopia. Supply chain management was a very high material issue in our original materiality assessment. JTI’s latest materiality assessment emphasized the need to further strengthen the efforts against mapped challenges in our leaf supply chain.”

Leaf supply chain due diligence director, tobacco business, JT International

“In the processed food business, we strive to pursue the JT Group Purpose of ‘Fulfilling Moments, Enriching Life’ through food experiences. To support the Group Purpose, we have set our Business Purpose “Bringing joy to meals and fun to the table.” This Business Purpose will be the cornerstone in working through the challenges faced by our society in relation to food. We want to make this journey together with all our stakeholders, be it our colleagues or our consumers, while pursuing to provide value that only our firm can deliver. The five topics of materiality identified will act as an important guide as we strive to accelerate our initiatives.”

Team leader, Sustainability, food business planning division, processed food business, JT Inc.

“In updating our materiality, I gave a great deal of thought to the relationship between the environment, society, people's lives, and corporate activities. For the pursuit of sustainability, I strongly felt the need to work jointly, not only within the JT Group but also with all the stakeholders. Setting the materiality is the beginning of our journey. We will continue to engage with various stakeholders and accelerate our efforts together. Moreover, we will monitor the progress of the initiatives in place, and by capturing changes in the social and business environment, I hope that ‘our’ materiality can be updated jointly and flexibly with our stakeholders in the coming future.”

Hisashi Hamada, Materiality project leader, sustainability management division, JT Inc.

Sustainability Advisory Forum

Since 2020, we have held regular Sustainability Advisory Forums to discuss the Group’s sustainability issues. With our Chief Sustainability Officer acting as Chairman, the forum is attended by heads of the JT Group’s businesses and corporate functions. In 2022, two forums were held. We discussed and shared information about sustainability issues such as updating the Group’s materiality, checking the progress of and revisiting our Group Environment Plan 2030 including our work on climate change, progress on enterprise risk management, integrated reporting, and assistance for Ukraine, among others. Discussions at the forum are appropriately reported to the CEO and Board of Directors.



● Progress of our sustainability initiatives in 2022

Progress of the JT Group [Environment Plan 2030](#) or KPI progress by each business segment are reported to the Board of Directors every year.

Focus areas, aspirational goals, targets and progress of each business for 2022 are shown below.

Targets and progress by business segment		
Tobacco	Focus areas, aspirational goals, targets and progress, related SDGs	▶ JT.com
Pharmaceutical		▶ JT.com
Processed food		▶ JT.com

“We will strive further by creating and providing values unique to the JT Group. We wish to continue our journey to achieve sustainable growth, together with our stakeholders, local communities and the society that we are a part of.”



Hisato Imokawa
Senior Vice President, Chief Sustainability Officer

Q Tell us about sustainability highlights for 2022.

2022 continued to be a year of high uncertainty due to changes brought to our society and consumer behavior from COVID-19, unstable international political relations due to the Russia-Ukraine war, and global inflation. As the war triggered rising energy prices, concerns were initially voiced that initiatives for climate change or investment in ESG might slow down. However, 2022 was a year in which we continued to see the importance and momentum of sustainable growth through coexistence between society and corporate organizations. Additionally, more than ever before, corporate organizations are required not only to show a conventional business plan, but to present to stakeholders and to society a comprehensive plan that integrates financial and non-financial aspects with sustainability perspectives.

At the Group level, we set out our new Group Purpose “Fulfilling Moments, Enriching Life” and communicated this alongside the 2022 full-year announcement. The new purpose embeds our wish to continue to grow together with society with awareness for enriching life. Furthermore, 2022 was the first year in which we integrated the operating structure of our tobacco businesses into a single business. This integration progressed steadily throughout the year.

As for the JT Group’s sustainability initiatives, we worked on updating our materiality and we have disclosed the new Group materiality in this report. To further drive our sustainability efforts, we updated the JT Group Environment Plan

2030 at the beginning of 2022. Our Greenhouse Gas (GHG) reduction targets have evolved into a more ambitious plan, as we aim to reduce GHG emissions throughout the value chain by 2050 to Net-Zero.

The Group’s sustainable growth depends on co-existing with the society. We have extended various forms of aid to support local communities around the world. We provided support for the recent earthquake in Turkey. As for the Russia-Ukraine war, we will continue to give priority to the safety of our employees and their families, while providing as much support as possible to the people facing difficulties in Ukraine.

Q Please tell us about your new materiality in comparison to the original materiality.

When we first performed the materiality assessment in 2015, the awareness for ‘sustainability’ was very different. As this was our first attempt, there were trials and errors. So, perhaps the voices from our business side were not given a sufficiently full hearing. This time, we were conscious of connecting business strategy and sustainability, and we paid attention to incorporating business-driven issues. We also gave thorough consideration to the uniqueness of our Group. We have recently announced the JT Group Purpose and we are at a turning point in terms of how we do business. With these factors borne in mind, our materiality was thoroughly and comprehensively checked and updated.

Since we first set out our materiality, we have seen major changes in the business environment and social conditions

surrounding our Group. We have therefore updated our materiality by always paying attention to our relationship with the society which we are part of, and by listening even more closely to the opinions of our stakeholders. It’s not that all topics were replaced but rather, some topics have developed into several specific issues, while others have evolved into more advanced topics. Or, as we worked on the topics and rolled out our initiatives, the positions on the matrix have changed, as the initiatives yielded results. These were rearranged as materiality topics.

Q Could you tell us about the JT Group Materiality that you have identified from the new materiality matrix?

All topics are important, so we have repeatedly considered what sort of priority should be given and what should be the most important issues for the JT Group. The importance of one specific topic can be identified by making a relative comparison with others. But it is also true that one topic on its own cannot cover the underlying importance of a larger issue. The environment, society, and the life of each individual are all intricately connected within the same ecosystem. Rather than simply identifying topic by topic, we decided to specify five big groups of issues which are closely connected. It may be a small thing, but this way of identifying materiality also represents the uniqueness of our Group. We checked and rechecked the issues one by one to establish whether they are unique to the JT Group. We also examined whether our initiatives for the issues would be unique to our Group. Bearing these in mind, we have shown our commitment for all the topics materiality identified.

Furthermore, there is a common theme that is relevant to all the five topics of materiality. In my opinion, this is “people come first”, be it human rights, the environment or the wider society. People, the environment and the wider society are all interconnected and we should respect them all. Our materiality is based on this premise. Please view our materiality with these thoughts in mind.

Q Please tell us about the outlook for 2023 and the sustainability challenges ahead.

The key process of incorporating the new materiality into our strategy, formulating specific initiatives, and setting goals and targets will follow. At the Group level, we will continue to monitor and promote the JT Group Environment Plan 2030. We will also continue to engage with our stakeholders, further develop human rights due diligence, and contribute to our local communities with a view to gaining insight into matters relating to social capital. Furthermore, in terms of sustainability initiatives for each business of the Group, we will support our business functions in promoting initiatives, setting goals, monitoring, and reporting on progress.

The wave of regulation for sustainability disclosure which started in Europe is evolving into a global movement. Regulations governing the disclosure of sustainability information are being considered in Europe, the United States, and Japan, and preparations are under way for their enforcement. For example, in Japan, the focus of disclosure regulations is on “climate change” for environmental issues and “human capital” for social issues—both topics are among the five topics of materiality that we have identified this time. We believe that diversity of people is a source of our competitiveness, and we will strive to foster a corporate culture that embeds and respects diversity. As for improving our impact on the environment, we will not only work on existing initiatives concerned with climate change, with preserving natural resources, or with providing sustainable products; we will also keep an eye on upcoming topics such as biodiversity.

We are entering an era in which it is necessary for everyone to accumulate knowledge and track records in sustainability, be it those who develop frameworks, those who evaluate, or those who are evaluated. We will strive further by creating and providing values unique to the JT Group, and continue our journey to achieve sustainable growth. We want to do this together with our stakeholders and local communities and the society that we are a part of.

BUSINESS and STRATEGIES

Here we explain the strategies and results that the Group and each of its business segments have made, from both financial and non-financial angles. CFO message looks back on the financial results for 2022 and discusses the financial and capital policies that support our Business Plan 2023, as well as the thoughts behind the dialogue between the Group and the capital markets.

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- 078 The Group's sustainability initiatives
 - Improving our environmental impact
 - Investing in people
 - Investing in people: Health and safety
 - Improving our social impact
 - Respect for human rights

Photo taken at one of our contracted farms in Brazil

Business Plan 2023

Every year the JT Group publishes a three-year rolling business plan, reflecting the changing operating environment, including economic trends, geopolitical risks and the competitive landscape. Business Plan 2023 covers the three years from 2023 to 2025.

We will achieve sustainable profit growth by investing in our businesses, maximally leveraging our resources on a Group-wide scale and transforming ourselves even in a drastically changing operating environment.

Operating environment outlook 2023-2025

Tobacco business

The outlook of our business environment remains unpredictable due to geopolitical risk and related inflation, economic stagnation and other negative factors in the world economy, surges in costs, tax hikes worldwide under governmental policies to secure funds, tightening regulations and increasing bureaucratic complexity.

RRP (Reduced-Risk Products)

- We are projecting market-scale expansion in this category, especially the market for HTS (heated tobacco sticks).
- Device procurement in accordance with our 2023 plan will be possible despite tight supplies of semiconductors worldwide.
- Intensifying competition and tighter regulations in leading markets worldwide.

Combustibles

- Projected to remain the largest category despite the downward trend in industry volumes, due mainly to HTS demand growth, illicit transactions pressure on consumers disposable income and continuing downtrading.
- The profit pool remains likely to expand through pricing opportunities.

Pharmaceutical business

- We project continuing drug price reductions in both domestic and overseas markets due to the worldwide trend toward price optimization.
- The Group projects a gradual decrease in royalty income related to anti-HIV drugs.

Processed food business

- Markets are expected to expand, due to diversified needs, including easier cooking that takes less time, along with changes in lifestyles.
- These factors on the context of international commodity prices and exchange rates on costs for materials, as well as the effects of surging personnel and distribution costs due to labor shortages.

▶ Please see [Message from the CFO \(P. 50\)](#) for details.

Group profit target

Mid- to long-term target

Mid to high single digit annual average adjusted operating profit growth rate at constant currency.

Prospects during the business plan period

We project low single digit average annual growth, although RRP investment will accelerate.

Roles and targets of each business

Tobacco business

Our tobacco operations, the core driver of Group profit growth, are working towards sustainable profit growth through the medium and long terms.

Strategy of tobacco business

- Higher return on investment in combustibles
 - Enhanced investment in RRP
 - Pursuit of higher operational efficiency
 - Evolving global business capabilities
- ▶ Please see [Tobacco business \(P. 56\)](#) for details.

Pharmaceutical business/ Processed food business

Our pharmaceutical and processed food operations are focused on complementing Group profit growth.

- Pharmaceutical business: Focus on R&D investment for next-generation strategic products, and maximizing the value of each product
- Processed food business: Realize high-margin top-line growth in an environment with growing operational costs

▶ Please see [Pharmaceutical business \(P. 70\)](#) and [Processed food business \(P. 74\)](#) for details.

Resource allocation policy

Resource allocation policy based on the 4S model and JT Group Purpose

- Prioritize investments^{*1} for sustainable profit growth in the medium and long terms
- Prioritize balance between profit growth through investment and shareholder returns

Shareholder return policy

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

^{*1} Grow adjusted operating profit at constant currency 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
^{*2} The Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities
^{*3} To be in the range of approximately ±5%
^{*4} We monitor the shareholder return trends of Fast-Moving Consumer Goods companies which have a stakeholder model similar to our 4S model and have realized strong business growth

▶ Please see [Message from the CFO \(P. 50\)](#) for details.

Message from the CFO

“Even in a highly uncertain business environment, we are working to maintain a firm financial foundation and accelerate investment to secure profit growth over the medium and long terms and increase shareholder returns.”

Nobuya Kato

Senior Vice President, Chief Financial Officer



As Senior Vice President in charge of finance and corporate communications, I construct financial and capital strategies to fulfill the JT Group Purpose and help build corporate value through dialogue with all stakeholders, including the capital markets.

Overall assessment of 2022 financial results

From revenue to profit, our all-financial results for 2022 exceeded our initial targets, rising to record highs.

We achieved profit growth in 2022 despite a difficult business environment marked by significant inflation and surging prices for resources worldwide. Our adjusted operating profit at constant currency, which is our profit index for the entire Group, grew by 9% year on year. In particular we attribute this to the tobacco business, which showed strong volume momentum and positive pricing effects through the year.

Our medium- and long-term KPI goal is mid to high single digit growth in adjusted operating profit at constant currency. Over the past three years, we have been delivering steady year on year growth in adjusted operating profit, even as we continue to lag behind our competitors in terms of RRP (Reduced-Risk Products) market share amid overall industry volume growth.

Revenue on a reported basis grew by 14.3% year on year, to 2,657.8 billion yen, thanks to growing momentum in the tobacco business, the positive exchange effects of the weaker yen, and revenue growth for both the pharmaceutical and processed food businesses. Our adjusted operating profit was also up year on year, by 19.2% to 727.8 billion yen, due to revenue growth and positive exchange effects.

Operating profit increased significantly, by 31.0% year on year to 653.6 billion yen, because adjusted operating profit grew and the cost of initiatives to reinforce the foundations of the tobacco business operation and for reducing leaf-to-tobacco farmland were non-recurring, accounted only in 2021. As a result, operating profit growth outpaced rising financial costs, making our profit for the term 442.7 billion yen, up 30.8% year on year.

Despite this major increase, free cash flow dropped by 99.1 billion yen from the 2021 figure due to increases in working capital, higher corporate income tax and payments related to initiatives to reinforce our tobacco operations in Japan.

Operating environment outlook 2023-2025

We predict that current trends will continue in our tobacco business, in both RRP and combustibles, over the course of our current business plan. The RRP segment is developing into the core pillar of business growth for the future, with demand continuing to increase, especially for HTS. Combustibles will likely continue to experience downtrading and contraction in demand, but we believe they can continue to reliably deliver profit by seizing appropriate pricing opportunities and building market share.

At the same time, we have to keep an eye on the influence of growing geopolitical risk on the world economy, rising

inflation worldwide, leading to surging interest rates and overall costs, and tax hikes worldwide under governmental policies to secure funds, tighten regulations and increase bureaucratic complexity.

Despite these risks, while we aim for top-line growth using pricing and share growth, we are working to grow profits through initiatives to raise efficiency, such as in production and R&D in the combustibles segment, projecting cost savings of about 20 billion yen in 2023 and 2024 combined.

Please see [Business Plan 2023 \(P. 48\)](#) for details.

Financial policy

The JT Group draws up and executes its financial plans in line with our two core values of resilience and flexibility. Resilience means the ability to maintain business despite significant or unexpected risk, such as economic crisis. Flexibility means promptly responding to attractive investment opportunities.

Currently we are further reinforcing our financial base by working to secure ample liquidity and fix liabilities for the long term, seeing it as more important than ever to be better prepared for future risk as our business environment grows less predictable and financial markets more volatile.

Cash flow management

In our cash flow management, we put highest priority on stable cash generation from top-line business growth. We are also undertaking initiatives to reduce foreign exchange impact and optimize operating capital.

In the tobacco business, particularly in emerging markets, we are working to optimize our businesses for local levels of economic growth and build the value of our businesses in local currency over the medium and long terms. We pursue cash creation via top-line growth, made possible both by, on the one hand, pricing that takes into consideration tax hikes and inflation, and on the other, share gains building on the strength of our brand portfolio, enhanced with a long-term strategic investment view. Pricing is a profit-growth driver for our tobacco business, but it's done with consideration for various factors and from all angles, including brand equity,

competition, consumer* behavior and acceptance, and the economic environment. In some markets, temporarily or for short periods, our retail prices may fall behind inflation growth, but we have been generally successful in raising prices to meet inflation rates over the medium and long terms.

Currently exchange risk is rising, due mainly to changes in the financial policies of leading nations to cope with inflation worldwide. To reduce foreign exchange impact in the current environment, we use natural hedging, by which we mean matching incoming and outgoing currencies, as well as hedging using exchange forwards and other derivatives, except for certain currencies. In principle, foreign-currency credits and debts are fully hedged. We also hedge 25-90% of future cash flow, and in some cases apply hedge accounting

*Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country. In Japan, smoking is not permitted for those under 20 years of age

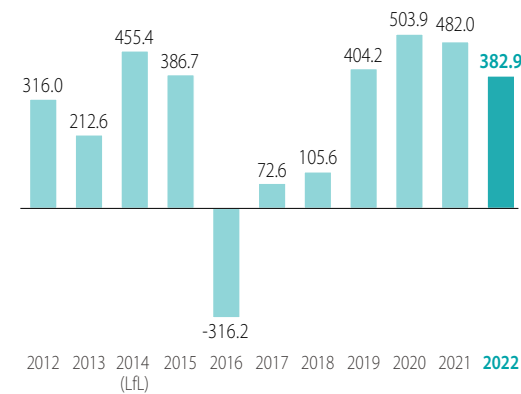
Message from the CFO

to reduce foreign exchange risk, taking into account possible impact on the profit-and-loss statement.

To optimize operating capital, we continuously improve our cash-conversion cycle, reviewing terms for receivables and payables and applying methods such as liquidation of receivables and supplier finance, while optimizing inventory levels.

As a result of these initiatives, we have been reliably generating free cash flow of about 400 billion yen per year over the past 10 years, excluding the temporary impact of M&A and so forth.

FCF (BN JPY)



Investment distribution

There has been no change in our two key policies for management resource allocation: give top priority to investment and balance profit growth resulting from investment with shareholder returns. Based on the 4S model, our management principle, and the JT Group Purpose, we will put top priority on investments leading to sustainable profit growth, especially in the tobacco business. We continue to designate the pharmaceutical and the processed food businesses as complementary to our core business, assisting profit growth for the entire Group.

Our benchmark payout ratio has been 75% since February 2021. This is based on the resource allocation policy as described above. Monitoring trends in shareholder returns among global FMCG firms, we have confirmed this as a competitive level in terms of capital markets in Japan

and abroad. During the term of the current business plan, we will invest about 300 billion yen, particularly in HTS, a category where further investments will be needed in the future. As for shareholder returns, we work to increase them by continuing to grow adjusted operating profit at constant currency, which is our foundation for profit growth over the medium and long terms, while maintaining a target payout ratio based on the policy I outlined earlier.

In discussing whether to buy back our own shares and in what quantities, in addition to financial prospects for the current fiscal year we carefully consider the medium- and long-term prospects of our environment; our FCF, balance sheet and the like; and levels of profit and progress with investments and initiatives.

Profitability of capital and market evaluation

In drawing up a business plan, we calculate and examine our capital costs and report them to the Board of Directors. We check and confirm that our return on equity is well above capital costs. We set up a hurdle rate, taking into consideration risks associated with each country in which we operate, as well as inflation and other external risks, and use that as our baseline for profitability. By maintaining that discipline, we make sure our ROE is always above capital costs. The JT Group uses adjusted operating profit at constant currency as a key performance indicator,* which excludes the effects of exchange rate fluctuations that can be substantial due to temporary factors, as well as depreciation costs related to M&A activities for the previous year. We work to grow profit, including for the current term, by achieving mid to high single digit growth in the KPI over the medium and long terms. We also believe it leads to improved ROE.

A comparison of our total shareholder returns, including dividends, with the TOPIX (total return) shows that ours were below the TOPIX over the long term due to the trend followed by our share prices, but they outperformed the TOPIX during the period between pre-pandemic late 2019 and

the end of 2022, thanks to profit growth during the period and a higher dividend for 2022. Continuous profit growth is important to the medium- and long-term stability of our equity value. We also believe that increasing quantitative corporate value through profit growth, while fostering an understanding of the JT Group through enhanced information disclosure from a qualitative perspective, will lead to higher TSR.

* Supplemental note: Why we use adjusted operating profit at constant currency as the primary index for performance management

- We use adjusted operating profit to show our business results for the current year in a way that's easy to understand, excluding the effects of depreciation costs related to any acquisitions in the previous year.
- Starting with our Business Plan 2014, to manage business investments and returns more appropriately, we changed our key performance indicator from adjusted EBITDA to adjusted operating profit, which does not require adding back depreciation or amortization costs, which fluctuate with investment scale for the year.
- We use figures at constant currency, believing we can show the true strength of our businesses much more clearly by disregarding exchange rates, which can fluctuate substantially over short periods due to geopolitical risks and other factors not directly related to our businesses.

IR activities

The JT Group appropriately discloses timely information, both financial, as with business results, and non-financial, such as management strategy, ESG factors and the status of each business segment, and engages in active dialogue with shareholders and institutional investors to ensure clear understanding. Our IR teams in Tokyo and Geneva, where JT and JTI are respectively headquartered, meet with securities analysts and institutional investors to discuss recently announced financial results and other disclosed information, as well as conduct individual meetings on ESG matters. Our plan for investor-focused events is in process.

These IR events are still held mostly online, as in 2022, when we held some 370 individual conferences. IR representatives participate in conferences hosted by securities houses and meet with domestic and overseas institutional investors. On some of these occasions, the CEO, the executive vice president in charge of finance and myself are present.

In meetings specifically focused on ESG we sometimes seek investor opinion, including assessments of our Integrated Reports. We will actively continue this kind of dialogue, making the most of the opportunities we have created.

The investor opinions we obtain through these IR efforts

Message from the CFO

are reported to our Board of Directors twice a year along with information related to market trends, including share price, and are shared with all executive officers and related divisions as a quarterly report.

We consider investor opinions when we improve and review

our ongoing initiatives and continue working to reflect their views and expectations appropriately in our strategies and operations, so they will better understand our results and initiatives.

Dialogues with investors in 2022

Number of meetings	About 370
Meeting participants	<ul style="list-style-type: none"> • A wide variety of stock and debt investors, both active and passive, in Japan and abroad • Analysts, fund managers, ESG managers, and responsible personnel for voting rights
Meeting formats	<ul style="list-style-type: none"> • Mainly virtual, online • One-on-one meetings and participation in conferences hosted by securities houses
JT personnel responsible	CEO, executive vice president in charge of finance, CFO, senior vice president in charge of communications, senior vice president in charge of sustainability management, among others
Main discussion themes	<ul style="list-style-type: none"> • Financial performance • Medium- and long-term strategies • Capital policies • Environment, Social, Governance (ESG) • Integrated report
Internal sharing of investor opinions	<ul style="list-style-type: none"> • Report to the Board of Directors twice a year • Quarterly report to directors, executive officers and related divisions on the status of IR efforts and investor opinions
Examples referencing investor opinions	<ul style="list-style-type: none"> • Enhancement of disclosures • Start of ESG-related talks • Review of KPIs related to remuneration

Better communication with debt investors

The JT Group is also working to enhance communications with bond investors. In compliance with the Japan Tobacco Inc. Act, on which our company was founded, the Japanese government is obliged to hold at least one-third of corporate equity at all times. Following this rule, the government must also accept one-third of any new shares issued for funds procurement. So debt finance is our primary method of funds procurement from the standpoint of fund maneuverability. Corporate bonds are a particularly important means for procuring funds to help achieve sustainable growth. To reliably procure funds even in an unstable financial environment, we are endeavoring to broaden our scope of communications with domestic and overseas bond investors. To create more opportunities for dialogue with them

and facilitate better understanding of the JT Group, we regularly hold non-deal roadshows in addition to those held at the time of bond issuances. These roadshows have been held in Europe, the Middle East and Asia since 2018, and we plan to introduce them in other regions to reach more bond investors and increase opportunities for communication.

In addition to these initiatives to enhance dialogue with bond investors, we are strengthening engagement with organizations that make ESG assessments widely referenced in the capital markets as we work to improve our ESG scores. We believe that we can further strengthen our relationships with bond investors by helping them better understand and appreciate our ESG initiatives.

Increasing corporate value in line with the JT Group Purpose

With a year now past since the new corporate structure began and the domestic and international tobacco businesses unified, we created the JT Group Purpose to show the evolutionary direction we want the entire Group to take for long-term, sustainable operations. In addition to discussing specific strategies to realize the JT Group Purpose, we will be freshly examining our current financial and capital strategies to determine whether there is anything we should change in our methods. An important challenge for our future will be designing strategies with the JT Group Purpose in mind and including non-financial factors like climate change and human capital. The JT Group Purpose is our new expression of who we are to investors. I think we have a responsibility to build up our practices of careful communications so investors and stakeholders can better understand the Purpose, reinforcing trust.

Rising to these difficult, high-level challenges, we are working to build a structure and formulate measures to resolve them. Since 2022 the Group Treasury has been operating on a single report line, unifying the financial divisions of JT and JTI and eliminating duplicate work. The JT Group human resources management philosophy offers every JT Group employee opportunities for personal growth, and the Group Treasury is focusing effort on employee career development in all regions. For better communications, we are improving the content of our Integrated Report and holding Tobacco Investor Conferences as opportunities to inform investors about our tobacco business strategy for the medium and long terms.

With my personal commitment to enhancing these initiatives, we are confident that we will continue to measure up to the expectations of all investors and stakeholders.

Tobacco business

“We started 2023 with a strong business momentum and the introduction of our new Purpose. Creating fulfilling moments. Creating a better future. This will be our North Star while continuing to deliver sustainable profit growth.”

Eddy Pirard
President & CEO
JT International S.A.



Tobacco industry overview

The industry can be divided in two product categories: combustible products and RRP (Reduced-Risk Products).

Combustibles

Cigarettes, FCT (fine cut tobacco), pipe, cigars and cigarillos are part of the combustibles category. While cigarettes contain pre-rolled tobacco, fine cut tobacco products allow adult consumers to roll or make their own cigarettes. The global combustibles industry volume totaled around 5.1 trillion stick equivalent units in 2022, representing a value of approximately 103 trillion Japanese yen. The largest markets are China—which accounts for over 45% of global volume—followed by Indonesia, the U.S., Russia, Turkey, Japan and Vietnam. While the global combustibles industry volume is declining, the industry value continues to increase driven by a positive price/mix variance.

RRP

Heated tobacco, E-Vapor and oral products are part of the RRP category. As they deliver nicotine without combustion, they have the potential to reduce risks associated with smoking.

HTP (heated tobacco products) include HTS (heated tobacco sticks), which generate an aerosol containing nicotine by heating a tobacco stick, and Infused (infused tobacco capsules), a hybrid system which creates a tobacco-enriched vapor using indirect heating.

E-Vapor products heat a nicotine-containing liquid instead of tobacco leaves and come in different formats: open tanks,

closed pods and disposables. Oral products are usually in the form of small pouches to be inserted in the mouth between the lip and the gum. If they contain tobacco they are referred as snus, if they don't as nicotine pouches.

The global RRP industry had an estimated value of approximately 9 trillion Japanese yen in 2022. The largest markets are Japan for HTP, the U.S. for E-Vapor products and Scandinavia for oral products. Unlike combustibles, the most successful Reduced-Risk Product varies from one market to another depending on consumer preferences. The overall RRP category, though smaller than combustibles, has been growing steadily over the last years, and we expect this growth to continue, notably in HTS.

Our view of the future

Over the last years, the main international tobacco players expanded their portfolio in both combustibles and RRP to offer more choice to consumers. The JT Group's tobacco business is ranked third in the world (excluding China) by volume and has a product offering across all combustibles and RRP segments.

We expect the global combustibles industry value to continue growing in the foreseeable future, while the global RRP industry is expected to grow both in terms of volume and value. Among RRP segments, we expect HTS to be the biggest growth driver, followed by E-Vapor and nicotine pouches. The growth rate will ultimately depend on innovation, consumer acceptance, regulation and taxation of RRP products.

Notes: 1. The word consumers used in the context of the tobacco business means adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country
2. This section is intended only to explain the business operations of the JT Group, not to promote sales of tobacco or nicotine containing products or encourage smoking or using nicotine containing products

Tobacco strategy

Our Purpose

Our Purpose—Creating fulfilling moments. Creating a better future—defines why we exist as a business and how we contribute to the broader JT Group Purpose. It is also a statement to wider society of our intent and the North Star guiding our tobacco business strategy.

Our strategy

We believe that the RRP adoption trend will continue, as these products have potentially less risk for the adult consumer.

To create fulfilling moments and a better future, we have articulated a clear strategy for the tobacco business, prioritizing management resources towards HTS, the main RRP growth driver, and combustibles, the largest, most profitable category across the tobacco industry.

The combination of the JT Group's tobacco businesses into a single business segment is supporting this prioritization of resources, globalizing the Group's knowledge and expertise, driving increased agility, and accelerating strategic decision-making.

This strategy, moreover, confirms the tobacco business as the core business of the JT Group and strengthens its role as the main source of profit growth for the medium and long terms.

RRP: Prioritize investments in HTS

The RRP category has yet to mature with each product segment being in different stages of development as consumer acceptance varies from one market to another.

We expect HTS will offer the strongest growth profile among existing product segments in RRP. In this context, the Group is prioritizing investments towards HTS and accelerating efforts to increase share of this segment.

To more than double our RRP core revenue by 2025,* we will invest over 300 billion Japanese yen between 2023 and 2025 including commercial expenses, R&D and capital expenditures. Another investment area will address R&D efforts towards NGP (next-generation products), as we think the RRP category will continue to expand beyond the current product lineups.

* Compared to 2022

Purpose		Creating fulfilling moments. Creating a better future.	
Creating fulfilling moments			
Creating a better future			
Business	Combustibles <i>Maximize top-line and ROI</i>	RRP <i>Prioritize investments in HTS</i>	
	<ul style="list-style-type: none">• Sustained share gains• Capitalize on pricing opportunities• Disciplined approach to investments	<ul style="list-style-type: none">• Ploom X geographic expansion• Enhanced capabilities• Exploratory initiatives beyond HTS	
Sustainability	Sustainability priorities		
	<ul style="list-style-type: none">• Reduce health impact through RRP• Product stewardship, circularity and waste• Farming practices and livelihoods	<ul style="list-style-type: none">• Climate change• Human capital management	

Tobacco business

In 2021, the JT Group launched its latest heated tobacco device—Ploom X—in Japan, followed by the U.K. in 2022 and Italy, Lithuania and Portugal so far in 2023. Since the launch, Ploom's share of the HTS segment has more than doubled in Japan, renewing our confidence in our ability to offer superior-quality products in this growing segment. The Group is planning to roll out Ploom X and its dedicated consumables in 28 markets by 2024, with the ambition to reach a mid-teens share of the HTS segment in key markets by 2028*¹.

This effort will be complemented by focused investments in other product segments, as one single solution doesn't translate into sustainable success in RRP. These additional segments, notably Infused, E-Vapor and Oral, will be considered exploratory opportunities. The JT Group aims to gain a better understanding of the dynamics in each of these segments and collect relevant consumer insights ahead of future growth. Considering the entire RRP category, our ambition is to reach breakeven by 2028*².

*1 Share of segment in key HTS markets, including Japan and Italy

*2 Breakeven at brand contribution level representing gross profit less commercial expenditure and before allocation of overheads

Combustibles: Maximize top-line and ROI

We recognize the combustibles industry volume will continue to decline. However, combustibles users will remain the largest cohort of consumers within the industry for at least another decade.

The JT Group intends to continue satisfying the needs of these consumers, by exceeding their expectations. To do so, resources will be allocated in priority towards our GFB (Global Flagship Brands), with the intent of maximizing returns and supporting the investments in RRP. Initiatives to support this strategy include GFB equity building and strategic market roles.

Consistently investing in the strengthening of the equity of Winston, Camel, MEVIUS and LD is key to sustaining the JT Group's market share gains in the combustibles category and leveraging pricing opportunities. In addition, we assigned each market to a strategic role (Earnings / Earnings & Share / Share) to enhance focus and guide decision-making.

Strengthening competitiveness

As part of the Group's continuous improvement efforts, we constantly review our global supply chain and our market

operating models for efficiencies and better effectiveness.

Within the global supply chain, we explore opportunities to rationalize our manufacturing footprint and our leaf-sourcing channels, as well as logistical routes, closer collaboration with suppliers, and SKUs portfolio simplification.

In market-operating models, we optimize notably route-to-market and route-to-consumers in order to ensure we can respond quickly and with agility to changing adult consumer expectations.

We also consider corporate initiatives like the simplification of internal structures, the migration of legacy IT systems to global solutions and the empowerment of Global Business Service centers to better support markets. The aim is to continuously improve margins, while maintaining quality, and to enhance cash flow generation by optimizing working capital and capital expenditures.

Sustainability priorities

In 2022, we conducted a materiality review and engaged with over 150 key stakeholders and 450 employees to define our sustainability priorities. These are key enablers of our new JT Group Purpose, driving a better future for our people and society.

Within the tobacco business, we identified sustainability priorities to focus on in the coming years:

- Reduce health impact through RRP
- Reduce our products' impact on the environment through product stewardship
- Improve farming practices and livelihoods
- Tackle climate change by reducing Greenhouse Gas (GHG) emissions
- Develop our employees through human capital management

Building business foundations

We believe that human resource development is the key driver of sustainable profit growth in the tobacco business. With business operations in more than 130 markets, our global employee workforce is very diverse, including over 100 nationalities.

The quality of human resources is the key to business activity and performance, so the JT Group will strengthen human resource development and enhance its ability to attract, develop, and retain employees on a global basis.

SWOT analysis of the tobacco business



Performance over the last five years

The tobacco business outperformed the industry volume over the last five years through continued market share gains driven by our GFB and acquisitions in tobacco markets that matter.

This performance, together with solid pricing and cost discipline, enabled the combined tobacco business to consistently grow core revenue and adjusted operating profit at constant currency.

GFB volume constantly grew over the last five years, reaching more than 360 billion sticks and almost 70% of our total volume in 2022.

The results of Winston, Camel, MEVIUS and LD were fueled by their strong brand equity, built by decades of sustained investments, and execution excellence.

Our portfolio architecture helped adult consumers in navigating the offering across different price points and segments, including cigarettes and FCT—where we are the #1 player.

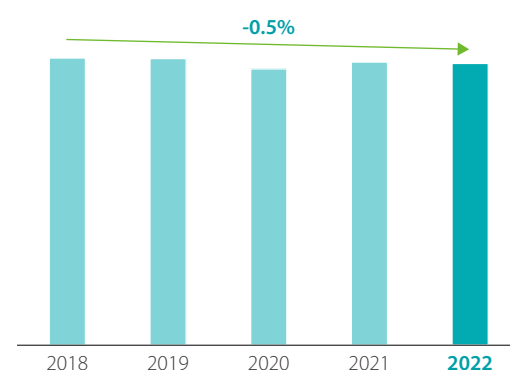
Despite the ever-changing environment, our pricing power remained intact over the period, demonstrating once more the resilience of the combustibles pricing model.

GFB (Global Flagship Brands)

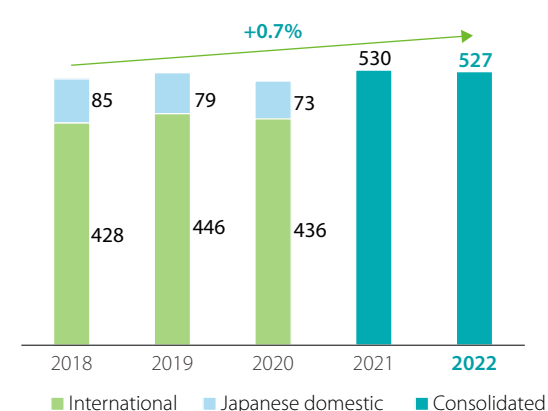


Tobacco business

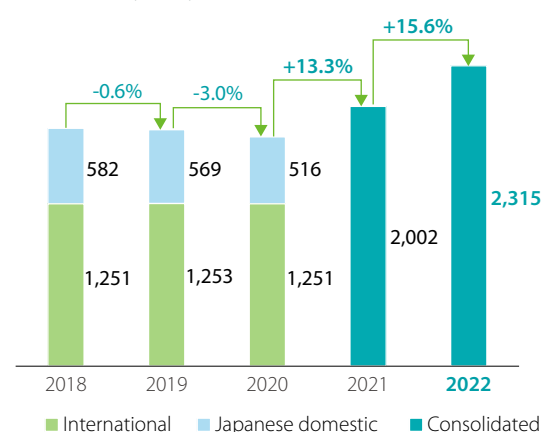
Total industry volume (BnU)*¹



Total shipment volume (BnU)*²

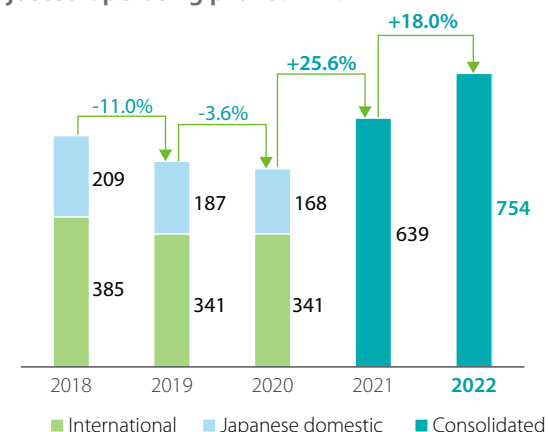


Core revenue (JPY Bn)*²



Var at const FX	+5.6%	+1.9%	+7.9%	+4.8%
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Adjusted operating profit (JPY Bn)*²

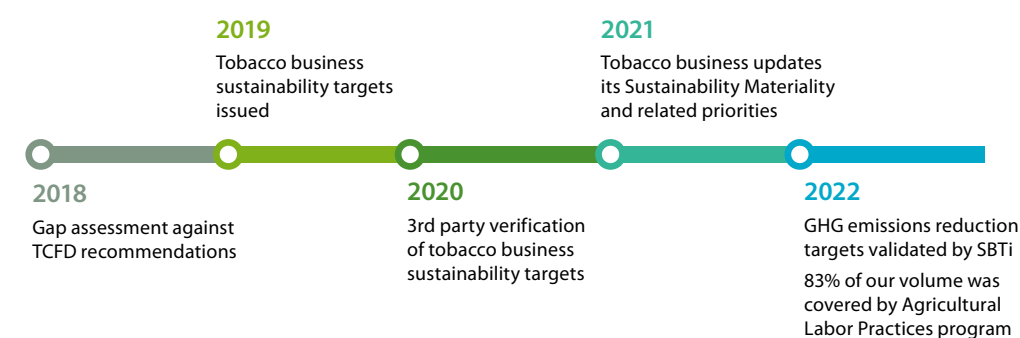


Var at const FX	+3.2%	+7.3%	+22.8%	+8.2%
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*1 Based on internal estimates excluding China

*2 The year on year variances from 2018 to 2020 of core revenue and adjusted operating profit are calculated based on the sum of the Japanese domestic and international tobacco businesses. From 2022, we consolidated the tobacco business, and 2021 figures are adjusted as well

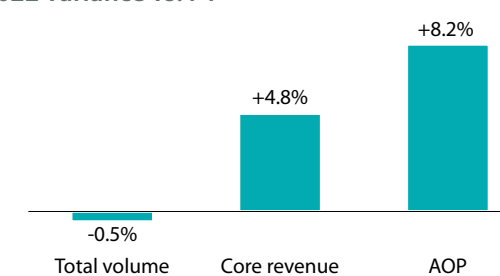
Sustainability journey



2022 performance

Overview

2022 variance vs. PY*¹



In 2022, the tobacco business fully delivered on its role as the profit growth engine for the JT Group, overcoming numerous challenges including the Russia-Ukraine war and the semiconductor supply shortage limiting our HTS expansion plans.

Our share gains bolstered our business with total volume declining by only 0.5%. This performance was fueled by a limited combustibles volume decline of 0.7%, outperforming the estimated industry decline, combined with double-digit RRP volume growth. GFB volume grew by 1.9%, mainly driven by Winston and Camel, which grew by double digits in 30+ markets.

Importantly, RRP was our fastest growing category in terms of volume, albeit from a small base, as we made significant inroads into the HTS segment in Japan.

Coupled with solid pricing, this performance drove our strong top-line growth, resulting in a robust adjusted operating profit increase.

We began the year with the One Tobacco integration, unifying our tobacco businesses and building a stronger and more united organization. The drive and energy of our employees around the world was a fantastic success driver. The One Tobacco integration consolidated our expertise and knowledge globally, established greater collaboration and faster decision-making and further enhanced our business fundamentals.

In 2022, we also made progress towards our 2030 sustainability targets:

	2022 results	2030 targets
Water use reduction	23%	15%* ⁵
Packaging recyclability	82%	100%

*1 Core revenue and adjusted operating profit (AOP) at constant currency

*2 Based on cigarettes + FCT + HTP

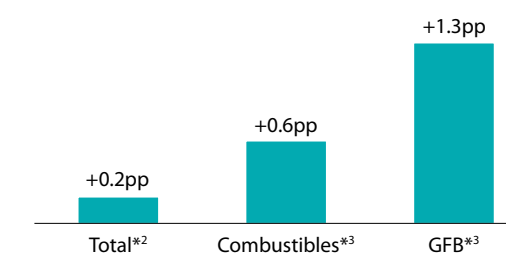
*3 Based on cigarettes + FCT

*4 Contribution to core revenue growth at constant currency. 2018-2021 price/mix assumed equal to the sum of international and domestic price/mix for illustrative purposes

*5 Against 2015 baseline year

Share of market

Share of top 30 markets

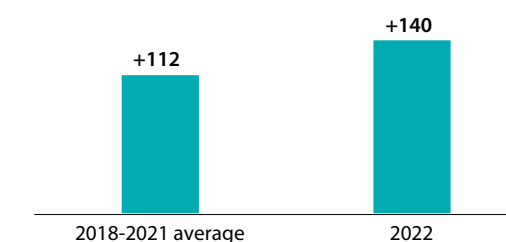


Our consumer focus, strong execution and excellent engagement with the retailers and distributors delivered another year of market share gains in the combustibles category globally, and in HTS in Japan.

In combustibles, we grew share 0.6 percentage points across our top 30 markets. In cigarettes, we grew our share in the mid-price segment, where Winston continued to register gains, and in the value price segment, where Camel kept its growing momentum. In FCT, we strengthened our leading position, notably with Winston, Camel, and Sterling in the U.K. GFB were a key contributor to share gains, growing 1.3 percentage points and registering a new record-high share.

Price/Mix

Price/Mix variance (JPY Bn)*⁴



In 2022 we generated 140 billion Japanese yen in favorable price/mix variance to core revenues despite the challenging environment.

This is above our 2018-2021 average and compensated for the unexpected cost increases due to the macroeconomic and geopolitical environments.

In terms of pricing, key markets of Japan, the Philippines, Romania, Russia, Spain, Taiwan, Turkey and the U.K. registered a strong contribution. In terms of mix, the unwinding of COVID-19 trends, notably in the U.K., and ongoing down-trading, partially offset the pricing contribution.

Key markets

In 2022, we moved from five to three clusters: Asia, with Japan, Taiwan and the Philippines as key markets; Western Europe, with Italy, Spain and the U.K. as key markets; and EMA, with key markets Romania, Russia and Turkey.

The majority of our key markets grew combustibles share in 2022, while initiatives were taken in Japan, the U.K. and Romania to limit share losses.

Combustibles SoM	2022 vs. PY
Asia	
Japan	-0.9pp
Taiwan	+0.8pp
The Philippines	+0.4pp
EMA*	
Romania	-0.3pp
Russia	+0.1pp
Turkey	+0.1pp
Western Europe	
Italy	+0.8pp
Spain	+0.7pp
U.K.	-0.6pp

Japan

In 2022, total tobacco industry volume was down year on year by 1.5%. In combustibles, volume decreased by 7.2% due to growth of the RRP category, October 2021 excise tax-led price increases and secular decline.

RRP grew to account for 34% of the total tobacco industry in 2022, driven by changing consumer behavior, new heated tobacco product launches and marketing initiatives.

Our volume underperformed the industry due to consumers shifting towards RRP and downtrading in cigarettes.

In cigarettes, we strengthened our portfolio in the value segment with Camel Craft. In only six months since the launch, Camel became the #1 brand in the value segment and exited 2022 as the #2 combustibles brand. We also strengthened the #1 position of MEVIUS with the E-Series expansion in the mid-price segment.

In RRP, the innovations of Ploom X translated into significant share gains in the HTS segment, growing from 3.2% before the rollout to reach 8.2% in December 2022.

In 2023, we forecast total tobacco industry volume to decline by approximately 2%, with the RRP category expected to expand moderately.

Russia

On March 10, 2022 we suspended new investments in Russia, including the planned launch of Ploom X.

In 2022, total tobacco industry volume declined 3.7% following excise tax-led price increases. Our total volume decreased by 2.6%, and by 1.9% when excluding inventory movements.

GFB volume declined by 0.6%, as the continued Camel performance almost fully offset the volume decline. Total market share was almost flat at 36.6%, with share gains by Camel.

Core revenue at constant currency increased, driven by a robust price/mix contribution, more than offsetting a negative volume variance.

United Kingdom

In 2022, combustibles industry volume contraction was significant due to the unwinding of COVID-19 trends. However, when looking at the average decline over the last three years, this was broadly in line with historical trends.

While our volume underperformed the industry, we maintained undisputed market leadership through a balanced approach in managing share and profitability.

In combustibles, we strengthened our offerings in the value segment to address incremental consumer demand by launching two new products: Mayfair Silver in cigarettes and Benson & Hedges Blue in FCT.

In RRP, we launched Ploom X in London at the end of October 2022 and early consumer feedback is positive.

In 2023, we forecast total tobacco industry volume to decline by high single digits due to the continued recovery of non-U.K.-duty-paid volume. Going forward, we are confident to grow earnings through pricing while maintaining our market share leadership.

* Eastern Europe, Middle East, Africa & Americas

RRP

The RRP category is composed of different segments including HTS (heated tobacco sticks), Infused (infused tobacco capsules), E-Vapor and oral.

As announced in 2021, we prioritize the allocation of resources to HTS, with the other segments viewed as exploratory opportunities.



* Ongoing R&D of Next-Generations Products (NGP)

2022 RRP performance

RRP volume increased 10.3% year on year to 7.9 billion stick equivalent units, as Ploom X provided a step change in our HTS performance.

Ploom X is our first truly global product and our most important launch in several years. In Japan, our first Ploom S device was launched in 2019, followed by the second generation in 2020 and a completely new device—Ploom X—launched in August 2021. The JT Group has endeavored on an accelerated journey with major upgrades along the way, both in relation to devices and to consumables.

The innovations of Ploom X, including our proprietary HEATFLOW system, significantly improved the consumer experience and translated into significant share gains in the HTS segment in Japan, growing from 3.2% before the rollout, to reach 8.2% in December 2022.

More importantly, retention rates have increased since the launch, highlighting the competitiveness of our offering.

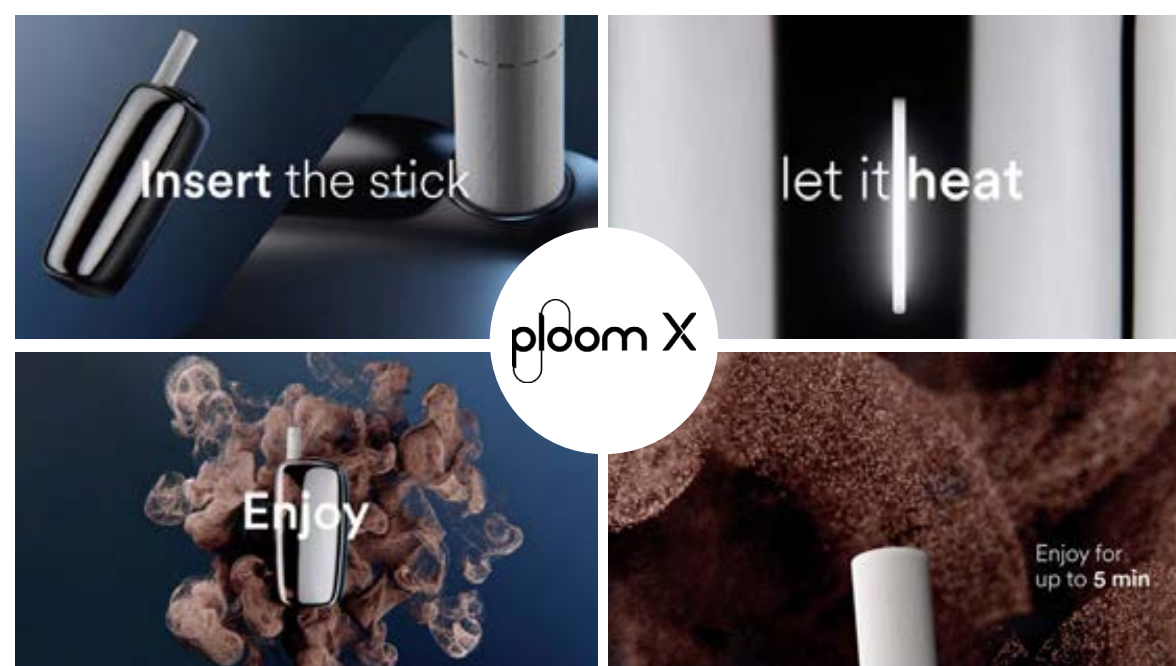
This was enhanced by the introduction of new flavored SKUs, promotions in response to aggressive offers prevailing in the market, best-in-class customer care, as well as the improvement of Ploom Club.

Ploom Club is part of our e-commerce platform, offering a personalized experience based on each adult consumer's preferences. A point-based system allows consumers to unlock promotions and participate in initiatives accessible only to club members. A subscription model is also available and gaining traction.

We also launched Ploom X in London and created a joint venture with Altria to commercialize Ploom in the U.S., the world's largest RRP market in terms of value. As part of the agreement, we also signed a non-binding memorandum of understanding to explore commercial opportunities with Altria for a wide range of RRP globally.



Tobacco business



RRP outlook

In the second half of 2023 we will accelerate the Ploom X expansion plan bringing the number of markets where it is on sale to 14 by year-end.

This builds on the successful rollout of Ploom X this April in Italy, the biggest HTS market in Europe, and in Lithuania, followed by Portugal in May.

Our expansion plan focus will be on established HTS markets, where we can benefit from existing high levels of category awareness among adult consumers. This focused investment strategy will allow us to optimize our investments compared to markets where larger resources would be required to inform and convert adult consumers to HTS.

In 2024, we intend to maintain the expansion pace with launches in 14 additional markets. Also, in 2025 we are planning to submit a Premarket Tobacco Product Application (PMTA) and Modified Risk Tobacco Product (MRTP) application in the U.S. through our joint venture with Altria.

This accelerated expansion plan is in line with our global tobacco strategy, which prioritizes HTS among RRP segments, with the ambition to reach a mid-teens share of the HTS segment in the key HTS markets in 2028*¹.

Ploom X geographic expansion is just one pillar of our RRP investment strategy. Equal focus is placed on enhancing our internal capabilities with strategic investments, product innovation, R&D, science, and consumer acquisition and retention,

to significantly scale up our competitiveness in HTS.

These investments, that will exceed 300 billion Japanese yen over the 2023-25 planning period, also include exploratory initiatives in Infused, E-Vapor, oral and NGP to identify scalable and sustainable business opportunities.

In these segments, the aim is to gain better consumer understanding, experiment with distinctive consumer propositions and explore potential geo-expansion. For example, in the second quarter we are launching our improved pod-system in the U.K. and Ireland, under the Logic brand. In Oral, in May we launched Nordic Spirit as a test in the Philippines and we are planning to launch our new nicotine pouch formula in the U.K. this year. In addition, we will roll-out the next-generation of our infused products in Q3 in Japan.

For NGP in particular, a central team will be in charge of incubating new consumer-centric ideas, with the optionality to promote them to exploratory if their business potential is proven.

All in all, we are confident in our ability to turn the RRP category into the JT Group's future profit growth engine, supported by our ambition to reach breakeven in 2028*².

*1 Share of segment in key HTS markets, including Japan and Italy

*2 Breakeven at brand contribution level representing gross profit less commercial expenditure and before allocation of overheads



Reducing health impact through RRP

While it is still too early to understand the long-term health effects of RRP, factors, including the elimination of combustion and the lower level of toxicants found in the vapor, suggest there is potential for them to reduce the risks associated with smoking.

That's why we're committed to ensuring that all our RRP fulfill this potential. We pride ourselves on an open approach that embraces scrutiny from consumers, regulators and the scientific community, and we regularly present our findings at scientific conferences and in peer-reviewed journals.

Our approach is supported by the most up-to-date understanding of the subject and grounded in evidence-based observations.

As part of our joint venture with Altria, we will combine our scientific and regulatory expertise to jointly prepare a PMTA and MRTP for the Ploom version to be launched in the U.S. The parties currently expect to submit the PMTA and MRTP by the end of 2025.

► Read more about the science behind RRP at www.jt-science.com.

RRP sourcing

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

In addition to our in-house production capabilities, we source from different global manufacturers. These include the world's largest Electronics Manufacturing Service (EMS) companies, which are renowned for their high quality and technology.

We are committed to carrying out social and environmental due diligence in our RRP materials. We are a supporter member of the Responsible Business Alliance (RBA) and fully embrace its vision and mission.

RBA is the world's largest industry coalition dedicated to corporate social responsibility in global supply chains. RBA members commit and are held accountable to a common Code of Conduct and utilize a range of RBA training and assessment tools to support continuous improvement in the social, environmental and ethical responsibility of their supply chains.

► Read more about our responsible procurement on JT.com.

Tobacco business

RRP return/collection scheme

RRP present new and specific challenges from an environmental perspective, such as electronic waste. Batteries and metal parts from used devices are recyclable.

To encourage consumers to safely recycle or dispose our products, we inform them on how to dispose their old products in a responsible and sustainable manner. In all our Ploom markets, consumers have access to responsible disposal of electronic devices and can drop their old device in Ploom stores and pop-up stores.

In Japan, we launched a program in 2019 to collect used Ploom devices, capsules and cartridges via convenient collection boxes at around 300 shops in Tokyo. In 2020, this program was extended to include additional tobacco players and it was launched throughout Japan in 2021. Since then, around 1,200 collection points have been established in all 47 prefectures.



Sustainability priorities

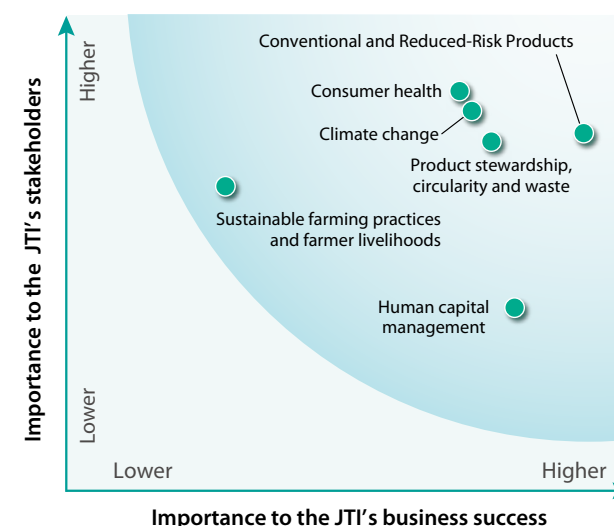
In 2022, the tobacco business conducted a thorough materiality review that identified the long-term sustainability priorities.

Through this review, we engaged with over 150 key stakeholder groups—financial institutions, civil society organizations, suppliers, consumers. More than 450 employees also took part in sharing their views and expectations.

Our highest priorities are linked to our product impact and strengthen our commitment to widely provide consumers RRP offerings. This year, we also put an additional focus on product stewardship, circularity and waste—guiding our development teams to make environmentally sustainable design decisions.

At the same time, we will continue to ensure that we uphold the highest standards of human rights and environmental due diligence throughout our value chain. We are working with our grower communities and suppliers to address Greenhouse Gas (GHG) emissions and make sure that people, from employees to farmers, can thrive.

We strongly believe that sustainability is everybody's business, and that we will all play our part in leading the business towards a better future.



Reduce our products' impact on the environment

We are committed to continuous improvement in our approach to product and packaging sustainability.

Targets: We committed to reducing the environmental impact of our products and packaging through design solutions, facilitating responsible collection and disposal, and consumer awareness and education. We will reduce our packaging (including plastic) and ensure that the remaining material is 85% reusable or recyclable by 2025, rising to 100% by 2030. In total, recycled content will account for 20% of our tobacco business packaging by 2025.

Continuing efforts on materials optimization and improving design of packaging structures in 2022, we achieved 82% packaging recyclability and 18% of recycled content in total packaging materials.

Total sustainability investments in materials and packaging in 2022 amounted to more than 4 millions U.S. dollars.

In 2022 we also introduced a new sustainability governance model with a focus on product stewardship, circularity and waste, which covers both products and packaging. It aims to manage the safety and environmental and social impact of our products and their packaging at all stages of the product life cycle, avoiding waste through product circularity or reducing it by operating an effective waste management system.

► Read more about improvements of our packaging and about our approach to circularity, post-consumer waste management and anti-littering on [JT.com](https://www.jti.com).

RRP materials and packaging

We are working to reduce the environmental impact of our products and their packaging. We are striving to use more environmentally friendly materials and addressing the issue of litter with waste prevention measures such as improving the design, composition and recyclability of our products and packaging.

These will be achieved by increasing the recycled content and recyclability of our packaging and reducing the amount of plastic we use.



Tobacco business

1. Reducing the amount of material

We leveraged synergies with our combustible products and approved in 2022 a thinner polypropylene overwrap for Ploom refills that will be rolled out in our markets as of 2023.

2. Improving packaging recyclability

We are assessing alternatives to replace the aluminum inner liners of Ploom refills with paper inner liners while maintaining the same level of barrier protection required to maintain product quality.

We continuously investigate innovative solutions to end the use of plastic overwraps in our devices' boxes and to increase the recyclability of our packaging.

3. Integrating recycled content

Since 2022, all Ploom refill shipping cases produced in Poland are made with 100% recycled content.

We continue looking into adding recycled content in our packaging while securing the quality standards of our products.

We have developed an internal design guidebook for RRP devices with circular principles to help our development teams make environmentally sustainable design decisions.

The main component of Ploom heated tobacco stick filters is cellulose acetate. We are committed to looking for better alternatives and are actively investigating innovative filter solutions that will meet consumers' expectations, regulatory demands and operational constraints while reducing the environmental impact.

In parallel, we have conducted Ploom product and packaging life cycle assessments to help us better measure Ploom's environmental impacts and identify improvement areas.

Agricultural Labor Practices

Our Agricultural Labor Practices program (ALP) allows us and leaf merchants to identify potential labor challenges on tobacco farms and implement improvements. It also contributes to the social aspects of grower communities and supports sustainable agriculture overall.

Targets: We committed to implementing our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.

Key progress in 2022

In 2022, we strengthened implementation of our SCDD process. All our contracted growers have now implemented our Agricultural Labor Practices. We conducted Supply Chain Impact Assessments (SCIA) in Brazil and Tanzania with our contracted growers, and in collaboration with other manufacturers and tobacco leaf merchants in Indonesia.

Our approach to sourcing

We source tobacco through two supply models either directly contracted growers or tobacco leaf merchants, each supplying approximately 50% of the total volume.

Sustainable Tobacco Program (STP)

JTI is one of the seven global manufacturers participating in the Sustainable Tobacco Program. Two manufacturers joined the program in 2022. Six focused pilot assessments were executed in 2022 in six countries. Most of the action plans have been submitted by the leaf merchants and progress will be monitored.

Addressing child labor

In 2022, we developed a new holistic child labor elimination framework in which ARISE (Achieving Reduction of Child Labor in Support of Education) plays a key role to prevent and remediate child labor risks. We expanded ARISE in 2022 by setting up a new program in Ethiopia. Since 2011 the program has withdrawn or prevented 65,317 at-risk children from child labor and enrolled them in education.

Improving farming practices and farmer livelihoods

Our leaf sustainability framework, driven by our leaf Supply Chain Due Diligence (SCDD) process, takes into account social, environmental and economic impacts.

► Read more about our SCDD on [JT.com](https://www.jt.com).



Tackling climate change through Greenhouse Gas emissions reduction

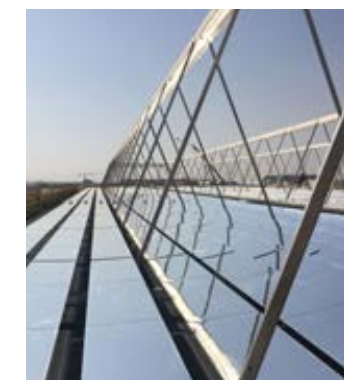
We are a global company and climate change represents a real threat to the future of our business, as well as to communities all around the world. We are working hard to reduce our contribution to climate change and help to address this global issue.

Our initiatives include improving energy efficiency, increasing the use of renewable energy and prioritizing alternative fuels and vehicles.

Across our value chain, we work with our tobacco growers to reduce emissions associated with tobacco growing and curing, we engage with our suppliers to reduce emissions, and we monitor external factors and innovations in technology.

Targets: We committed to being Carbon Neutral for our own operations by 2030. We also aim to achieve Net-Zero Greenhouse Gas (GHG) emissions for our entire value chain by 2050.

In support of this, by 2030, we will reduce emissions from our own operations by 47% and emissions associated with leaf and non-tobacco materials by 28%, against a 2019 base year. Based on 2022 results, we reduced GHG emissions from our own operations by 16% and from leaf and non-tobacco materials by 12%.



► Read more about the JT Group's environmental initiatives on P. 78 and our programs and initiatives specifically related to our tobacco business on [JT.com](https://www.jt.com).

Pharmaceutical business

Muneaki Fujimoto

Senior Vice President,
President of Pharmaceutical Business

Quoting our business's Purpose, "Respecting science, technology and people, we will contribute to patients' lives" as we pursue research and development. We are proud to have received manufacturing and marketing approval in Japan for CORECTIM® Ointment 0.5% and 0.25% for indications of atopic dermatitis, and ENAROY® Tablets 2 mg and 4 mg for the treatment of anemia associated with chronic kidney disease. We will continue making steady progress with R&D to help ensure sustainable profit growth.

Purpose

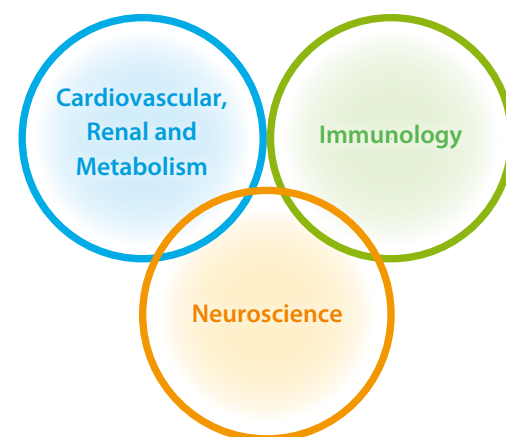
Respecting science, technology and people,
we will contribute to patients' lives

Pharmaceutical business basic strategy

We focus our pharmaceutical business on contribution to stable profits for the entire Group. Its basic strategies are:

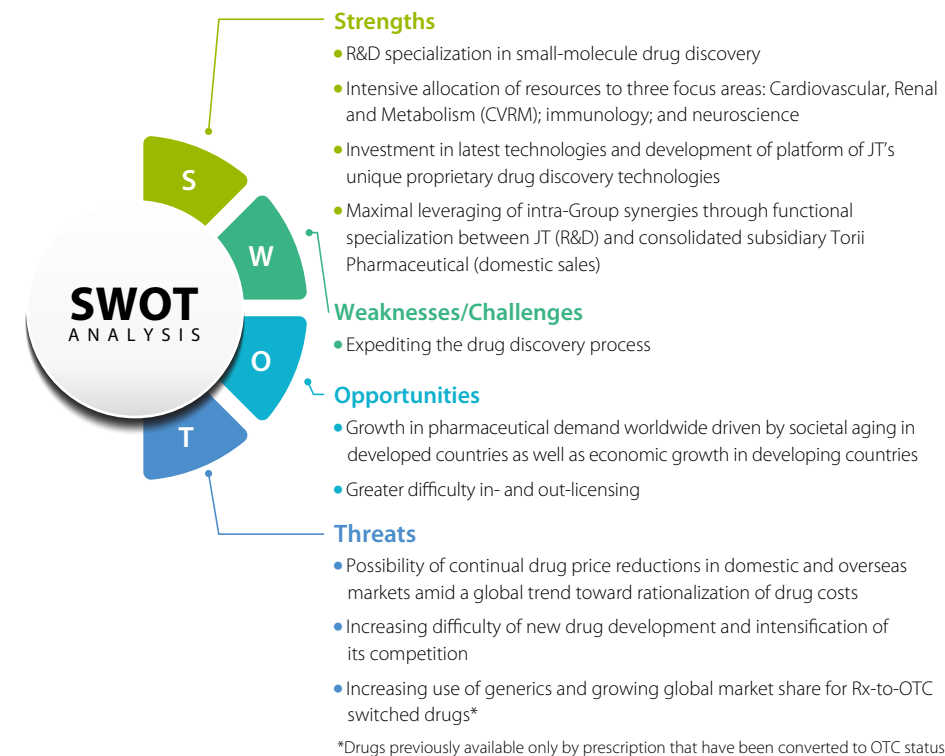
- Relentless pursuit of better drug discovery;
- Focus on R&D investment for next-generation strategic products and out-licensing them with optimal timing; and
- Maximizing the value of each product.

The pharmaceutical business focuses its R&D on these areas:
Cardiovascular, Renal and Metabolism (CVRM);
immunology; and neuroscience.

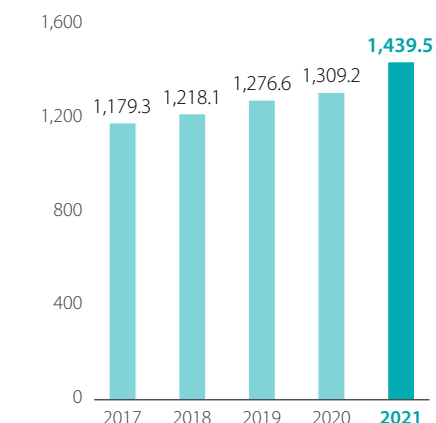


Business environment

SWOT analysis of the pharmaceutical business



Worldwide pharmaceutical market* (USD BN)



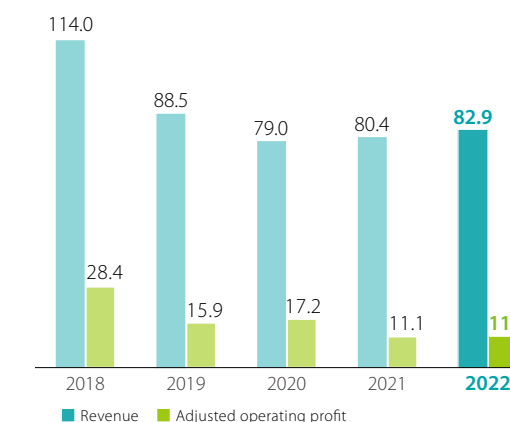
* Copyright © 2023 IQVIA.
Calculated based on IQVIA World Review
(Data Period, Year 2017-2021)
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Performance over the last five years

Revenue grew by 3.1% year on year, driven by top-line growth at consolidated subsidiary Torii Pharmaceutical and partially offset by a decrease in overseas royalty income. Torii Pharmaceutical reported major growth in sales of drugs for skin diseases and allergies, leading its top-line growth.

Adjusted operating profit grew by 0.5% year on year as a result of increased R&D costs offsetting revenue increases.

Revenue and adjusted operating profit (JPY BN)



Pharmaceutical business

Sustainability initiatives through business activities

Case study: Developing original drugs to help people recover from disease

Our pharmaceutical business's sustainability strategy designates "products and services" as one of the focus areas. We aim to create innovative, original drugs to support patients in the shortest time possible. We continue to make further strides in new drug R&D through ongoing investment in three specific therapeutic areas: Cardiovascular, Renal and Metabolism (CVRM); immunology; and neuroscience. In 2022, we invested 29.8 billion yen in R&D. Our clinical development as of February 14, 2023, can be found [here](#).

As a result of our initiatives, in Japan we launched ENAROY® Tablets 2 mg and 4 mg (generic name: enarodustat) for an indication of anemia associated with chronic kidney disease, and CORECTIM® Ointment 0.5% (generic name: delgocitinib) for an indication of atopic dermatitis in 2020, as well as

CORECTIM® Ointment 0.25% for pediatric patients with atopic dermatitis in 2021.

From the beginning, we had developed CORECTIM® ointment for pediatric patients in mind since atopic dermatitis is common among not only adults but also children. In 2022 we completed all clinical trials in Japan with atopic dermatitis patients under two years of age, and revised supplemental documentation in January 2023 supporting extended application of the drug to infants. To enrich the lives of people of all ages suffering from health issues and their families, we will continue to seek and develop original drugs that can be used safely and with peace of mind.



Our sustainability strategy and focus areas

For the pharmaceutical business, we selected three focus areas and set five specific targets for them in 2019, and have been reporting on progress every year. For details see "KPI progress."

KPI progress



Products and services

Aspirational goals

We will create innovative, original drugs to support patients in the shortest time possible. As this business has a direct impact on human health and life, we not only strictly comply with all laws, regulations, and industry standards, but are also guided by a strong sense of ethics and responsibility. This is particularly the case in areas such as clinical trials and promoting drugs, as well as animal experiments and managing chemical substances.



Investing in people

Aspirational goals

We will strive to nurture talent development which enables us to create first-in-class (FIC) drugs. We strictly adhere to specific processes to ensure that our pharmaceutical business activities are always carried out in a responsible and appropriate way. We provide e-learning to help employees

understand the importance of drug safety and quality assurance. All of the employees in our pharmaceutical business complete a mandatory e-learning course every year. We also have an internal educational activity to foster employees' ethical awareness and sense of responsibility towards saving patients.

Product safety and responsibility

Aspirational goals

We will strictly comply with all relevant laws, regulations, and industry standards in order to deliver safe drugs to patients. We have developed our own guidelines on how to conduct annual inspections to ensure that our production methods fully comply with government recommendations. We started annual inspections in accordance with these guidelines in 2017. Since 2018, we have been operating inspections at all of our contracted factories. We will continue to operate these guidelines. We also have our own standard on the ethical promotion of prescription drugs,

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

▶ Read more on [JT.com](https://www.jt.com).

Processed food business

Hiromasa Furukawa

Senior Vice President,
Food Business

Under our Purpose, “Bringing Joy to Meals and Fun to the Table,” our processed food business works to develop and furnish products of high added value, closely monitoring ever-diversifying consumer values and interests. Even amid the soaring business costs seen in recent years, we aim to contribute to the JT Group’s profit growth by continuing to optimize production operations, the frozen and ambient food business and the seasonings business, and by achieving high-quality top-line growth through such means as increasing sales of our more profitable products.

Purpose

Bringing Joy to Meals and Fun to the Table

Processed food business basic strategy

The processed food business’s role is to augment the JT Group’s profit growth. Its basic strategy is to:

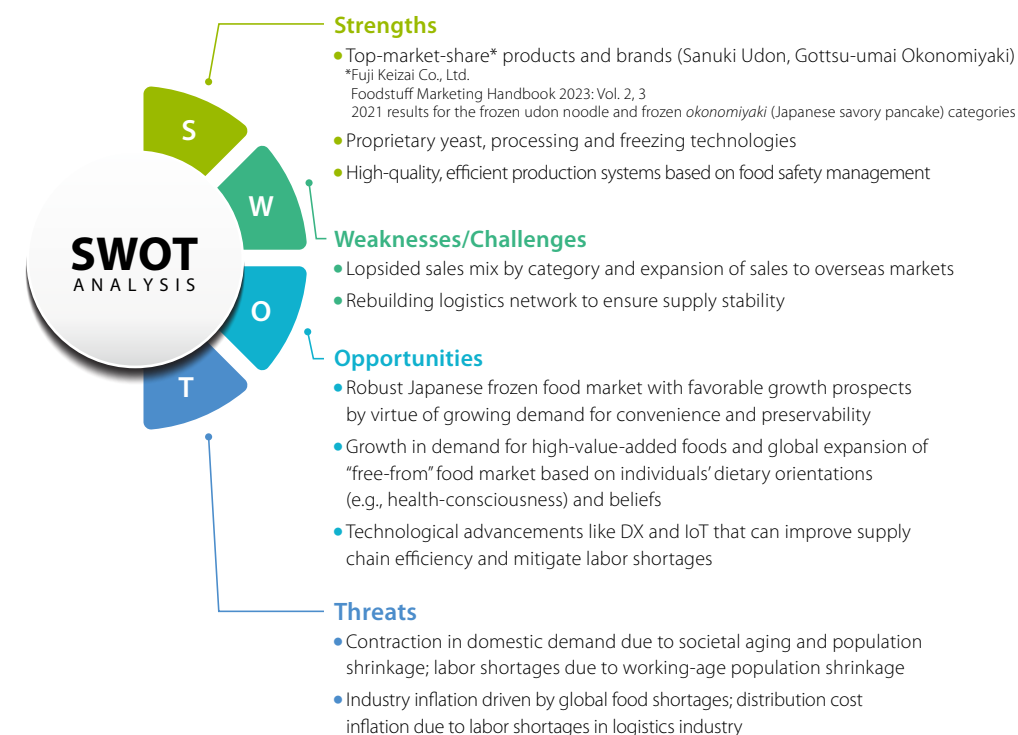
- Further expand sales of core products incorporating proprietary technologies, and upgrade its ability to develop high-value-added products in response to changes in consumer preferences;
- Implement price adjustments in response to the impact of inflation in raw materials, ingredients and logistics costs, and continue efforts to improve productivity and reduce costs; and
- Accelerate initiatives for business growth with a long-term viewpoint.

The processed food business has two operational components. Core products for the frozen and ambient food business include frozen udon noodles, packaged cooked rice and *okonomiyaki* (Japanese savory pancakes), and those for our seasonings business include yeast extract and oyster sauce.



Business environment

SWOT analysis of the processed food business



Performance over the last five years

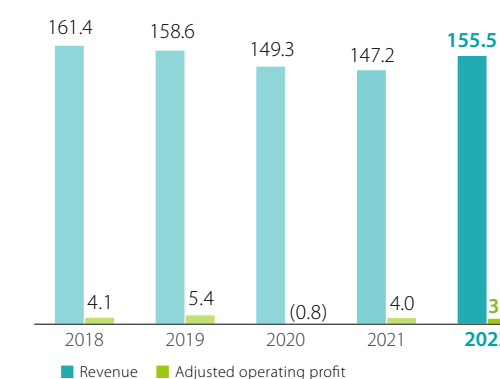
Revenue was mostly flat, but the core processed food category continues to trend toward long-term growth. Adjusted operating profit has been holding up fairly well, bolstered largely by product-mix improvements and an optimal production system promoting lower costs, except in 2020, when the pandemic affected the business. However, it will be important to closely monitor the impact of labor and logistics cost inflation stemming from labor shortages and of international market and exchange rate movements on costs for raw material and ingredients.

We reported a year on year increase of 5.6% in revenue for 2022, due mainly to price revisions to counter cost increases in the frozen and ambient food and seasonings businesses.

Despite revenue growth owing to price revisions, adjusted operating profit fell by 11.3% year on year with inflation in raw materials and other costs, negative exchange rate

effects, and one-time income from an insurance claim recorded in 2021.

Revenue and adjusted operating profit (JPY BN)



Processed food business

Sustainability initiatives through business activities

Case study 1: Offering free-from food “BEYOND FREE” reduced-ingredient foods selected for flavor

In the processed food business, we are working to develop and provide high-value-added products so that everyone can freely enjoy what they want to eat, while staying close to the diversifying values and interests of our consumers. As part of this effort, TableMark Co., Ltd. provides authentic and delicious free-from food in the “BEYOND FREE” category, where specific raw materials and ingredients are excluded.

Currently, it offers “BEYOND FREE” products through the Shoku-tasu online store in three groups: foods free of specific allergens, foods free of animal ingredients, and low-carbohydrate/low-sodium foods. By offering these products we are working to support everyone with the freedom to enjoy what they want to eat.



Case study 2: Biomass plastic as a raw material for packaging

The processed food business manufactures and sells products made from processed rice, such as packaged cooked rice and frozen rice. These manufacturing processes result in “crushed rice,” which can no longer be used for production. In a first for the industry, we are now using the domestically developed carbon-neutral biomass plastic RiceResin[®], which contains 10% crushed rice generated by our Group, as raw material for packaging some of our cooked-rice products. In addition to using RiceResin[®], we have reduced the amount of petroleum-based plastic in our packaging by around 4.2% compared to conventional products. We have done this by making the exterior film even thinner.

* RiceResin[®] is a registered trademark of Biomass Resin Minamiuonuma Co., Ltd. Old rice that is not edible and crushed rice generated during rice milling are upcycled into plastic using new technology



 **RiceResin[®]**

We are also shifting to environment-friendly containers and packing materials, including the use of biomass-based inks for product packaging and originally developed compact trays with less plastic ingredients for packaged rice, expanding our effort to reduce environmental impact.

Our sustainability strategy and focus areas

In the processed food business, we selected three focus areas and set eight specific targets for these focus areas in 2019 and have been reporting on progress every year. For details see “KPI progress.”

KPI progress



Four perspectives on food safety management

To deliver safe, high-quality processed food for consumers, processed food business have established four priorities to ensure that food safety is deeply embedded within our operations. We embrace our responsibility to positively address social challenges with our consumers through continuing effort to enrich every heart through food, the sustenance of life.



Food safety standards

We make sure that all of our factories* are certified to the global food safety standard FSSC 22000. FSSC 22000 is recognized by the Global Food Safety Initiative (GFSI), the food industry’s global body for promoting food safety management. All the factories contracted to manufacture our products are required to meet food safety standards such as ISO 22000 or FSSC 22000, as an assurance that an adequate food safety management system is in place.

*One of our factories, which started operating in 2020, is on track to acquire this certification

Food defense practices

Food defense is about protecting our manufacturing processes and products from intentional contamination. We apply robust food defense guidelines across the supply chain, both in our own factories and our contracted factories. We also carry out annual audits to check how well these guidelines are being implemented.

Enhancing food quality

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

Further food communication

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

▶ Read more on [JT.com](https://www.jt.com).

The Group's sustainability initiatives

Improving our environmental impact

Our approach

Climate change and other environmental issues are of increasing societal concern. Our operations impact the environment through resource usage, emissions, and waste generation, as do most industries. The environment also directly impacts our business. As a global organization, we recognize that we have a key role to play in reducing our impacts in own operations and across our value chain. Our sustainable business practices allow us to conserve resources, reduce waste, manage costs, and meet the growing consumer demand for eco-friendly products.

► Read more about our approach in the [JT Group Environment Policy](#).

The JT Group Environment Plan 2030

Our JT Group Environment Plan 2030 sets objectives and targets to address our key environmental risks and opportunities across three focus areas: energy and Greenhouse Gas (GHG) emissions, natural resources, and waste. The targets for GHG emissions reduction by 2030 are in line with science-based thinking and in 2022 the JT Group attained validation of its targets from the Science Based Targets initiative

(SBTi). The JT Group Environment Plan 2030 includes qualitative and quantitative targets. We regularly disclose our progress toward targets and our environment-related activities on [JT.com](#).

► Read more about our targets and progress in the [JT Group Environment Plan 2030](#).

Achieving Net-Zero in our entire value chain by 2050

We have now set new targets to help decarbonize our business operations. We are making steady progress toward achieving our 2050 goal – see our road map on [P. 79](#).

	Target	Progress
Energy	We will increase the proportion of renewable electricity that we use to 50% by 2030 and 100% by 2050.	The proportion of renewable electricity that we used in 2022 has increased by 24% from the 2019 base year.
Emissions	We commit to reducing absolute Scope 1 and 2 GHG emissions by 47% in line with a 1.5°C reduction pathway by 2030 from a 2019 base year. We commit to reducing absolute Scope 3 GHG emissions associated with purchased goods and services by 28% by 2030 from a 2019 base year.	Our 2022 Scope 1 and 2 emissions have reduced by 16% from the 2019 base year. Our 2022 Scope 3 emissions associated with purchased goods and services reduced by 11% from the 2019 base year.

Environmental management system and reporting

In our more complex operations, we align our approach to environmental management with internationally recognized standards – ISO 14001 and ISO 50001. In our smaller and less complex operations in Japan, we have implemented our own “JT Green System.” We use external disclosures and ratings

agencies, such as CDP, to review our approach and performance. We have been conducting climate scenario analyses since 2019, and we endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2020. Read the results of our latest scenario analysis on [P. 80](#).

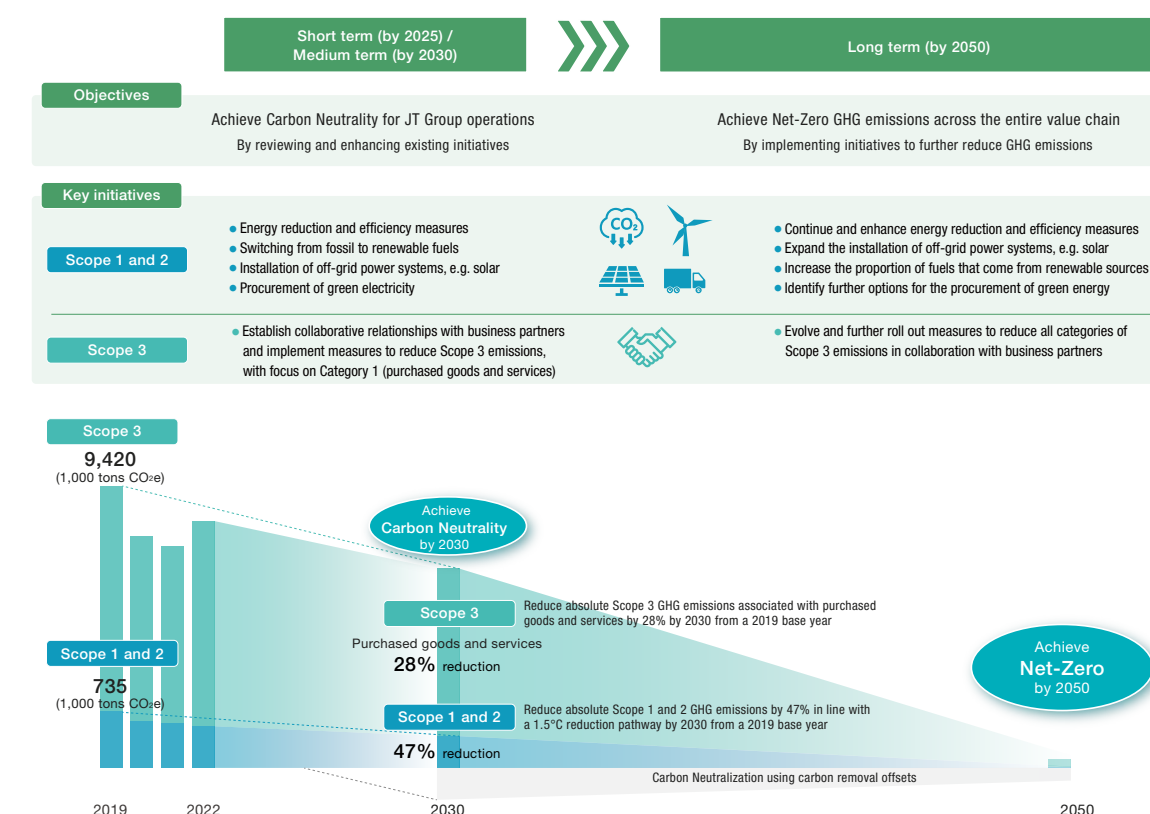


Road map to Net-Zero

Addressing climate change is nothing new for the JT Group and we've achieved a lot over the last decade. Now, we have set up science-based targets and a Net-Zero commitment

to accelerate our efforts. We will achieve Carbon Neutrality within the JT Group's own operations by 2030, and Net-Zero throughout the entire value chain by 2050.

How the JT Group plans to achieve Net-Zero



Note: These are the plans as of May 31 2023, and they are subject to revision in accordance with future business strategies

Conservation of biodiversity

For the JT Group, the conservation and enhancement of biodiversity starts with understanding how our business can impact, and can be impacted by, biodiversity and ecosystem services, such as pollination, soil fertility, water purification, and climate regulation. Our biggest impact is in the direct leaf supply chain. So this is where we focus.

In Brazil, we have partnered with the LIFE Institute, adopting the LIFE methodology for business and biodiversity. This methodology enables a clear and objective analysis of impacts (positive and negative), risks and opportunities in a business's relationship with biodiversity. It also enables

evidence-based environmental investment decisions.

We have used the LIFE methodology to evaluate our direct impacts, including those of more than 10,000 integrated farmers, for six years.

JTI Brazil participated and presented our efforts, as a LIFE partner, at the UN Biodiversity Conference, COP15, in Montreal in December 2022. It was recognized as the only case involving such a huge group of suppliers applying biodiversity metrics together. We aim to be the first company in this sector and agribusiness to attain LIFE certification.

The Group’s sustainability initiatives

Improving our environmental impact

Climate change

Climate change is the biggest environmental challenge facing society and our business. The effects of climate change, such as global warming and modified weather patterns, will have serious implications for our supply chain, given that our products are mainly agriculture-based, but also for our own operations based in various locations around the world. We are committed to tackling this issue. That’s why we are reducing our Greenhouse Gas (GHG) emissions to support the global action to address climate change, with the longer-term aim of achieving Net-Zero carbon emissions from our value chain. In February 2022, we committed to being Carbon Neutral for our own operations by 2030. We also aim to achieve Net-Zero for our entire value chain by 2050. In support of this, we have set more ambitious 2030 science-based reduction targets and in 2022 they were validated by the Science Based Targets initiative (SBTi) as being in line with the 1.5°C scenario.

Our approach to addressing climate-related risks is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.

Indicator	Description
Governance	<p>Climate-related issues are of strategic importance to our business. Through our business-wide enterprise risk management process, we have identified climate-related risk as one of our enterprise-level risks for our tobacco business, which also needs to be considered in local risk inventories and assessment processes. Board oversight is critical and climate-related issues, especially those that may have impacts on business strategy, are brought up in quarterly Board-level meetings. See P. 102 for ESG-related index to executive remuneration.</p> <p>▶ Our corporate governance position and structure can be found on the JT website.</p>
Strategy	<p>Through climate scenario analysis performed in 2019, we identified two main risks: “potential cost increases due to governments raising carbon taxes to further reduce GHG emissions” and “the impact on leaf tobacco growing due to changes in environmental conditions.” Our plan is to mitigate these risks by continuing to implement climate-related initiatives across our value chain and address areas for improvement.</p> <p>▶ See the JT website for general information on environmental initiatives and Risk factors (P. 116).</p>
Risk management	<p>We consider climate-related risks and identify risk mitigation and management approaches through our enterprise risk management (ERM) process.</p> <p>We also include these risks in local risk inventories, assessment processes, and action plans, which are partly based on our ongoing country-level climate scenario analysis.</p> <p>We will compare business-wide risks from local assessments and identify the most critical ones.</p> <p>▶ See the Country-Based Climate Scenario Analysis.</p>
Metrics and targets	<p>Our Group Environment Plan 2030 includes a commitment to reduce GHG emissions from our own operations by 47% (2030 versus 2019). We have also set a longer-term GHG emissions reduction target, as well as targets for renewable electricity, backed by our Group-wide climate scenario analysis.</p> <p>▶ Read more about the JT Group Environment Plan 2030, Environmental data/External verification and Data calculation, consolidation methods on JT.com.</p>

Scenario analysis

Transition risk: Carbon pricing

Increases in carbon tax may increase procurement cost of tobacco leaf and other materials and services. It may also lead to additional company expenditure due to tax increases for the Group's direct operations. If a carbon tax is imposed on raw or secondary materials, or services used in each phase of the agricultural value chain (e.g. agricultural chemicals, agricultural machinery, processing machinery, storage and distribution), then the JT Group will bear the additional cost and/or transfer cost to the price of finished goods.

See the [Details of Climate Scenario Analysis](#).

Impact	In our climate scenario analysis, we assumed that under a 4°C scenario, carbon tax will increase to 3,884 - 4,640 JPY/ton of GHG emissions. Based on a 2°C scenario, it would rise to 13,488 - 15,106 JPY/ton of GHG emissions in 2050, based on the IEA World Energy Outlook 2018. In real terms, the potential financial impact would be at least 700,000,000 JPY based on a 4°C rise and at least 7,500,000,000 JPY based on a 2°C rise. We calculate financial impact by multiplying forecast GHG emissions in 2050 in regions where carbon taxes may exist, by the carbon tax level in those locations. GHG emissions in 2050 are predicted based on our expected reduction in emissions and the Company's sales growth.
Mitigation plan	We manage this risk by reducing our energy consumption through capital investment and energy saving programs, as well as renewable energy programs (onsite generation of renewable energy, purchasing green energy). We are also decarbonizing our fleet and engaging with suppliers to understand their climate-related risks and develop appropriate mitigation measures, following the JT Group Environment Plan 2030.

Physical risk: The impact on crop growth conditions

Changes in atmospheric carbon dioxide levels could affect tobacco leaf growth. There is also a risk of shifts in the presence and prevalence of tobacco crop pests and diseases related to climate change. Other risk factors include water scarcity and higher-than-average temperatures and unusual precipitation patterns. All of these could impact the availability and quality of key natural resources for the JT Group, including tobacco leaf. Such issues could occur in one or more of our tobacco sourcing countries. As a result, the cost of sourcing tobacco leaf would increase.

Impact	We assume that, based on a 2°C rise, the potential financial impact would be at least 32 billion JPY. If temperatures rise by 4°C, we could see a financial impact of up to 37 billion JPY.
Mitigation plan	<p>We manage this risk by implementing action plans to reduce the financial impact on our business. These may include shifting leaf growing regions based on the climate-related impacts we identified and implementing climate change adaptation measures (e.g. smart agriculture and breeding). We may also introduce measures to improve yield in growing regions, and to mitigate increased costs and a potential decrease in procurement volumes.</p> <p>Primarily, to date, we have managed this risk by building strong relationships with our suppliers and having a geographically diversified supply chain (for example, the JT Group sources tobacco leaf from more than 30 countries).</p>

The Group's sustainability initiatives

Investing in people

Our employees are assets to the Company; their skills and spirit are the driving force behind everything we achieve. We are recognized as an “employer of choice” around the world, and our positive workplace culture and environment help us to attract, retain, and develop talented individuals. We are also taking further steps to create a diverse, equitable and inclusive culture where everyone can feel comfortable and be themselves.

The JT Group human resources management philosophy

We believe that highly motivated employees with diverse skills and talent form the foundation of the JT Group's success and contribute to our sustainable growth. In light of this, the JT Group proactively takes steps to secure long-term engagement and employee satisfaction.



Developing and retaining talent

Today's business environment is evolving rapidly, and the COVID-19 pandemic created additional pressures. To attract, develop, and retain motivated employees with diverse talent, we provide all JT Group employees with growth opportunities, in addition to remaining flexible, for example by adapting to remote ways of working.

We have implemented various global and regional learning programs to upskill our diverse employees. Many of our courses are offered online, enabling employees to develop

new skills even remotely. We constantly invest in our employees, including at a managerial level, to ensure all employees flourish in their careers.

We believe that providing many different development and career opportunities combined with flexible ways of working is essential to improve employee engagement, which leads to long-term employee retention, increased productivity, and improved quality of work.

Employee engagement

We measure the effectiveness of the Company's people-come-first culture through an annual employee engagement survey at the regional or department level, and a Group-wide survey every three years. The feedback we receive from employees helps us to understand our

strengths, progress, and areas for improvement. It also helps us to make the JT Group an even better place to work, so that we can attract and retain the best talent.

In 2022, we conducted a Group-wide employee

engagement survey targeting more than 50,000 employees worldwide – using, for the first time, the same questions across all our JT Group businesses globally. The survey response rate was 92%, which is 17% higher than the external benchmark. Overall, the Employee Satisfaction (ESAT) score (“How happy are you working at this company?”) was 77, below the Global Top 10% benchmark of 81. We can infer that

the impact of major internal and external changes in the working environment, such as transformation in Japan and changes in working patterns due to the COVID-19 pandemic have contributed to the low ESAT score. Given this result, we recognize that improving employee engagement is an urgent issue and will implement initiatives at the executive level with a focus on clear and transparent communication.

Diversity, equity and inclusion

Motivated employees with diverse talent are the bedrock of our success. The JT Group has employees of over 100 nationalities, and establishing a diverse, equitable and inclusive workplace for all our employees to enjoy their work and perform to the best of their abilities is therefore a top priority for us. We respect different backgrounds and values, such as age, gender, sexual orientation, disability, ethnicity, religion, and nationality, as well as experience and expertise. We believe that a diverse workforce brings a rich mix of viewpoints and perspectives, which can inspire new ideas, lead to solutions to complex issues, and drive our business forward. Our continuous efforts to promote a diverse, equitable and inclusive culture in our workplace have been recognized by numerous awards externally.

► Read more about our external recognition on [P. 128](#).

Gender equality: Women in leadership

We are committed to promoting gender equality in our workplace to attract, develop and retain diverse skills and talent. To further empower women, we hold workshops for top management and line managers, as well as training and seminars for female employees. Our new Group-wide target for women's representation in leadership is to reach 25% by 2030. We find it desirable that this should be more than 40% over time.

New Ways of Working (N-WOW)

Recognizing that different people have different working styles and needs, we promote a workplace environment that allows all employees to fulfill their potential. N-WOW is a movement to boost flexibility and employee retention.

In July 2021 our tobacco business set out its N-WOW global guidance for the employees, which became a global policy in July 2022, adopting a hybrid way of working that focuses on outcomes rather than time spent in the workplace. Employees now have the flexibility to work up to 50% of their time per month away from the office, benefit from flexible core hours, and work up to 10 days abroad, among other measures which redefine where and how work is done. In Japan, we introduced full-time flexible working and no-limit remote working in February 2020. Our approach towards new ways of working is still evolving.

A family-first approach

In 2021, we introduced a new family leave policy for our tobacco business. The policy grants 20 weeks of paid family leave, regardless of gender, sexual orientation, age, or location, when an employee becomes a parent via natural birth, surrogacy, or adoption. In Japan, we have provided paid parental leave and paid spouse maternity leave, and also financial support with childcare costs.

In addition to childcare, in some countries with an aging population, we offer support for employees who look after senior family members. We will continue to work on expanding programs to foster employees' well-being.

► Read more about investing in people on [JT.com](#).

The Group's sustainability initiatives

Investing in people: Health and safety

Our approach

We believe that our employees have the right to be protected from work-related injuries and illnesses. We are therefore responsible for providing a safe working environment and promoting a culture which prioritizes health and safety.

We focus on creating safe workplaces, building safety competence, and developing our safety culture. Our health and safety standards always meet—and usually exceed—the legal requirements. Their scope extends beyond our employees to cover contractors and visitors to our operations.

Our Health & Safety Policy

Our Health & Safety Policy is driven by the following guiding principles:

- **People come first**

The health, safety, and well-being of our employees, their families, and the communities in which we operate are at the heart of everything we do.

- **Safety is everyone's responsibility**

Everyone shares the responsibility for a safe and healthy workplace, and we each have a role to play in making it happen.

- **Nothing we do is worth an injury**

We aim to create an injury- and illness-free workplace where everyone goes home safe and healthy after each day's work and where business results shall never conflict with safety performance.

- **We do the right thing**

All our offices, sales operations and factories should always comply with all national and local laws and regulations. Where the local legislation and regulatory framework do not provide adequate controls, we will adopt our own standards to protect the health and safety of our employees, contractors and visitors.

Our health and safety commitment

We strive for zero harm among our employees and to carry out all our business activities in a safe manner.

Our publicly available Health & Safety Policy establishes our overall intentions and direction for maintaining health, safety and well-being in the work environment. The Policy applies to

all employees (direct and indirect) worldwide, and to contractors and visitors on site.

In our international tobacco business, all locations must have their own Health and Safety Policy reflecting the Corporate Safety vision and principles, including commitments to the prevention of incidents, compliance with local legal requirements, workers consultation and participation on safety matters and continuous improvement. The policies must be signed by senior management, yearly reviewed, and communicated to all staff and contractors.

Efforts to reduce the risk of traffic accidents

In some countries with poor infrastructure and traffic management, our people are more at risk of being involved in road traffic accidents. With this in mind, in 2019, we rolled out a new driver safety policy and implementation guidelines across our international tobacco business. Considering the growing number of female employees, the policy also includes maternity protection for female drivers, e.g. special safety belts, additional rest time. Focusing on driver behavior, the new guidelines require local offices to conduct a risk assessment to identify high-risk drivers. They must also send periodic progress reports and action plans. In 2020, we completed a driver safety compliance assessment. The results showed that our markets and leaf origins comply 80% on average with our global guidelines. In 2021, this average increased to 85%. The assessments also allowed us to identify best practices that were then integrated into a new Driver Safety standard. This will be published in Q2 2023.

In 2022, we trained 2,194 employees. Due to the pandemic, some of the driver risk assessments and training were conducted remotely, but we also organized on-the-road training for high-risk drivers where possible. We plan to train a further 4,300 drivers in 2023.

In the sales division of our Japanese operations, we have set "prevention of vehicle accidents during sales activities" as a priority issue within our Occupational Health and Safety Plan.



Supporting employee well-being

Employee well-being is essential for us to develop and retain motivated employees and enable them to fulfill their potentials. We run a variety of well-being programs across the Group, such as ergonomic assessments and ensuring general occupational hygiene.

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

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

In our Japanese operations, in addition to occupational safety and health activities, we are building a comprehensive health support system under the leadership of our CEO. For

example, we have recruited on-site health staff at 11 key locations across the country, to help employees take care of their physical and mental health. Since the onset of the COVID-19 pandemic, we have continued to offer employees one-to-one interviews with our health staff via video calls. We have also continued to run online programs focusing on sleep, diet, and exercise.

In 2020 we set up a Company-wide walking challenge program. It's a sponsored walk-run in collaboration with the global non-profit organization TABLE FOR TWO, and using the health management portal site Pep Up. This initiative has created a range of opportunities to promote health, contribute to society, and revitalize the organization. We've run this event in each of the three years since its inception and twice in 2022, May and October. 6,009 of our employees took part. For every 8,000 steps one of our employees completes in a day, we donate one meal to a developing country. In the 2022 financial year, we raised 1,858,860 yen for TABLE FOR TWO.

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

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

▶ Read more about targets and progress for health and safety on [JT.com](https://www.jt.com).





The Group's sustainability initiatives

Improving our social impact

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

Our focus areas

Through long-term partnerships with local and international organizations, we have 522 community investment programs in 65 countries. Based on global and local needs, these programs help communities to become more inclusive, sustainable, and resilient. We focus on three specific issues:

1. Reducing inequalities, e.g., helping underprivileged people gain access to food and education.
2. Improving community resilience in disaster-prone areas, e.g., providing access to clean water.
3. Protecting the environment, e.g., protecting and reinvigorating forests and green public spaces.

Measurement and management

To measure the social impact of our efforts, we use the [Business for Societal Impact \(B4SI\)*](#) Framework provided by Corporate Citizenship.

In 2022, we invested around 51 million US dollars in corporate community investment in countries where we operate. We encourage more accurate reporting and measurement to ensure all of our programs deliver social impact according to our policy.



* B4SI is the global standard in measuring and managing corporate social impact

Volunteering opportunities

Volunteering brings mutual benefits for employees, our business, and the community. It also enables our teams to make a positive impact in the communities where they live and work by sharing their skills and knowledge.

We actively encourage our employees to take part in

volunteering activities. We do this by organizing programs and events, or by providing the necessary resources (funds through corporate matching, employee time, in kind, or employee donations).

► Read more about improving our social impact on [JT.com](#).



Respect for human rights

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

A five-pillar strategy

Our human rights strategy is based on five pillars listed to the right. This circular approach provides a systematic way of conducting ongoing due diligence and is in line with the UN Guiding Principles on Business and Human Rights, the Organisation for Economic Co-operation and Development (OECD) guidelines, and the Food and Agriculture Organization (FAO) guidance on responsible agricultural supply chains.

1. Embed
2. Identify and prioritize
3. Respond
4. Measure
5. Report

Our human rights due diligence

In line with the UN Guiding Principles, we have made human rights due diligence an essential and integrated part of our business. This enables us to identify and assess actual and potential human rights risks. Embedding human rights due diligence – which is in part informed by our widely applied Human Rights Impact Assessments – is our responsibility. It helps us to prevent adverse impacts on

people and ensure the highest standards of behavior are upheld within our business and value chain. In 2022, we assessed two new markets: Bolivia and the Philippines. We also conducted three leaf supply chain impact assessments in Brazil, Indonesia and Tanzania.

► Read more about respecting human rights on [JT.com](#).

JT Group Human Rights Report

In 2021, to coincide with the 10th anniversary of the UN Guiding Principles, we published our first standalone JT Group Human Rights Report, which examines the potential JT Group human rights risks arising from our worldwide operations. The report identifies nine salient human rights issues. It sets out how we are going about improving our performance.

► Read the [JT Group Human Rights Report](#).



GOVERNANCE

To make transparent, fair, agile and courageous decisions in our pursuit of the 4S model, the JT Group operates a self-governance system. Through strong governance we work to realize the sustainable medium- and long-term growth of profit and corporate value, while contributing to the prosperity of our stakeholders, the economy and society at large.

Encompassing a wealth of facts related to the JT Group's governance, this section also presents a roundtable discussion among the board chair and Outside Directors focusing on our initiatives and challenges in maintaining good governance.

- 090 Executive roundtable
- 096 Corporate governance
- 104 Management structure
- 110 Internal controls

Executive roundtable



Mutsuo Iwai
Chairperson of the Board

Main Kohda
Independent Outside Director

Yukiko Nagashima
Independent Outside Director

Masato Kitera
Independent Outside Director

Tetsuya Shoji
Independent Outside Director

In a recent roundtable talk, our chairperson and Outside Directors discussed what JT can do for the future of the Group and society from the standpoint of governance. Here are some highlights.

How do we view the JT Group's governance?

Corporate governance in pursuit of the 4S model, our management principle

Iwai As a corporation with an Audit & Supervisory Board, JT manages its organization and businesses with objectivity and neutrality, and has been enhancing its supervisory functions. In addition to slimming down the Board of Directors and introducing an Executive Officer system, in 2012 we brought in Outside Directors, which now hold four of the nine Board of Directors' seats. We have built an effective corporate governance system through measures including the establishment of the Advisory Panel on Nomination and Compensation, comprised entirely of directors who do not serve as Executive Officers, more than half of them Independent Outside Directors.

The JT Group believes that corporate governance is a framework for transparent, fair, timely and decisive decision-making in pursuit of the 4S model, our core management principle. Good governance is a priority issue in the recently revised JT Group materiality, and we are working to further enhance governance to ensure that we remain a corporation that can fulfill and win the trust of our many stakeholders.



Kohda I have had the pleasure of working with the JT Group as an Outside Director since June 2012, when the office was first established, and I've enjoyed many opportunities to visit Group operations and tobacco sourcing regions in several countries. Most recently I visited a subsidiary in Brazil, where I was impressed with how well and consistently the organization has absorbed the 4S model. The plant makes and demonstrates the policy of worker safety first, and the growers are treated as the center of leaf-tobacco production. In multiple situations I have been able to experience how much the Company cherishes its people.

At JT, every discussion, decision-making processes and response to negative events refers to the 4S model, with its focus on four kinds of stakeholders. I can't think of another company in which these management principles have so thoroughly penetrated. I think this is a JT Group strength.

Nagashima I feel the 4S model has become the very flesh and blood of the JT Group, to a surprising degree. I think we can fairly attribute this to the great deal of time the Company has allowed for the model to become established as part of its mission to do the tobacco business right. I think the 4S model has permeated the organization through the daily practice of doing business right in accordance with the 4S model.

Kitera I feel JT has learned and come to embrace the important aspects of governance through years of challenge in the tobacco business. I'm confident that the organization has integrated good governance practices due to the broad understanding that unless good governance reaches across the entire Group, not just the head office, this business would not be possible.

Shoji For good governance to reach throughout an organization, I think the diversity and inclusion of its board means a lot, which we see in the Outside Directors on the JT board. With different backgrounds and specialties, each of you views and handles things differently. In not accommodating your views or concerns to suit JT practices, you each bring unique experience and ideas to the table in making decisions. I believe our ability to discuss matters from diverse viewpoints leads to more effective advice and support for decision makers. I feel strongly that the Company seriously considers the opinions and perspectives we offer.

Iwai We created the 4S model when JT first went public, thinking what the Company should be moving forward. Having been personally involved in the work of making and promoting the model over the years, I'm delighted to know that our effort has successfully reached those on the production floors and work fronts. In Japanese the word "governance" is usually translated to mean "management and oversight," but its original meaning is to grasp the helm and steer. So I think that within JT, governance should mean paying close attention to the JT Group Purpose we've just established and applying the 4S model in steering the JT Group ship on the right course. As we move forward we make it a rule to follow only the correct course and avoid shortcuts, even if there is one, and given that conviction we are able to take some risks along the way. It's my job to build an environment where you, the Outside Directors, can speak frankly to help JT on a successful voyage.

What do you think are the main challenges for JT governance?

Nagashima If there is an illness called "overserious governance," we'd better check to be sure that JT doesn't have it from time to time. I say this because JT's culture is to do everything seriously, and the flip side of that is overdoing it and harming ourselves, which we have to watch for. If governance is steering the ship, as Mr. Iwai has said, we have to keep building our helmsmanship skills. That by itself, I think, indicates self-evolution, and to do that we have to continually ask why we're doing it and maintain a balanced view.



Kitera In Japanese society the means to the goal often becomes the goal. When I ask people in other companies why they are doing a given thing, for example, I often hear, "doing it is meaningful by itself." This is my second year at JT as an Outside Director, and I've yet to see the means to the goal become the goal itself here. This I think is a strength of JT in operating globally. I have no doubt that here at JT, goals are set in pursuit of what is essential.

Executive roundtable

Shoji Ensuring that the 4S model and the new JT Group Purpose spread throughout the organization will remain a continuing challenge. As our Tokyo head office manages our operations, including the large-scale tobacco business, we have to be sure we are steering in the right direction, with the right touch. At the same time our domestic and international tobacco businesses are now operating under a unified team, with head office functions moved to Geneva, and a range of functional shifts are moving forward, including the delegation of authority. As this progresses I understand we are taking a fresh look at how we govern international operations from Japan. With the JT Group Purpose and 4S model as shared touchstones, I think they will generally guide our decisions.



Kohda Taking a bird's-eye view, JT has what we might call "square" DNA, because it began as a government corporation with exclusive rights to market tobacco products. Our people are serious, nearly to a fault, and the agenda items that come up in board meetings are perfectly prepared. That said, JT people are not satisfied with perfection. Their DNA demands constant improvement. When I need something explained and ask a tricky question, they look into it seriously and take specific action. I think that may be an important driver that's brought JT to where it is today. While I think seriousness is an important quality, being too square can make us inflexible or overcautious, leading to missing good opportunities.

JT is a global company, making active social contributions through taking leadership in Japan in promoting diversity and inclusion in workplaces, but from my perspective JT has sometimes been too modest. I'd like JT to further show the

world how it is embracing these challenges and pushing for excellence. We may need to work harder to communicate that about ourselves.

Iwai Ms. Kohda often tells me JT should work harder on more PR. (laughs)

In deciding between perfection and speed, JT seems to be biased toward perfection. That said, it can sometimes make big decisions surprisingly fast. From the governance standpoint it would help with the evolution of our decision-making if we on the board undertake more frequent and precise reviews of major investments. In that context my personal challenge is to eliminate, even if imperfectly, the asymmetric distribution of information between Outside Directors and Executive Officers. I'd like to encourage you to engage in discussions while actively exchanging opinions with regular employees.

JT is reliably functioning as a corporation with an Audit & Supervisory Board. In the medium term, I think it's also important to regularly examine whether JT's governance system is reliably functioning, while deepening our understanding of what society demands of us, such as the Corporate Governance Code.

What is your hope for the JT Group Purpose, and what role should the Board of Directors play in actualizing that Purpose?

Fulfilling Moments, Enriching Life

Kitera I think the recently established JT Group Purpose is brilliant in ways that no other company has shown. This has a lot to do with the difficulty of the tobacco business, which we cannot overcome without this Purpose. If we were to take what the Company does now for granted and write it down as the Purpose, we wouldn't need it. The Purpose is there to help us to go beyond what we're doing now. Executive Officers should use the JT Group Purpose as a guiding star in promoting internal discussion that leads to real action.

Shoji You're right on point there. Now we have a way to be clearer that what we offer society, markets and consumers as we do business serves the purposes of what we do. I think we're ready with ways to increase the value of our people, while allowing everyone in the firm to confirm the meaning of their personal commitment to our business.

Kohda I take the JT Group Purpose to be an immensely deep theme. Roughly speaking it's about something at the root of capitalism and human life. People have been pushing straight toward affluence. There is justified concern, however, that we have sacrificed a lot to get there. JT raises this question and is prepared to rise to the challenge. It encourages its employees to explore this kind of awareness for themselves and go deeper. I want JT to take its time in cultivating and extending the Purpose.



Nagashima In creating the Purpose I didn't ask the project team to make something pretty, but rather I emphasized the importance of maintaining a process in which everyone feels ownership of the result and can proudly say, "This is our Purpose." I'm very happy to know that so much time went into that process. It did take time, but I think it's wonderful that each person involved is able to own it and give it life.

Iwai In discussing the Purpose we went deeper on two points: how society will change and what we can do. In a society where, following various developments, efficiency is given too much value, we projected that bringing our humanity back would be more important

than ever. We thought the "fulfilling moments" that tobacco products offer, much as luxury products do, would be meaningful to future society rather than just useful, and thus would continue to be highly valuable. That thinking led to the Purpose.

Because the ability to enjoy such moments is a subjective concept, different for each person, we know we can't make them happen for everyone. What we can do may be limited given such diversity in the concept, in addition to different time frames and various life situations. In discussing existing and future business and new products and making decisions in board meetings, I don't think of the Purpose as all-encompassing or almighty. I think it would be great, though, if we can, within its limitations, discuss the points connecting what JT can do with what society wants.

Kohda I think that JT is an organization in which people, including us directors, put lots of enthusiasm into discussions that might seem naive to outsiders. I think it's a good quality, in any case.

Shoji Every person sees and interprets this concept differently. But the Purpose clarifies the grounds for our decisions as we work to be a company that suggests ways to experience fulfilling moments. We four Outside Directors each have different metrics for them. Board meetings are forums for discussing that kind of difference in viewpoint, where what you called "naive" discussions are practical, I think. We need to always look back to the beginning. Given that the definition of what the Purpose embodies will change with time and technologies, how can we incorporate it in our products and services? It's sobering to think about our responsibility to evolve the board to support this kind of visioning from the viewpoints of consumers, markets and society.

Kitera When you mention naive discussions, I recall that I felt much the same in the diplomatic community I was part of before. Whenever we discuss what or how to do things, if we don't begin with naive discussion, we may get off on the wrong foot. So now I feel I'm up for a lot of naive discussion to help find our best path.

Executive roundtable

Nagashima Count me in for naive discussion as well. At the same time, I want to help measure up to market expectations, with a certain urgency in mind.

Attitudes toward board discussions

Kohda Before each board meeting JT provides us with detailed explanations of the agenda items. Recently it's become regular practice for the four of us to attend the briefings together. Those sessions ahead of the meetings are important opportunities for sharing information and exchanging views, and I am allowed to ask pointed questions. I always get detailed feedback from the Executive Officers. In any discussions I feel well-informed, not just of the specific subject but of the related risks and actions involved as well. That's why I strongly feel that JT maintains a fair discussion practice.



Shoji This is only my second year as an Outside Director, so there's a gap between you three and me in terms of the information I have, of course. In briefings ahead of board meetings I'm able to check the historical background of a given topic, and I can also catch up with the others when I get private briefing time. So my knowledge on agenda topics is deeper by the time the board meeting happens. In the board meetings of other companies, I often see agenda items that are not fully explained, obviously showing the desire of the Executive Officers to push them through. JT's fair approach to raising agenda items and more transparent discussions are very helpful.

Nagashima The asymmetric distribution of information that Chairperson Iwai mentioned is an important difference between us and those who have been Executive Officers at JT. We can't bridge that gap, and we mustn't try to bridge it by force. I think it's important to stay aware that the value Outside Directors can contribute is all the greater for that asymmetry.

Transparency of information is also important. A given fact can be seen from different perspectives, but the fact itself must not be omitted. At JT, this is assured.

Kitera I don't think the functions of Outside Directors are the same for all corporations; they vary depending on each situation. At JT I feel a good breathing balance between Outside Directors and Executive Officers. There are times when we Outside Directors have to oversee Executive Officers to fulfill our intended function. At JT I feel that's handled successfully, by both parties breathing together rather than unilaterally, dominated by "supervisors."

Dialogue with capital markets

Kohda When I came in as an Outside Director in 2012 there were 51,000 JT shareholders. By the end of 2022 that grew to over 700,000. Despite divestment by institutions, I understand that JT remains trusted by individual shareholders because it maintains a rock-solid financial base and reliable shareholder returns.

In watching what some individual investors abroad have been doing, totally disregarding what's happening to the corporations they invest in, I strongly feel that we should communicate with individual investors, from the PR standpoint in addition to IR, to inform them fully and accurately. I think this is one of the major challenges JT will have to embrace. I'm aware that JT is able to operate with the support of individual investors, so I've been stressing the importance of communication, which boils down to how we respond to that fact.

Nagashima Looking back over the year I notice a record-high percentage of individuals among JT investors. On the markets institutional investors are more active, and we have to conduct higher-quality and more active dialogue with them. So we're running a study group focusing on this. Taking a fresh look at where JT stands now, Executive Officers are discussing how to approach investors for dialogue as well, as a high priority. We Outside Directors have been given opportunities to get updated on what's been decided by the Executive Officers, including examination to determine whether a decision is truly the right one. On those occasions we can take advantage of the differences in viewpoint between Executive Officers and Outside Directors. I think it would be wonderful if we can use the energy those differences generate as opportunities to improve our knowledge.

Iwai We are working to increase the satisfaction of the capital markets and shareholders in accordance with the 4S model with a sense of great responsibility. Through deep discussions about specifically how we should express that responsibility, we continue to clearly inform them about our capital policies, investment priorities and shareholder returns.

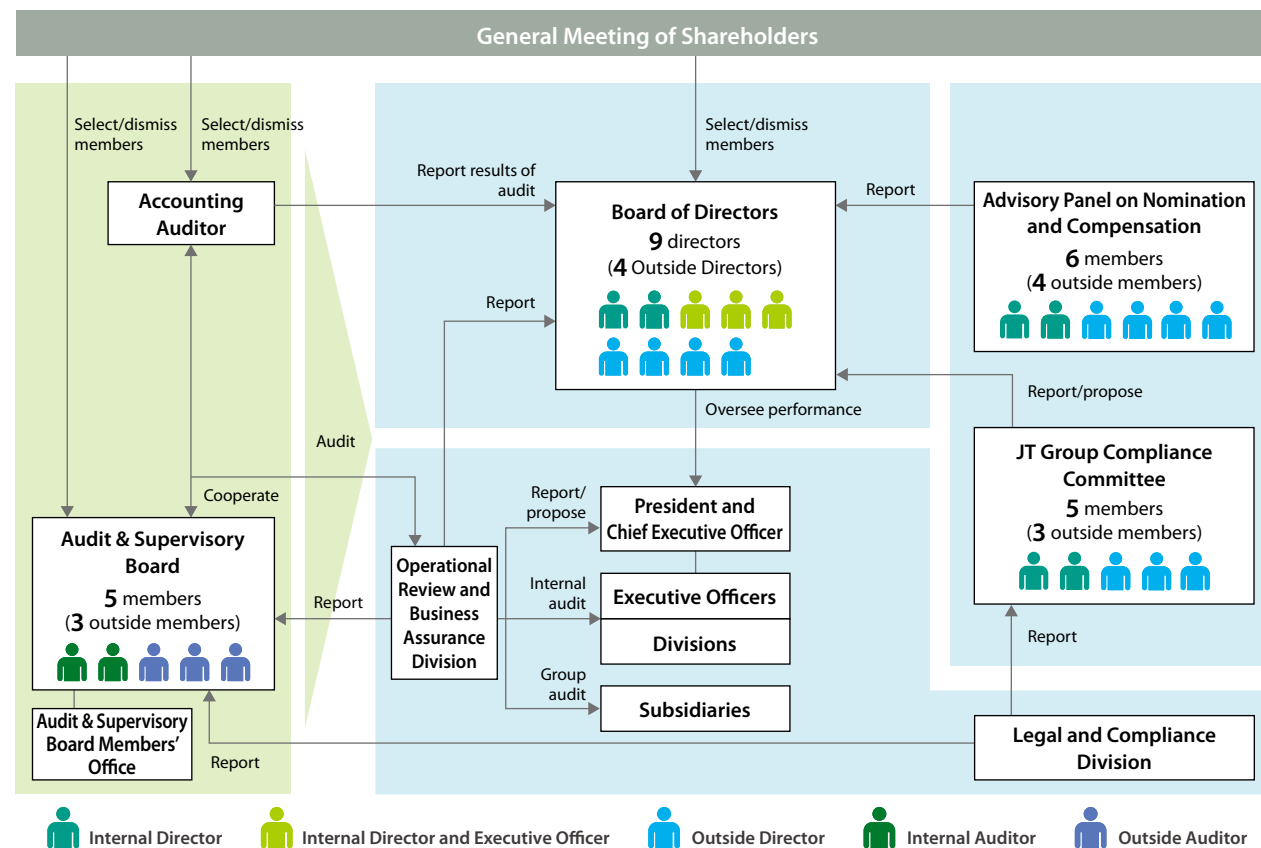
The new Purpose clarifies the direction JT should take for the long term, so we should follow through on what we promise with specific actions and return the results to our stakeholders—in other words, deliver value to our shareholders, investors, consumers and employees. We will face various challenges along the way, but we're committed to discussing with the board how to overcome them and evolve our strategies for the better.



Corporate governance

Corporate governance structure

Our corporate governance system



Basic policy

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

We have established the JT Corporate Governance Policy in recognition that improvement in corporate governance is conducive to sustainable profit growth and corporate value.

over the medium and long terms, benefits our stakeholders and, in turn, helps to move the economy and society forward. We believe that the Corporate Governance Code has high affinity with the 4S model, and fully comply with the principles of the Corporate Governance Code, which includes the principles of the Prime Market.

We will endeavor to continuously enhance our corporate governance as a key management priority.

Please visit [our website](#) for more on the JT Corporate Governance Policy.

Rationale behind current governance regime

We are strengthening objective and impartial management oversight functions by positioning an independent and fair Audit & Supervisory Board that appropriately oversees the job performance of Executive Officers and Members of the Board (hereinafter Directors).

We have built an effective corporate governance regime under the Audit & Supervisory Board's oversight. It includes the JT Group Compliance Committee and the Advisory Panel on Nomination and Compensation, both established voluntarily. The former has outside experts serving in key roles; the

latter is comprised entirely of Directors who do not serve as Executive Officers, and more than half of its members are Independent Outside Directors. We have also streamlined our Board of Directors and expedited operational execution by delegating authority to Executive Officers.

We continuously seek to improve corporate governance and increase management transparency and objectivity through,

for instance, the appointment of an additional Outside Director and outside Audit & Supervisory Board Member in 2019 and further appointment of an additional Outside Director in March 2022. Through such measures, we settled upon our current corporate governance regime as we believe it functions effectively with respect to operational execution and oversight.

Board of Directors (met 13 times with 98% attendance rate in fiscal 2022)

Our Board of Directors is responsible for setting JT Group management strategies, making decisions on important matters and overseeing all operations. The Board meets once monthly as a general rule, and meets promptly whenever necessary, in order to make a decision with regard to the important matters, including those specified by laws and regulations, and to supervise business execution. It also receives reports on the state of operational execution from the Directors. It includes at least one-third of Independent Outside Directors with qualifications conducive to sustainable profit growth and the increase of corporate value in the medium and long terms in order to strengthen the

supervisory functions and make management transparent.

In March 2022, we amended the term of the Board of Directors to one year from the previous two-year term in order to build a management foundation to address the changes in the business environment in a timely manner and to strengthen our corporate governance by clearly defining the responsibilities of the Directors and enhancing trust with shareholders. The Board discussed important matters including the Business Plan and nomination of Executive Officers in 2022.

Advisory Panel on Nomination and Compensation (met 7 times with 97% attendance rate in fiscal 2022)

The Advisory Panel on Nomination and Compensation's purpose is to render the Board's decision-making more objective and transparent, and to upgrade the Board's oversight functions by having the Board deliberate on executive appointment and remuneration in accordance with results of deliberation in the Panel. Its specific roles include supporting the growth, including succession plans, of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of designated Directors and Directors also serving as Executive Officers; and reporting the results of deliberation on remuneration of Directors and Executive Officers. In order to ensure its independence and objectivity, the Panel is comprised entirely of Directors who do not serve

as Executive Officers, in which more than half of its members are Independent Outside Directors. The Panel determined to elect a member from the Independent Outside Directors as its Chairperson starting March 2022. Ms. Main Kohda was elected as the Chairperson for 2023. In 2022, the Panel met to discuss changes to decision-making regarding the selection of a chairperson for the Panel from among the Independent Outside Directors based on mutual election; review remuneration levels; review executive candidates; decide on candidates for the Board of Directors and Audit & Supervisory Board nominations and discuss the development of a skills matrix; discuss revisions to remuneration for directors; and review the key performance indicators (KPIs) for the executive bonus and performance share unit plan for 2023.

Audit & Supervisory Board (met 15 times with 100% attendance rate in fiscal 2022)

The Audit & Supervisory Board conducts operational and accounting audits as an independent body serving the interests of shareholders. It has five members, three of whom are outsiders, all of whom have experience in such fields as corporate management, law, finance, and accounting. The Audit & Supervisory Board Members proactively exercise their authority, including attending and speaking at Board of Directors

meetings and other important meetings as well as actively inspecting business sites. In addition, they also conduct audits appropriately from an objective viewpoint in accordance with the characteristics of the duties of the independent outside/standing Audit & Supervisory Board Members. In 2022, the Audit & Supervisory Board discussed issues including auditing policies and preparation of Audit Report.

Corporate governance

Evaluation of effectiveness of the Board of Directors

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

For 2022, the questionnaire was administered as outlined below.

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

- Questionnaire drafting period: Sept.–Nov. 2022
- Period for evaluation: 2022 (Jan. 2022–Dec. 2022)
- Response period: Nov. 25, 2022–Dec. 9, 2022

- Participants: Total of 15 Directors and Audit & Supervisory Board Members
- Summary: Evaluation of each question (5 grades) and open-ended response entry
- Discussion by the Board of Directors: Feb. 22, 2023

Main evaluation items are as follows:

1. Role, function and composition of the Board of Directors (6 questions)
2. Operation of the Board of Directors (8 questions)
3. Collaboration with auditing organizations and risk management (3 questions)
4. Relationships with shareholders and investors (3 questions)
5. Voluntary committees (2 questions)
6. Issues for enhancing deliberation and sharing (1 question)

Evaluation items were also properly reviewed to ensure they cover matters that require continued verification. In addition, questions were formulated to confirm the status of improvements concerning issues raised in 2021.

In 2022, the following initiatives were conducted for issues identified in the effectiveness evaluation pertaining to 2021.

Key issues	Initiatives in detail
<ul style="list-style-type: none"> • Initiatives to further improve the quality of deliberations and discussions • More robust discussions from a long-term perspective 	<ul style="list-style-type: none"> • Continued improvements in the Board of Directors operations • Further expansion of opportunities to discuss medium- and long-term strategies, etc. • Further expansion of progress reporting and information sharing on key measures, etc.

As in 2021, the Board effectiveness evaluation for 2022 yielded generally positive results across all evaluation items. It confirmed that the Board is functioning not only effectively but increasingly so. In particular, the permeation of the 4S model as the guiding principle to which the Board of Directors strives to conform itself is considered one of the

Board's strengths. From the standpoint of improvements since 2021, the Board was especially highly rated for the sharing of information regarding medium- and long-term strategies and progress on significant measures, etc., in a bid to improve business understanding and the exchange of opinions with executives.

For 2023 and beyond, the Board is pursuing initiatives focused on addressing the issues identified below, in order to continuously enhance the Board's effectiveness.

Key issues	The Company's action plans going forward
<ul style="list-style-type: none"> • Further enhancement of the supervisory functions of the Board of Directors • More effective and efficient operations of the Board of Directors 	<ul style="list-style-type: none"> • Creation of more robust opportunities to share medium- and long-term strategies, key issues, the status of discussions at voluntary committees, etc. • Continued improvements in Board of Directors operations, including smoother proceedings

The Company will continue to implement the necessary improvements, including the above mentioned initiatives, in the aim of further improving effectiveness.

Succession planning

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

To develop a steady stream of highly skilled, highly qualified leaders capable of excelling in the global arena, we select future executive candidates from each hierarchy through Group-wide open recruitment and nomination by top management. Our CEO, along with other senior management, are deeply involved in these selections.

Our CEO participates in meetings held to support the next-generation executives. In these meetings, participants discuss which candidates receive support to become the next-generation executives based on several factors. The first factor is based on close examination of whether they have an excellent mind of ownership, corresponding to a high sense of ethics, integrity and a broad perspective. The second factor is based on their qualifications in terms of their abilities to accomplish achievements through our Group's growth strategies as an executive or executive officer. Other factors include the consideration of objective, external evaluation and competitiveness in markets. We also formulate development programs, which provide a variety of challenging business experiences; review statuses of development based on the programs ; and hold regular

discussions on identification of the medium- and long-term challenges the candidates are facing and the policies we provide to support their growth.

Especially for those who are regarded highly qualified as our directors or Audit & Supervisory Board Members, we review their development status and deliberate to enhance a succession plan and its planning process with input from both external consultants and the Independent Outside Directors on our Advisory Panel on Nomination and Compensation.

As one example, our JT-Next Leaders Program, launched in 2013, aims to continuously cultivate young executives who will spearhead the JT Group globally.

It is open to employees in their 40s or younger who fulfil the conditions, including new recruits not yet officially onboarded. Applicants are screened objectively based on an integrated assessment with internal/external evaluation, such as human assessment, 360-degree surveys, and interviews with Executive Officers. We preferentially support the successful applicants' personal growth on a Group-wide basis over multiple years. Through such programs, we are expanding our talent pool from the bottom up age-wise as we continue to pursue reinforcement of our human resources.

Our policy pertaining to listed subsidiary's governance

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

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

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

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

Executive remuneration

Executive remuneration policy

The Board determines the policies on executive remuneration including the methodology on determination of each Director's remuneration. These policies are determined after being deliberated and reported by the Advisory Panel on Nomination and Compensation comprised entirely of Directors who do not serve as Executive Officers, in which more than half of whose members being Independent Outside Directors, in order to ensure independence and objectivity. Based on these policies, our basic concept on

executive remuneration is as follows:

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

Executive remuneration setting process

We benchmark the amount of remuneration for each Director based on a survey on remuneration for directors conducted by third parties, taking into account the remuneration levels of major Japanese manufacturers with similar sizes and profits (benchmark corporate group) that are expanding overseas. Specifically, after benchmarking the level of base salaries for directors of peer companies, and the percentage of variable remuneration including annual bonuses and medium- and long-term incentives, the amount of remuneration for each Director is determined following various calculation methods stipulated in internal regulations, based on deliberations at the Advisory Panel on Nomination and Compensation, within the maximum amount approved at the Annual General Meeting. Currently, the Board considers that the Representative Director and President is most qualified to determine the amount of remuneration for each Director with having an overview of the Company's management and performance as well as taking into account the evaluation on each Director's execution of duties. Based on this concept, the Board delegates its

determination to the Representative Director and President. The Representative Director and President determines the amount of remuneration for each Director including base salary, executive bonus, monetary compensation claims for the allotment of restricted stock remuneration plan and of performance share unit plan, based on various calculation methods stipulated in internal regulations, in accordance with deliberation at the Advisory Panel on Nomination and Compensation. The Board concludes the Representative Director and President's determination is aligned with the policies. In 2021, Masamichi Terabatake, the Representative Director and President, determined the amount of remuneration.

The remuneration for Audit & Supervisory Board Members is also benchmarked in the same way, and is determined by deliberation among the Audit & Supervisory Board Members within the maximum amount approved at the Annual General Meeting.

Composition of executive remuneration

Executive remuneration comprises of (1) monthly "base salary," (2) "executive bonus" linked to the Company's business performance in a fiscal year, as well as (3) "restricted stock remuneration plan" and (4) "performance share unit plan," both of which are linked to the corporate value in the medium and long terms. The composition of executive remuneration is as follows.

Directors who also serve as Executive Officers

For the Directors who also serve as Executive Officers, remuneration consists of "base salary," "executive bonus," "restricted stock remuneration plan" and "performance share unit plan."

	Composition	Monetary remuneration	Monetary remuneration (Performance-linked)	Stock remuneration	Stock remuneration (Performance-linked)
2022	Ratio*1	Base salary 33-42%	Executive bonus 31-35%	Restricted Stock Remuneration Plan*2	PSU*2
				25-33%	
2023	Ratio*1	Base salary 29-34%	Executive bonus 28-29%	Restricted Stock Remuneration Plan*2	PSU*2
				38-43%	

*1 The composition ratios vary depending on the duties of Members of the Board and the ranges are indicated in the illustration

*2 The ratio of restricted stock remuneration plan and performance share unit plan is about 3 to 1

*3 Under performance share unit plan, 50% is paid as cash towards tax payment

*4 The above illustration shows the ratio of remuneration composition if the "executive bonus" and "performance share unit plan" are paid at the standard amount. The above ratios could fluctuate depending on the Company's performance, share price, remuneration levels of benchmark companies, etc

Internal Directors and non-executive officers

Internal Directors and non-executive officers receive remuneration that consists of the "base salary" alone and excludes performance-linked remuneration, as they are responsible for determining Group-wide management strategies to enhance corporate value and for fulfilling their supervisory function: for example, monitoring the execution of medium- and long-term growth strategies, and others.

Outside Directors

Remuneration for Outside Directors is composed of "base salary" alone and does not include performance-linked

compensation to ensure their independence. An Outside Director who serves as the Chairperson of the Advisory Panel on Nomination and Compensation receives remuneration at a level of the amount corresponding to the duty, in addition to the remuneration level of other Outside Directors.

Audit & Supervisory Board Members

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

Components of executive remuneration

Base salary

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

Executive bonus

Executive bonus for Directors who also serve as Executive Officers will be paid as monetary remuneration reflecting the performance of a fiscal year. Core revenue at constant currency, adjusted operating profit (AOP) at constant currency, adjusted operating profit on a reported basis, profit results, and an RRP-related index, which will be used to measure the performance of the business itself, will be the key performance indicators (KPIs) for the calculation of executive bonuses, from the viewpoint of providing with shareholders shared value of the performance of the business itself, which is the foundation of sustainable profit growth, as well as the

achievement rate of profit growth, and setting indices conducive to sustainable profit growth over the medium and long terms. In calculating the amounts of executive bonuses, 15% accounts for core revenue at constant currency, 35% for AOP at constant currency, 25% for adjusted operating profit on a reported basis and 25% for profit. The ratio that performance on a reported basis accounts for on the KPIs used to determine executive bonuses has been set to 50%. Performance-linked payout is based on the KPI achievement in the range of 0% to 190% and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the RRP-related index. In a case where a Director who is a recipient of an executive bonus has carried out certain wrongful behavior, the officer involved will be required to refund a part of the executive bonus already paid.

Restricted stock remuneration plan

The restricted stock remuneration plan is designed to further enhance shared value in the medium and long terms between the Directors who also serve as Executive Officers (hereinafter eligible directors) and the shareholders. Eligible directors receive monetary compensation claims every fiscal year towards restricted shares and allocation of the Company's common share by paying all of the monetary compensation claims in kind in accordance with

Corporate governance

the resolution of the Board of Directors (the allotment being made from treasury shares). The Company enters into an agreement with the eligible directors with regards to the allotment of the shares. Although the restriction period is thirty years, in cases where any eligible director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Board of Directors, from a position as Director or any other positions separately specified by the Board of Directors during the restriction period, the transfer restrictions are removed on all of the allotted shares that the eligible director owns.

In the event that we acknowledge wrongful behavior as determined by the Board or any other wrongful act by a Director who was allotted restricted stock remuneration plan during the restriction period, all or a part of the allotted shares are acquired by the Company without any compensation.

Performance Share Unit Plan (PSU)

PSU is a performance-linked stock compensation system that aims to strengthen shared value with shareholders, to enhance company value over the medium and long terms and to commit to achieving business results over the midterm. PSU offers monetary remuneration claims and cash to the Directors who also serve as Executive Officers during the first year of the performance evaluation period, as performance-linked stock compensation. After a three-year performance evaluation period ends, attainment rates of numeric targets including earnings are determined following a review by the Advisory Panel on Nomination and Compensation. As a general rule, eligible directors receive the cash and

monetary claims after the end of each performance evaluation period. Eligible directors receive monetary remuneration claims towards the purchase of Company shares and receive the Company's common shares (the allotment is made from the treasury shares).

We determine necessary indices to calculate the number of shares given to eligible directors including each numeric target used in this compensation system and performance-linked factors following a review by the Advisory Panel on Nomination and Compensation. Profit (attributable to the owners of the parent company) has been set as a performance share unit plan KPI for the evaluation periods starting in 2020 and 2021. For the evaluation period starting in 2022, the Company has decided to introduce an ESG-related index on top of profit, in order for the Company and shareholders to seek an agreement on a mutual perspective of evaluating and being evaluated. The decision was made to enact this same change for the evaluation period starting in 2023. Performance-linked payout is set to be in the range of 0% to 200% based on the KPI (i.e., profit) achievement in both 2020 and 2021. In 2022 and 2023, performance-linked payout is set to be in the range of 0% to 190% based on the KPI (i.e., profit) achievement and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the ESG-related index.

In the event that we acknowledge wrongful behavior as determined by the Board or any other wrongful act by a Director during the performance evaluation period, the Director is disqualified from receiving all or a part of the cash and monetary claims that were planned to be paid.

KPIs for executive remuneration		
We have introduced indices such as one on a reported basis and non-financial to design a more multifaceted system for assessing our performance. We aim to evaluate our initiatives		conductive to medium- and long-term growth and further strengthen shared value with shareholders.
Executive bonus		
KPI	Purpose/Details	Ratio
Adjusted operating profit at constant currency	Assess performance of business itself which is the foundation of sustainable profit growth	35%
Profit	Introduced to share attainment rate of profit growth with shareholders	25%
Core revenue at constant currency	Assess growth rate of top line. This KPI is introduced given significance of assessment of top-line growth to realize medium- and long-term sustainable profit growth	15%
Adjusted operating profit on a reported basis	Assess business performance including FX impact. This KPI is introduced to assess current performance from a multifaceted perspective considering the balance between the constant FX basis and reported basis	25%
RRP-related index	Assess qualitatively the implementation of strategies and attainment rate regarding RRP (Reduced-Risk Products), our focus area	±10%

PSU		
KPI	Purpose/Details	Ratio
Profit	Introduced to share attainment rate of profit growth with shareholders	100%
ESG-related index	Introduced in order for us (evaluatee) and shareholders (evaluator) to seek agreement on what is conducive to corporate value For 2023, indicator for evaluation will be based on efforts to realize Net-Zero, specifically, the degree of achievement for GHG emissions reduction target.	±10%

Total amount of remuneration in 2022

Category	Total amount (JPY MM)	Total amount by component (JPY MM)				Number of eligible persons
		Base salary	Executive bonus	Restricted stock remuneration	PSU	
Directors (excluding Outside Directors)	1,399	511	514	194	180	7
Audit & Supervisory Board Members (excluding outside members)	82	82	—	—	—	2
Outside Directors	148	148	—	—	—	7
Total	1,629	741	514	194	180	16

Notes: 1. The amount of PSU in the diagram is the amount booked as expenses for 2021
2. Executive bonus and PSU are categorized as performance-linked remuneration
3. Restricted stock remuneration plan and PSU are categorized as non-monetary compensation
4. The diagram above includes a Director who retired on March 23, 2022

Maximum amount of executive remuneration

The maximum total amount of executive remuneration for all Directors has been changed as follows with effect from 2023, as resolved at the Ordinary General Meeting of Shareholders. The Company's Audit & Supervisory Board Members are eligible only for base salary and the maximum amount of remuneration in total is set as 240 million yen per annum.

		Before revision	After revision	Internal Directors		Outside Directors
				Executive Officers	Non-executive officers	
Base salary		Within 1,100 million yen (100 million yen for Outside Directors)	Within 800 million yen (160 million yen for Outside Directors)	○	○	○
Executive bonus			Up to 0.3% of profit (profit attributable to owners of the parent company)	○	—	—
Restricted stock remuneration plan	Total amount of monetary remuneration	Within 210 million yen	Within 600 million yen	○	—	—
	Number of shares distributed	Within 115,200 shares	Within 300,000 shares			
PSU	Total amount of monetary remuneration and cash for tax payment	Within 130 million yen	Up to the amount obtained by multiplying fixed number of base share units*1 (up to 200,000 shares) with share price at offering*2	○	—	—
	Number of shares distributed	Within 76,800 shares	Within 100,000 shares			

*1 Number of base share units (determined by the Board of Directors based on the duties, etc., of respective eligible Members of the Board) x Offering ratio (within a range of 0-200% based on the degree of achievement of targets)

*2 After the performance evaluation period ends, based on the closing price of the ordinary shares of the Company on the TSE on the preceding business day of the date of the resolution by the Board of Directors concerning the allotment of the ordinary shares of the Company under the plan (or the closing price on the immediately preceding business day, if transactions are not executed on that day), the amount shall be determined by the Board of Directors of the Company within the range not particularly favorable to eligible Members of the Board



Management structure

Directors and Audit & Supervisory Board Members

Nine Directors (including four Outside Directors) (As of March 24, 2023)
The Directors marked with * also serve as Group Executive Officers

	Mutsuo Iwai Chairperson of the Board Date of birth: October 29, 1960 Number of shares held: 40,100	April 1983	Joined the Company (Previously, Japan Tobacco and Salt Public Corporation)	January 2016	Senior Vice President; and President, Tobacco Business
		June 2003	Vice President, Corporate Planning Division	March 2016	Representative Director and Executive Vice President; and President, Tobacco Business
		July 2004	Vice President, Corporate Strategy Division	January 2020	Member of the Board
		June 2005	Senior Vice President; and President, Food Business	March 2020	Deputy Chairperson of the Board
		June 2006	Member of the Board; Senior Vice President; and President, Food Business	June 2020	Outside Director, Benesse Holdings, Inc. (Current Position)
		June 2008	Senior Vice President; and Chief Strategy Officer	June 2021	Outside Director, TDK Corporation (Current Position)
		June 2010	Member of the Board; Senior Vice President; Chief Strategy Officer; and President, Food Business	March 2022	Chairperson of the Board (Current Position)
		June 2011	Member of the Board, Japan Tobacco Inc. Executive Vice President, JT International S.A.	January 2023	Outside Director, &Capital Inc. (Current Position)
		June 2013	Senior Vice President; and Chief Strategy Officer	Significant Concurrent Positions Outside the Company Outside Director, Benesse Holdings, Inc. Outside Director, TDK Corporation Outside Director, &Capital Inc.	

	Shigeaki Okamoto Deputy Chairperson of the Board Date of birth: February 20, 1961 Number of shares held: 3,000	April 1983	Entered the Ministry of Finance (hereinafter the Ministry)		Head Office (Current Position)
		July 2006	Director for the Budget Bureau, Planning and Administration Division of Budget Bureau, the Ministry	March 2022	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office (Current Position)
		July 2009	Head of Secretariat Division, Minister's Secretariat, the Ministry		Deputy Chairperson of the Board (Current Position)
		August 2012	Deputy Director-General of the Budget Bureau, the Ministry	June 2022	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Tokyo Head Office (Current Position)
		July 2015	Deputy Vice Minister, the Ministry	Significant Concurrent Positions Outside the Company Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd.	
		July 2017	Director-General of the Budget Bureau, the Ministry		Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office
		July 2018	Administrative Vice Minister, the Ministry (Retired from the office in July 2020)		Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office
		June 2021	Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. (Current Position)		Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Tokyo Head Office
		December 2021	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka		

	Masamichi Terabatake* Representative Director and President, Chief Executive Officer Date of birth: November 26, 1965 Number of shares held: 184,400	April 1989	Joined the Company		Executive Vice President, JT International S.A.
		July 2005	Vice President, Secretary's Office	January 2018	President and Chief Executive Officer
		July 2008	Vice President, Corporate Strategy Division	March 2018	Representative Director and President, Chief Executive Officer (Current Position)
		June 2011	Senior Vice President; Chief Strategy Officer; and President, Food Business	Significant Concurrent Positions Outside the Company Chairman and Managing Director, JT International Group Holding B.V.	
		June 2012	Senior Vice President; and Chief Strategy Officer		
		June 2013	Member of the Board, Japan Tobacco Inc.		

	Kiyohide Hirowatari* Representative Director and Executive Vice President Date of birth: November 11, 1965 Number of shares held: 66,300	April 1989	Joined the Company	March 2018	Representative Director and Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance
		July 2010	Vice President, Legal Division		
		June 2012	Senior Vice President; Chief Legal Officer; and Vice President, Legal Division		
		July 2014	Senior Vice President; and Chief Legal Officer		
		January 2015	Senior Vice President; and Head of Tobacco Business Planning Division, Tobacco Business	January 2019	Representative Director and Executive Vice President, Corporate, Pharmaceutical and Processed Food Businesses
		January 2017	Senior Vice President, Human Resources	January 2022	Representative Director and Executive Vice President, Corporate, Sustainability Management, Pharmaceutical and Processed Food Businesses (Current Position)
		January 2018	Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance		

	Kei Nakano* Representative Director and Executive Vice President Date of birth: March 1, 1968 Number of shares held: 31,100	April 1991	Joined the Company	March 2020	Director, Japan Growth Investments Alliance, Inc.
		April 2011	Vice President, M&S Strategy Department, Tobacco Business Development	January 2022	Senior Vice President, Corporate Strategy of the Company
		June 2014	President and Chief Executive Officer, TS Network Co., Ltd.	January 2023	Representative Director and Executive Vice President, Finance, Corporate Communications, Business Development and D-LAB (Current Position)
		January 2016	Senior Vice President, Communications of the Company		
		October 2019	Senior Vice President, Corporate Strategy		

	Main Kohda Director (Independent Outside Director) Date of birth: April 25, 1951 Number of shares held: 0	September 1995	Started independently as novelist (Current Position)	June 2012	Outside Director of the Company (Current Position)
		January 2003	Member of Financial System Council, the Ministry of Finance	June 2013	Outside Director, LIXIL Group Corporation
		April 2004	Visiting Professor, Faculty of Economics, Shiga University	June 2016	Outside Director, Japan Exchange Group, Inc. (Current Position)
		March 2005	Member of the Council for Transport Policy, the Ministry of Land, Infrastructure, Transport and Tourism	June 2018	Outside Director, Mitsubishi Motors Corporation (Current Position)
		November 2006	Member of the Tax Commission, Cabinet Office, Government of Japan	Significant Concurrent Positions Outside the Company Novelist Outside Director, Japan Exchange Group, Inc.	
		June 2010	Member of the Board of Governors, Japan Broadcasting Corporation		Outside Director, Mitsubishi Motors Corporation






	Yukiko Nagashima Director (Independent Outside Director) Date of birth: April 4, 1961 Number of shares held: 0	April 1985	Joined Recruit Co., Ltd. (Currently, Recruit Holdings Co., Ltd.)	March 2019	Outside Director of the Company (Current Position)
		April 2006	Corporate Executive Officer, Recruit Co., Ltd.	June 2021	Outside Audit & Supervisory Board Member, Sumitomo Corporation (Current Position)
		January 2008	President and Representative Director, Recruit Staffing Co., Ltd.	Significant Concurrent Positions Outside the Company Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd.	
		October 2012	Corporate Executive Officer, Recruit Holdings Co., Ltd.		Standing Audit & Supervisory Board Member, Recruit Co., Ltd.
		June 2016	Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)		Outside Audit & Supervisory Board Member, Sumitomo Corporation
		April 2018	Standing Audit & Supervisory Board Member, Recruit Co., Ltd. (Current Position)		

	Masato Kitera Director (Independent Outside Director) Date of birth: October 10, 1952 Number of shares held: 0	April 1976	Entered the Ministry of Foreign Affairs (hereinafter the Ministry)	April 2016	Ambassador Extraordinary and Plenipotentiary of Japan to the French Republic
		January 2008	Director-General for Sub-Saharan African Affairs, Middle Eastern and African Affairs Bureau, the Ministry	June 2016	Ambassador Extraordinary and Plenipotentiary of Japan to the French Republic, Principality of Andorra and Principality of Monaco (Retired from the position in December 2019)
		July 2008	Secretary General, Fourth Tokyo International Conference on African Development	April 2020	Adviser of the Company
		July 2008	Director-General, International Cooperation Bureau, the Ministry	June 2020	Outside Director, Marubeni Corporation (Current Position)
		January 2010	Deputy Vice-Minister, the Ministry		Outside Director, Nippon Steel Corporation (Current Position)
		September 2012	Assistant Chief Cabinet Secretary		Outside Director of the Company (Current Position)
		November 2012	Ambassador Extraordinary and Plenipotentiary of Japan to People's Republic of China	March 2021	Outside Director of the Company (Current Position)
				Significant Concurrent Positions Outside the Company Outside Director, Marubeni Corporation Outside Director, Nippon Steel Corporation	

	Tetsuya Shoji Director (Independent Outside Director) Date of birth: February 28, 1954 Number of shares held: 0	April 1977	Joined Nippon Telegraph and Telephone Public Corporation	June 2020	Corporate Advisor, NTT Communications Corporation (Current Position)
		June 2006	Senior Vice President and General Manager of the Personnel Department, Nippon Telegraph and Telephone West Corporation	March 2021	Outside Director, Sapporo Holdings Limited (Current Position)
		June 2009	Senior Vice President and Head of General Affairs, Nippon Telegraph and Telephone Corporation	June 2021	Outside Director, Hitachi Zosen Corporation (Current Position)
		June 2012	Senior Executive Vice President and Representative Member of the Board, NTT Communications Corporation		Outside Director, Mitsubishi Logistics Corporation (Current Position)
		June 2015	President & CEO and Representative Member of the Board, NTT Communications Corporation	March 2022	Outside Director of the Company (Current Position)
		October 2018	Representative Member of the Board, NTT, Inc.	Significant Concurrent Positions Outside the Company Corporate Advisor, NTT Communications Corporation Outside Director, Sapporo Holdings Limited Outside Director, Hitachi Zosen Corporation Outside Director, Mitsubishi Logistics Corporation	

Management structure

Five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) (As of March 24, 2023)

	Hideaki Kashiwakura Standing Audit & Supervisory Board Member Date of birth: February 28, 1969 Term of office: 4 years from March 2023 Number of shares held: 0	April 1991 July 2012 October 2014 January 2017 January 2019	Joined the Company Controller Vice President, M&S Management Department, Tobacco Business Division Manager, Hokkaido Branch, Tobacco Business Division Deputy Chief Financial Officer (Assistant to CFO)	January 2021 March 2023	President, Chief Executive Officer, JT BusinessCom Inc. Standing Audit & Supervisory Board Member of the Company (Current Position)
	Tsutomu Hashimoto Standing Audit & Supervisory Board Member Date of birth: May 31, 1967 Term of office: 4 years from March 2023 Number of shares held: 200	April 1991 March 2019	Joined the Company Vice President, Operational Review and Business Assurance	March 2023	Standing Audit & Supervisory Board Member of the Company (Current Position)
	Shigeru Taniuchi Standing Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: September 7, 1962 Term of office: 4 years from March 2023 Number of shares held: 0	April 1986 July 2008 July 2009 July 2010 July 2011 July 2012 June 2013 July 2014 October 2015 July 2017	Entered the Ministry of Finance Director, Allowance Control and Mutual Assistance Insurance, Budget Bureau, Ministry of Finance Director, Agriculture, Forestry and Fisheries Section Budget Bureau, Ministry of Finance Director, Treasury, Financial Bureau, Ministry of Finance Director, National Property Policy Planning, Financial Bureau, Ministry of Finance Director-General, Policy-Based Finance, Financial Bureau, Ministry of Finance Director of Coordination Division, Financial Bureau, Ministry of Finance (Retired from the office in July 2014) Deputy Director-General of Minister's Secretariat, Social Welfare and War Victims' Relief Bureau, Ministry of Health, Labour and Welfare Deputy Director-General of Minister's Secretariat, Medical Insurance, Ministry of Health, Labour and Welfare Deputy Director-General of Minister's Secretariat, Elderly Health Care, Ministry	July 2018 August 2020 February 2021 November 2021 December 2021 June 2022 March 2023	of Health, Labour and Welfare Director, Social Welfare and War Victims' Relief Bureau, Ministry of Health, Labour and Welfare Director-General, Secretariat of Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan, Cabinet Secretariat Director, Social Security Reform, Cabinet Secretariat Concurrently serving as Director of Loneliness and Isolation Office, Cabinet Secretariat Deputy Director-General, Secretariat of the Digital Garden City Initiative Panel, Cabinet Secretariat Concurrently serving as Head of Preparation Work Group for Bill of Establishing Children and Families' Agency, Cabinet Secretariat Concurrently serving as Head of preparation Work Group for Establishment of Children and Families' Agency, Cabinet Secretariat (Retired in June 2022) Standing Outside Audit & Supervisory Board Member of the Company (Current Position)
	Nobuo Inada Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: August 14, 1956 Term of office: 4 years from March 2023 Number of shares held: 0	April 1981 October 2008 August 2011 January 2014 September 2016 September 2017 July 2018	Appointed as Public Prosecutor Deputy Vice-Minister of Justice, Ministry of Justice Director-General, Criminal Affairs Bureau, Ministry of Justice Vice-Minister of Justice, Ministry of Justice Superintending Prosecutor, Sendai High Public Prosecutors Office Superintending Prosecutor, Tokyo High Public Prosecutors Office Prosecutor-General (Retired in July 2020)	October 2020 June 2021 March 2023	Registered as Attorney at Law (Current Position) Outside Director, Audit & Supervisory Board Member, Nomura Securities Co., Ltd. (Current Position) Outside Audit & Supervisory Board Member of the Company (Current Position) Significant Concurrent Positions Outside the Company Attorney at Law, Inada Law Firm Outside Director, Audit & Supervisory Board Member, Nomura Securities Co., Ltd.
	Hiroko Yamashina Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: May 20, 1963 Term of office: 4 years from March 2023 Number of shares held: 0	April 1986 March 2007 May 2010 January 2013 January 2014 January 2016	Joined Orient Leasing Co., Ltd. (Currently, ORIX Corporation) Head of Office of Internal Controls, ORIX Corporation Executive Officer, ORIX Life Insurance Corporation Managing Executive Officer, ORIX Life Insurance Corporation Corporate Officer, ORIX Corporation Group Executive, ORIX Corporation (Current Position)	January 2021 March 2023	President, ORIX Credit Corporation Chairman, ORIX Credit Corporation (Current Position) Outside Audit & Supervisory Board Member of the Company (Current Position) Significant Concurrent Positions Outside the Company Group Executive, ORIX Corporation Chairman, ORIX Credit Corporation

Notes: 1. For reasons for appointment of the Directors and Audit & Supervisory Board Members, please refer to the Notice of Convocation of the 38th Ordinary General Meeting of Shareholders

Notes: 2. We have established a set of independence criteria. For details, please refer to the JT Corporate Governance Policy

Executive Officers

(As of January 1, 2023)

President Masamichi Terabatake Chief Executive Officer*	Akihiro Koyanagi Manufacturing, Tobacco Business, Japan	Kenji Ogura Corporate Governance, Compliance
Executive Vice Presidents Kiyohide Hirowatari Corporate, Sustainability Management, Pharmaceutical and Processed Food Businesses	Daniel Torras Performance & Integration, Tobacco Business, Japan	Hisato Imokawa Chief Sustainability Officer
Kei Nakano Finance, Corporate Communications, Business Development and D-LAB	Suguru Fujiwara Corporate Affairs & Communications, Tobacco Business, Japan	Nobuya Kato Chief Financial Officer and Corporate Communications
Senior Vice Presidents Junichi Fukuchi Chief Executive Officer, Tobacco Business, Japan	Muneaki Fujimoto President, Pharmaceutical Business	Yoshiyuki Mishima People & Culture
Eiichi Kiyokawa Sales, Tobacco Business, Japan	Shigenori Ohkawa Head of Central Pharmaceutical Research Institute, Pharmaceutical Business	Hisashi Shimobayashi Information Technology
Chigusa Ogawa Leaf Procurement, Tobacco Business, Japan	Hiromasa Furukawa Food Business	Yuki Otaki D-LAB
Shuichi Hirosue Marketing, Tobacco Business, Japan	Osamu Hirose General Counsel	* Masamichi Terabatake concurrently serves as President, Tobacco Business
	Hiroyuki Fukuda Corporate Strategy	

Members of the JTI Executive Committee

(As of April 1, 2023)

Eddy Pirard President and Chief Executive Officer	Rob Stanworth Executive Vice President, Chief Consumer and Product Officer	Vassilis Vovos Executive Vice President, Chief Financial Officer
Koji Shimayoshi Executive Vice President and Deputy CEO	Takehiko Tsutsui Executive Vice President, Reduced-Risk Products	Note: The members above report directly to Eddy Pirard, President and Chief Executive Officer
Stefan Fitz Executive Vice President, Chief Commercial Officer		

Management structure

The concept of skills necessary for the Directors

We have adopted the following composition of the Board of Directors in order to enable the Directors to identify the JT Group management strategies and make decisions on important matters, as well as to effectively supervise all operations. The Advisory Panel on Nomination and Compensation has repeatedly engaged in discussions on the composition of the Board of Directors:

- The Board may have as many members as necessary and appropriate, up to a maximum of 15. It comprises diverse professionals with a high sense of ethics and integrity as well as knowledge, experience and skills, taking into consideration such factors as gender, international experience, work experience, race, ethnicity, cultural background, and other aspects of diversity, along with the skills necessary to serve as Directors.

Areas in which skills are expected to be particularly effective

- “Corporate Management,” including the JT Group’s management strategy, operations, and business strategy based on 4S model, our management principle
- “Global Management,” which is essential for the JT Group, which operates globally
- “Corporate Finance, Accounting and Capital Policy” and “Legal, Compliance, and Risk Management,” which are the basis of decision-making for effective management and business activities
- “IT/Information Security” is one important management foundation for strengthening the competitiveness of the JT Group
- “Corporate Governance,” which is the foundation of our corporate activities in order to maximize stakeholder value, pursue sustainable profit growth, and grow corporate value over the long term
- “Sustainability/Environment and Society,” which we consider core to our management initiatives and for which we formulate strategies based on the 4S model and materiality analysis

- The Board includes at least one-third of Independent Outside Directors with qualifications conducive to the Company’s sustainable profit growth and corporate value over the medium and long terms, in order to strengthen the supervisory functions and transparency of management.

We expect in particular that each Director will demonstrate skills based on their knowledge and experience in the following areas, in light of our management principle, JT Group Purpose and business plan, in order for the Board of Directors to properly fulfill its roles and responsibilities. We believe that the Board of Directors as a whole has the necessary skills at this time.

- “D&I/Organizational Behavior and Human Resource Management,” one of our focus areas, is being promoted so that all JT Group employees can feel motivated in their work and maximize their abilities
- “Business Development/M&A” to formulate strategies and carry out measures for further development and business growth

In addition, in light of the roles and responsibilities of the Audit & Supervisory Board Members to oversee the job performance of the Directors, we are particularly expecting Audit & Supervisory Board Members to demonstrate their skills in the areas of “Corporate Finance, Accounting and Capital Policy,” “Legal, Compliance and Risk Management,” and “Corporate Governance.” At present, we believe that the entire Audit & Supervisory Board has the necessary skills.

Skills matrix for proposed Directors and Audit & Supervisory Board Members

Name	Position	Areas in which skills are expected to be particularly effective								
		Corporate Management	Global Management	Corporate Finance, Accounting and Capital Policy	Legal, Compliance and Risk Management	IT/Information Security	Corporate Governance	Sustainability/Environment and Society	D&I/Organizational Behavior and Human Resource Management	Business Development/M&A
Mutsuo Iwai	Chairperson of the Board	●	●		●	●	●		●	
Shigeaki Okamoto	Deputy Chairperson of the Board			●	●		●	●	●	
Masamichi Terabatake	Representative Director	●	●		●	●	●	●	●	●
Kiyohide Hirowatari	Representative Director	●			●	●	●	●	●	●
Kei Nakano	Representative Director	●		●	●		●			●
Main Kohda	Outside Director		●	●			●	●		●
Yukiko Nagashima	Outside Director	●					●		●	●
Masato Kitera	Outside Director		●		●		●	●	●	
Tetsuya Shoji	Outside Director	●	●			●	●		●	●
Hideaki Kashiwakura	Standing Audit & Supervisory Board Member	●	●	●			●		●	●
Tsutomu Hashimoto	Standing Audit & Supervisory Board Member		●	●	●	●	●			
Shigeru Taniuchi	Standing and Outside Audit & Supervisory Board Member			●	●		●	●	●	
Nobuo Inada	Outside Audit & Supervisory Board Member				●		●	●	●	
Hiroko Yamashina	Outside Audit & Supervisory Board Member	●			●		●		●	

Internal controls

Risk management

The JT Group identifies and closely monitors risks that could affect its operations and implements measures to both prevent them from materializing and minimize their impacts if they were to materialize. We have established an integrated

system for identifying and managing all identified risks. Our risk management process comprises the following four steps.

① Identify risks	An executive appointed by the CEO to be in charge of risk management (currently the executive officer in charge of corporate governance and compliance) identifies all risks that could affect the JT Group.
② Assess risks	Executive Officers assess risks in their respective organizational units probability of materializing and the magnitude of its impact if it were to materialize. They identify material risks that should be prioritized with attention and report them to the executive in charge of risk management. Based on such reports, the executive in charge of risk management identifies Group-level material risks with the potential to inflict major losses in terms of attainment of the Group's management targets and business strategies and reports said risks to the CEO.
③ Formulate plans to address risks	Executive Officers oversee formulation of plans to address the JT Group's material risks and submit them to the executive in charge of risk management and the CEO.
④ Monitor progress of plans	Executive Officers regularly report to the executive in charge of risk management and the CEO on the progress of the plans to address the Group's material risks.

We have prepared crisis management and disaster response manuals in preparation for emergencies. When a crisis or natural disaster occurs, we set up an emergency project task force. We have made advance arrangements to enable concerned organizational units and subsidiaries to swiftly take appropriate action in close coordination with each other

under the direction of senior executives. Such incidents and pertinent information about them are reported to the Board of Directors in a timely and appropriate manner.

▶ Please see [Risk factors \(P. 116\)](#) for more on risks facing the JT Group.

Compliance

We enforce strict compliance. We have instituted a Code of Conduct that mandates that all directors and employees act in compliance with applicable laws, government regulations, our Articles of Incorporation and societal norms pursuant to regulations established by the Board of Directors. To ensure fair and effective compliance practices, we have established the JT Group Compliance Committee as a deliberative body that reports directly to the Board of Directors.

The JT Group Compliance Committee is headed by the Chairperson of the Board and includes external experts as key members. It meets regularly every year. It deliberates on Group-wide compliance-related matters, including annual Compliance Action Plans' implementation status and

adoption/revision of compliance-related regulations and our Code of Conduct, to deeply instill a compliance mindset in employees. We have also appointed an Executive Officer in charge of compliance to oversee our Legal and Compliance Division, which implements and promotes a cross-Group compliance regime and endeavors to identify compliance deficiencies. In 2022, the JT Group Compliance Committee met three times to discuss compliance promotion initiatives, among other matters. The outcomes of its discussions were incorporated into the 2023 Compliance Action Plan.

Group companies' respective organizational units that promote compliance (e.g., JT's Legal and Compliance Division and subsidiaries' corresponding organizational units) distribute the JT Group Code of Conduct and other

such guidelines to their personnel (defined as employees, directors, etc.; likewise below) and endeavor to increase compliance effectiveness by conducting various training programs and other educational activities for their respective personnel.



* Composed of two internal and three external members

Compliance Action Plans

Action Plans formulated by the JT Group Compliance Committee include actions to maintain/enhance compliance programs, address priority compliance issues, conduct trainings and seminars, operate the internal reporting system and implement Compliance Promotion Month.

Compliance surveys

We annually conduct a Group-wide questionnaire survey to check the status of compliance practices in our Japanese operations. In 2022, 94.1% of employees completed the survey. The survey's findings are reported to directors and employees, and are used by concerned organizational units to reassess their respective compliance plans and formulate and implement measures to improve compliance.

Internal reporting system (whistle-blower system)

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

Internal controls

Quality control

We are committed to maintaining the public's trust in our products. To do so, we have implemented quality assurance systems across all of our businesses.

Tobacco business

For tobacco products, we are building a globally uniform quality assurance model and making necessary changes based on this model with the aim of providing high-quality products.

Our quality assurance activities fundamentally aim to improve quality and rectify deficiencies by providing feedback to concerned organizational units about quality issues identified based on quality information from markets and related research. For example, when our RRP (Reduced-Risk Product) devices are in the development stage, we confirm that they not only comply with applicable laws and regulations but also that they meet industry safety standards for electric products by having them evaluated as needed by external specialists.

Additionally, in conjunction with measures to strengthen the tobacco business's operating model, we established Quality Assurance in January 2022 as a new organization independent from the tobacco business's markets and other

global operational functions. Quality Assurance endeavors to provide high-quality products by assuming accountability for quality assurance activities across the entire value chain from R&D through procurement, manufacturing, marketing, distribution and sales based on fair decisions from the consumer's* standpoint.

Pharmaceutical business

In our pharmaceutical business, we are strictly committed to safety and quality control in compliance with regulations such as the Pharmaceutical and Medical Device Act and ministerial ordinances that govern pharmaceutical quality and safety.

Processed food business

In our processed food business, we place utmost priority on food safety management across the entire value chain from sourcing ingredients to delivering products to consumers. We do so under our four-pronged framework, consisting of the following viewpoints: Food Safety, Food Defense, Food Quality and Food Communication.

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

Information security

We have established information security regulations to clearly demonstrate our commitment to information security and comprehensively promote information security measures on an ongoing basis. Specifically, we have adopted a JT Group IT Governance Policy and JT Group Information Security Standards and mandated and implemented the required IT risk mitigation measures have been implemented which include, access restrictions, antivirus defenses, education, audits, and monitoring. We strive to manage and safeguard our IT systems, data and other information assets in an appropriate manner. We are continuously pursuing initiatives to strengthen our information security with respect to both hardware and software. Hardware-wise, we continually test and improve our key IT systems' security-related

technologies and operations. Software-wise, we conduct security-related educational activities globally to promote proper handling of information assets by all employees. In 2022, 88% of all JT Group company employees attended security training programs. Additionally, we extended a single information classification and protection solution across all our business divisions and established a unified approach to security operations across the JT Group. We are also conducting educational activities across the entire JT Group, having rolled out our internally developed i-secure program. The i-secure program's effectiveness is constantly being measured by employee behavior metrics. It has been instrumental in raising employees' awareness of information security.

Internal auditing

Our Operational Review and Business Assurance Division conducts internal audits from an objective standpoint independent from organizational units involved in operational execution and reports directly to the CEO. It assesses management and operational systems and the state of operational execution across all business activities from the standpoint of legal compliance and rationality with the aim of safeguarding Company property and increasing operational efficiency. To fulfill its responsibilities, it has unrestricted authority to observe all activities, inspect all records and question all personnel on a Group-wide basis.

The Division formulates annual internal audit plans subject to the CEO's approval. Its head mandatorily reports internal audit results to the CEO, reports annually to the Board of Directors, and may freely and regularly confer with the CEO and our subsidiaries' senior-most executives about internal audit findings, internal controls' status and risk assessments.

Our subsidiaries may set up their own internal auditing organizations at their own discretion. Those that have done so include major subsidiaries JTI, TS Network, Torii and TableMark. Subsidiaries' internal audit plans are approved by, and their audit results reported to, their respective presidents. JT's Operational Review and Business Assurance Division coordinates internal audits with subsidiaries' internal auditing organizations. Subsidiaries' annual internal audit plans and their internal audit results are reported to the Group CEO and our Board of Directors through our Operational Review and Business Assurance Division. To increase internal audits' efficiency and effectiveness, we periodically hold meetings to improve audit quality through information sharing among internal auditing staff across the Group. We also conduct joint audits with and provide auditing assistance to subsidiaries as necessary.

Internal controls over JT International

The tobacco business is operated by JTI, a subsidiary of holding company JT International Group Holding B.V. With appointees from JT occupying a majority of seats on the latter's Board of Directors, JT sets the tobacco business's overall strategy. Major decision-making authority and settlement procedures between JT and JTI are prescribed in internal regulations, most notably our Authority and Responsibility Regulations. From an operational agility standpoint, JT has delegated a certain degree of authority to JTI while retaining approval authority over JTI's budgets and midterm plans, as well as proposed investments that exceed a certain materiality threshold. Through such arrangements, JT endeavors to exercise governance over JTI. JTI has its own internal regulations on delegation of responsibilities and authority called the JTI Operating Guidelines. JTI delegates authority to its market subunits,

plants and executive officers within the scope of authority delegated to it by JT.

Additionally, JT's Audit & Supervisory Board Members and Operational Review and Business Assurance Division are authorized to audit JTI. JT's Audit & Supervisory Board Members audit JTI as warranted. While JTI's internal audits are conducted by its own internal auditing staff, JT's Operational Review and Business Assurance Division audits joint JT-JTI operations in coordination with JTI's internal auditing staff. The results of audits by JTI's internal auditing staff are reported to the president of JT's Tobacco Business Headquarters, who is also chairman of JT International Group Holding B.V.

Through these arrangements, JT is building an appropriate governance regime.

FINANCIAL INFORMATION/OTHERS

This section explains the Group's current financial status through qualitative environmental assessment, including risk factors and outside evaluations in addition to our financial performance trends according to the numbers.

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Risk factors

The JT Group is a leading global tobacco company, selling products in more than 130 markets. It also operates pharmaceutical and processed food businesses. Our operations are subject to various risks stemming from their attributes, changes in business environments, and other factors.

We identify and closely monitor risks that could affect our operations and implement measures to prevent them from materializing and mitigate their impacts in the event that they come to pass.

We have established an integrated system for identifying and managing all identified risks. We promote a four-step risk management process: (1) identify risks, (2) assess them, (3) formulate plans to address them and (4) monitor the plans' progress.

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

This following discussion of risk factors should be read together with "FORWARD-LOOKING STATEMENTS" at P.131.

Risk factors	Risk description	Potential impact(s)	Main measures to address risk
1 Large or repeated tax increases	Tobacco products are subject to tobacco taxes or other similar taxes in addition to sales tax or VAT. Some countries have been raising tobacco taxes or discussing tax increases from a fiscal and/or public health standpoint. Additionally, VAT rates generally tend to increase over time. Our policy with respect to tax increases is to raise prices to pass on the tax increase to consumers*, taking into account not only the tax increase's magnitude but also the price elasticity of demand for tobacco products. We also endeavor to minimize tax increases' impact on our operations through measures to drive top-line growth and improve cost efficiency. Most governments have adopted a reasonable approach to taxation, recognizing that large or repeated tax increases may end up reducing tax revenues. In some instances, however, past tax increases have materially affected our business in certain markets.	Large or repeated increases in taxes on tobacco products tend to lead to reduced consumption of, and/or increased illicit trade in, tobacco products. They may also induce consumers* to switch to lower-priced products. Consequently, they may result in reductions in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> Promote understanding among relevant authorities that large or repeated tax increases may have counterproductive consequences, such as growth in illicit trade and decreased tax revenue due to reduced demand Optimize product portfolio for adaptability to changes in consumers* preferences and behavior Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets Further improve cost efficiency to ensure adequate profitability Set prices appropriately to minimize tax increase impact in affected markets
2 Growth in illicit trade	<p>Illicit trade is a problem for not only the tobacco industry but also society as a whole. It harms the tobacco industry by diverting demand from law-abiding businesses. Its potential societal harms include reduction in government tax revenues, increased organized crime, and adverse health consequences due to poor production quality or inadequate post-production quality controls. Together with the rest of the tobacco industry, we continue to endeavor to eradicate illicit trade, particularly cigarette smuggling and counterfeiting.</p> <p>Illicit trade tends to grow following large or repeated tax increases. Additionally, regulations on cigarette ingredients and packaging may facilitate illicit trade by making cigarettes easier to counterfeit and illegitimate products harder to detect.</p>	Growth in illicit trade results in decreased demand for legitimate products and may lead to reductions in our unit sales, revenue and/or profits. Costs incurred to combat illicit trade may also weigh on profits. Additionally, circulation of counterfeit products may undermine trust in legitimate products and, in turn, impair the value of both the brand and brand owner for a number of reasons, including the low quality of counterfeit products.	<ul style="list-style-type: none"> Take action to eradicate illicit trade in cooperation with governments, regulatory authorities and law enforcement agencies Do business only with reputable parties in accord with stringent compliance policies Educate consumers* on negative consequences of purchasing illegitimate products <p>► For more details on activities to eradicate illicit trade, please see Tackling illegal trade for more details.</p>
3 Tightening of tobacco regulations	<p>The tobacco industry is subject to many regulations, most notably on sales promotion activities (including advertising). Regulatory developments may affect our operations and/or financial results.</p> <p>Such regulations can also lead to growth in illicit trade to the potential detriment of our law-abiding, above-board businesses. Additionally, if stricter regulations are imposed on communications with consumers*, they may preclude effective sales promotion activities and, in turn, adversely affect top-line growth.</p> <p>As a responsible company, we comply with the laws and regulations of every market in which we operate. We believe laws and regulations should rightfully differ from one country to another as a reflection of countries' respective legal systems, cultures and social conditions.</p>	Imposition of stricter regulations on sales promotion activities may undermine top-line growth strategies' effectiveness by depriving us of opportunities to grow brand equity. It can also cause us to incur additional regulatory compliance costs under certain circumstances. Our unit sales, revenue and/or profits may decrease as a result of such impacts.	<ul style="list-style-type: none"> Expediently collect accurate information to learn of regulatory developments Pursue constructive dialogue with governments and regulatory authorities to encourage reasonable, unbiased regulation that fulfills its intended objective <p>► Please see Regulation and key laws (P. 120) for more details.</p>
4 Competition	<p>Our tobacco business is engaged in fierce competition with competitors.</p> <p>In the tobacco business, we have been expanding our operations through not only organic growth but also M&A, including acquisitions of RJR Nabisco Inc.'s non-U.S. tobacco business and Gallaher Group Plc. As a result of such acquisitions, we compete with both global tobacco companies and local players with strong footholds in their respective markets.</p> <p>Market shares fluctuate in response to various factors, including regulatory changes, shifts in consumer* preferences/behavior, and local economic conditions. Market shares are also prone to short-term fluctuations in response to one-off events such as competitors' new product launches and accompanying sales promotion campaigns.</p>	<p>Market share fluctuations may affect our financial results.</p> <p>Additionally, markets in which we operate sometimes become embroiled in price competition due to events such as a brand repositioning or a price cut in pursuit of market share gains.</p> <p>Such price competition may negatively impact our profit margins in individual markets.</p>	<ul style="list-style-type: none"> Optimize product portfolio by offering products that meet consumers'* needs and changing preferences/behavior, and by achieving strong brand positioning in every price segment Strengthen sales capabilities and conduct effective sales promotions Further improve cost efficiency to ensure profitability Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets
5 Country risk	To realize long-term growth, we have continued to expand our earnings foundation through M&A, entry into new markets and organic growth in existing markets, mainly in our tobacco business. Such geographic expansion has been accompanied by increased exposure to country risk. If political, economic or social turmoil were to occur in a market in which we operate, our operations and/or financial results may be affected. With the extension and increasingly complex effects of the Russia-Ukraine war, the Company has been operating in the Russian market in strict compliance with all sanctions imposed nationally and internationally. Since the challenges of operating in Russia at this time are unprecedented, the Company is unable to reasonably estimate the outlook and the impact on financial results as of the issued date of Integrated Report 2022.	Political instability, economic recession, social unrest or other such events could disrupt our operations in the market in question. The disruption includes interruption in supply chains or distribution, damage to assets or facilities, or difficulties in staffing and sales management. This may lead to a decrease in our unit sales, revenue and/or profits.	<ul style="list-style-type: none"> Collect and monitor information related to country risk in markets in which we operate to maintain stable operations Strengthen and expand global operational platform and increase number of consistently profitable markets to avoid overdependence on profits from a few markets

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

Risk factors

Risk factors	Risk description	Potential impact(s)	Main measures to address risk
6 Currency risk	Our operations' global scope exposes us to currency risk. While we prepare our consolidated financial statements in Japanese yen, our overseas subsidiaries prepare their financial statements in various other currencies, including the Russian ruble, euro, pound sterling, Taiwanese dollar, US dollar and Swiss franc. Changes in such foreign currencies' exchange value against the yen affect our reported earnings. Additionally, in our international tobacco business, JT International Holding B.V. consolidates its foreign subsidiaries' financial statements into financial statements presented in US dollars. Its financial statement data are affected by changes in exchange rates between the US dollar and other local currencies used by those foreign subsidiaries. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We hedge this risk with foreign-currency debt, a portion of which is designated as net-investment hedges. Additionally, gains or losses on the sale or liquidation of subsidiaries that were acquired in a transaction denominated in a non-yen currency and impairment losses recognized against such subsidiaries are affected by changes in the acquisition currency's exchange value against the yen between the acquisition date and the date of the sale, liquidation or impairment.	Our consolidated financial results are affected by changes in other currencies' exchange value against the yen. The international tobacco business's financial results, the reporting currency for which is the US dollar, are affected by changes in other currencies' exchange rate against the US dollar. Subsidiaries' transactions in currencies other than their respective reporting currencies are also subject to currency risk.	<ul style="list-style-type: none"> Formulate foreign-exchange hedging policies that comprehensively take into account prevailing foreign-exchange market conditions, among other factors, and mitigate currency risk by hedging with foreign-currency debt or other suitable instruments in accordance with said policies
7 Pandemics	We operate businesses globally. Global pandemics have the potential to severely impact our operations. Since the global spread of COVID-19 in 2020, the Company has been operating all businesses in accordance with the policies and guidance of governments worldwide. We will continue watching and scrutinizing the possible effects of the prolonged pandemic on our operations and financial results, as well as currency-exchange trends and the actions of leading governments. We are not currently experiencing any business disruptions due to the pandemic, but our financial results could be adversely affected in the event of renewed spread of COVID-19 or an outbreak of another pandemic.	Global pandemics could impede normal product supplies due to confusion in distribution, limit consumption and alter consumer behavior due to travel restrictions and lockdowns in leading markets, and subsequently may adversely affect our operations and/or financial results.	<ul style="list-style-type: none"> Implement various preventive/anti-pandemic measures, including proactively utilizing telecommuting and imposing stricter workplace hygiene controls, to prevent infections and keep employees and their families safe Build stable supply chains from business continuity standpoint through such means as sourcing from multiple suppliers and maintaining safe production operations through such means as stringent process hygiene controls
8 Unfavorable litigation developments	Some of JT's subsidiaries are defendants in lawsuits filed by plaintiffs seeking damages for harm allegedly caused by smoking or vaping, the marketing of tobacco or E-Vapor products or exposure to tobacco smoke. There are lawsuits involving smoking/vaping and health-related cases pending in which some of JT's subsidiaries are named as defendant or for which JT may have certain indemnity obligations pursuant to the agreement for JT's acquisition of RJR Nabisco Inc.'s non-U.S. tobacco business. In addition, JT and/or some of its subsidiaries are also defendants in lawsuits other than the smoking/vaping and health-related cases and may face further lawsuits in the future.	To date, the JT Group has never lost a case or paid any settlement award in connection with smoking/vaping and health-related litigation. However, the Group is unable to predict the outcome of currently pending or future lawsuits. A decision unfavorable to the JT Group and payment of a substantial amount of monetary compensation could materially affect its financial performance. Moreover, critical media coverage of these lawsuits may reduce social tolerance of smoking, strengthen public regulations concerning smoking and prompt the filing of a number of similar lawsuits against the JT Group, forcing it to bear litigation costs and materially affecting its business performance. Apart from smoking/vaping and health-related ones, the JT Group also may become a defendant in further litigation. Should any problems arise on the Group's product quality, this may lead to claims seeking product liability. Such litigation cases may negatively affect the Group's business performance or the manufacture, sale and import and export of its products, should the outcome of any such claims prove unfavorable.	<ul style="list-style-type: none"> Apply a system in order to deeply cooperate internally and externally, quickly understand the information regarding the case and share information with management and relevant departments Coordinate with experienced external counsel if necessary and respond to litigation cases pertaining to the JT Group in a timely and appropriate manner <p>► Please see Litigation (P. 123) for more details.</p>
9 Natural disasters	Our financial results could be adversely affected by earthquakes, tsunamis, typhoons, floods and/or other natural disasters' consequences, potentially including employee casualties, supply shortages due to damage to suppliers' facilities, disruptions in transportation, distribution services and/or sales channels, power outages, water service interruptions, and reduced demand for our products. To minimize natural disasters' impact on our operations, we have adopted a Business Continuity Plan, the scope of which includes global supply-chain optimization.	Natural disasters could disrupt not only our own operations but also any of our value chain partners' operations. Such disruptions could adversely affect our financial results.	<ul style="list-style-type: none"> Routinely gather and relay information related to crisis management on ongoing basis Periodically review business continuity plans and revise them as warranted Conduct initiatives such as disaster preparedness drills and foster disaster-preparedness mindset among employees
10 Climate change	Climate change associated with global warming has various adverse impacts, including flooding and landslides due to abnormal weather events such as torrential rainfall; intense heat waves, heavy snowfall and drought due to anomalous weather; water-resource change and biodiversity loss. Such impacts' potential consequences include supply chain disruptions and changes in the environments in which tobacco leaf and/or other agricultural commodities we use in our products are grown or raised. Such consequences may adversely affect our products and/or financial results through deterioration in these inputs' quality and/or increases in their prices/sourcing costs. Additionally, if a carbon tax is imposed on energy derived from fossil fuels in conjunction with the transition to a decarbonized society to mitigate climate change's impacts, our profits may be reduced by increased operating expenses.	Climate change could adversely affect our operations and/or value chains and, in turn, our financial results. Additionally, our financial results could be adversely affected by increases in operating expenses stemming from the transition to a decarbonized society.	<ul style="list-style-type: none"> Conduct climate scenario analysis in accord with TCFD recommendations and develop the capability to more accurately ascertain climate change's potential impacts on our operations and take appropriate action to mitigate them Strive to reduce Greenhouse Gas (GHG) emissions to Net-Zero across our value chain to mitigate climate change's impacts Implement the measures in Section 9 above to address risks posed by natural disasters, which may be exacerbated by climate change <p>► Please see Improving our environmental impact (P. 78) for more details.</p>

Regulation and key laws

Tobacco business

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

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

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

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

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

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

In Japan, the Tobacco Business Act (TBA) prescribes that we are obligated to purchase a grower's entire tobacco crop excluding any portion not suitable for manufacturing tobacco products and that our own tobacco products as well as tobacco products imported by a designated distributor may be sold by retailers only at prices approved by the Minister of Finance. Tobacco product sales and promotional activities in Japan are regulated under the TBA, related laws/regulations and voluntary industry standards. One regulatory requirement is that advertisements and product packaging must carry a cautionary statement about the health implications of consuming tobacco products. In accordance with the Tobacco Institute of Japan (TIOJ)'s voluntary standards, which were revised in 2020, the cautionary statement on tobacco product packaging was changed to be consistent with the latest scientific knowledge, and the area it occupied on the packaging was enlarged. Revisions to the TIOJ's advertising voluntary standard included measures to more effectively shield those under 20 years of age from tobacco product ads, including online, and new restrictions on point-of-sale ad size and display methods.

In July 2018, the Health Promotion Act (HPA) was amended to better prevent unwanted exposure to secondhand smoke in facilities frequented by the public. We recognize public places that allow smoking are going to decrease in number under the amended HPA, which fully took effect from April 1, 2020. While it is difficult to predict smoking environment changes in detail, we expect our financial results to be affected to some extent.

In relation to RRP (Reduced-Risk Products), the U.S. and European countries are starting to establish new guidelines and frameworks for scientifically assessing the reduction in health risks associated with smoking. Tobacco makers have been stepping up activities to obtain official certification of risk-reduction benefits. Some countries have applied

existing tobacco product regulations to RRP while others have newly adopted separate regulations. In the E.U. for example, it was decided in November 2022 that a flavor ban regulation previously applied only to certain tobacco products would also be applied to HTP (heated tobacco products). Also, in the U.S., sales of certain flavored E-Vapor cartridges were banned from February 2020. With a global regulatory consensus yet to take shape, regulatory treatment of RRP varies widely among markets/countries.

Regulatory impacts on our operating performance

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

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

Self-regulation of marketing

In addition to complying with the regulations of every country and region in which we operate, we also operate in accord with our own Global Marketing Principles (GMPs), the principles based on our recognition of the importance of responsibly marketing tobacco products. Our GMPs are based on the recognition of the importance of conducting responsible marketing activities for tobacco products, and describe the principles for advertising, promotion, and others activities conducted by the Group. This includes ensuring that marketing activities are targeted at people of 18 years of age or older, and of legal smoking age. These marketing activities are not aimed at encouraging anyone to start smoking or discouraging them from quitting, even if they are of legal smoking age. We also recognize that the prevention of smoking by minors (those who have not reached legal smoking age) is an issue that needs to be addressed by society as a whole. We are pursuing

various initiatives to address this issue in coordination with governments and concerned organizations in addition to appropriately operating in accord with our GMPs.

Please visit [JTI.com](https://www.jti.com) for more details.

Pharmaceutical business

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

In Japan, pharmaceutical manufacturing and sales are regulated by the Ministry of Health, Labour and Welfare (MHLW) and/or prefectural authorities under the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (the "Pharmaceutical and Medical Device (PMD) Act"). The PMD Act requires companies that manufacture and sell pharmaceuticals to be licensed in every prefecture in which they operate and to renew those licenses every five years. Additionally, every pharmaceutical manufactured or sold in Japan must be approved by the MHLW. Japan's National Health Insurance (NHI) program maintains a drug formulary and sets official drug prices. The NHI is planning to radically reform drug pricing. The planned reforms include annual drug price revisions, paring-down of the list of drugs qualifying for premium pricing intended to incentivize drug discovery and reduce off-label drug use, and tiered reductions in long-listed drug prices based on generic substitution rates.

Regulation and key laws

Processed food business

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

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

In addition to meticulously complying with these and other applicable laws and regulations, our processed food business is committed to the highest standards of food safety management from the four perspectives—food safety, food defense, food quality and food communication—in order to provide consumers with safe, high-quality food products that they can enjoy with peace of mind.

Japan Tobacco Inc. Act

JT was established pursuant to the Japan Tobacco Inc. Act (the “JT Act”) to manufacture, sell and import tobacco products. Under the JT Act, the Japanese government must always own at least one-third of our total issued shares (excluding any non-voting share classes^{*1}). The Minister of Finance must approve any offerings of newly issued stock or subscription rights to shares, as well as any issuance of stock, subscription rights to shares or bonds cum subscription rights to shares in conjunction with a stock swap. In addition to manufacturing, selling and importing tobacco products and operating businesses incidental thereto, we are permitted by the JT Act to engage in other businesses as required to fulfill our purpose and subject to the Minister of Finance’s approval. Other matters requiring the Minister of Finance’s approval include appointment/dismissal of Directors, Executive Officers and Audit & Supervisory Board Members, amendments to our Articles of Incorporation, appropriations of capital surplus (excluding appropriations to rectify an accumulated deficit), mergers, split-ups and dissolution. We are also required to submit a statement of financial position, statement of income and business report to the Minister of Finance within three months of every fiscal year-end.

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

^{*1} Defined as classes of shares with no right to vote on any resolutions at general meetings of shareholders

^{*2} The Act on Special Measures for Securing Financial Resources Necessary for Reconstruction from the Great East Japan Earthquake

Litigation

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

There are 10 ongoing health care cost recovery cases in Canada pending against JTI-Macdonald Corp. (hereinafter referred to as JTI-Mac), our Canadian subsidiary and JT’s indemnitees (RJR Nabisco Inc.’s affiliates), brought by Canadian provinces. In addition, there are 8 pending class actions in Canada where plaintiffs are seeking damages for harm allegedly caused by smoking of cigarettes. Damages claimed in some of these cases reach sums in the multi-billion-dollar range. We will continue to take all appropriate actions to defend such claims vigorously and believe there are a number of valid defenses.

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

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

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

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

Please see “Contingent Liabilities” in our Consolidated Financial Statements’ “Contingencies” note for major lawsuits to which some of JT’s subsidiaries or indemnitees are named as defendants.

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

Long-term consolidated financial data

	IFRS adopted		Fiscal year-end changed	(Millions of yen)							
	2012	2013	2014 ^{*1, *3}	2015 ^{*3}	2016	2017	2018	2019	2020	2021	2022
Revenue	2,120,196	2,399,841	2,019,745	2,252,884	2,143,287	2,139,653	2,215,962	2,175,626	2,092,561	2,324,838	2,657,832
Cost of sales	(899,437)	(979,975)	(822,538)	(920,056)	(872,433)	(843,558)	(933,034)	(942,299)	(898,001)	(956,861)	(1,090,989)
SG&A expenses	(733,486)	(828,942)	(752,559)	(789,346)	(754,115)	(786,911)	(770,407)	(831,707)	(784,472)	(888,574)	(941,538)
Operating profit	532,213	648,260	499,880	565,229	593,329	561,101	564,984	502,355	469,054	499,021	653,575
Profit attributable to owners of the parent company	343,596	427,987	362,919	485,691	421,695	392,409	385,677	348,190	310,253	338,490	442,716
Adjusted EBITDA/Adjusted operating profit	621,977 ^{*2}	641,777	588,684	626,657	586,777	585,300	595,463	515,927	486,952	610,434	727,779
Capital expenditures	137,450	156,158	112,448	129,751	112,998	140,905	159,808	131,434	112,883	100,882	101,044
Depreciation & amortization	116,462	132,921	122,171	139,057	140,794	145,407	158,671	183,852	179,654	187,057	199,651
R&D expenses	56,862	57,103	44,008	57,796	58,193	60,600	65,377	64,079	60,847	65,016	70,808
Current assets	1,213,146	1,489,713	1,696,874	1,798,217	1,605,990	1,707,767	1,809,406	1,925,673	2,003,919	2,321,289	2,723,591
PP&E & intangible assets (excl. goodwill)	1,021,129	1,165,088	1,121,039	1,014,343	1,104,805	1,224,782	1,261,917	1,243,673	1,122,894	1,062,995	1,022,399
Goodwill	1,316,476	1,584,432	1,539,376	1,429,287	1,601,987	1,891,210	2,008,416	2,002,595	1,909,392	2,060,965	2,446,063
Other non-current assets	301,816	377,533	347,417	316,388	431,592	397,725	381,661	381,130	345,177	328,960	356,025
Total assets	3,852,567	4,616,766	4,704,706	4,558,235	4,744,374	5,221,484	5,461,400	5,553,071	5,381,382	5,774,209	6,548,078
Current liabilities	1,112,968	1,255,834	1,360,098	1,265,920	1,356,574	1,478,623	1,430,185	1,501,757	1,323,793	1,500,326	1,562,664
Non-current liabilities	847,168	764,842	722,106	770,790	859,759	900,833	1,330,770	1,307,702	1,458,095	1,387,803	1,368,653
Total liabilities	1,960,137	2,020,675	2,082,204	2,036,710	2,216,333	2,379,456	2,760,955	2,809,459	2,781,888	2,888,128	2,931,317
Total equity	1,892,431	2,596,091	2,622,503	2,521,524	2,528,041	2,842,027	2,700,445	2,743,611	2,599,495	2,886,081	3,616,761
Per share data											
Dividends (yen)	68	96	100	118	130	140	150	154	154	140	188
EPS (yen)	181.07	235.48	199.67	270.54	235.47	219.10	215.31	195.97	174.88	190.76	249.45
Equity (yen)	993.98	1,378.57	1,395.74	1,369.06	1,371.39	1,541.94	1,468.44	1,501.12	1,421.92	1,583.10	1,994.78
Cash flow data											
Net cash flows from operating activities	466,608	396,496	543,696	468,432	376,549	419,212	461,389	540,410	519,833	598,909	483,799
Net cash flows from investing activities	(147,928)	(163,473)	(49,110)	(63,271)	(687,509)	(352,632)	(383,307)	(123,571)	5,354	(97,499)	(101,822)
Net cash flows from financing activities	(569,473)	(145,189)	(388,859)	(254,852)	91,318	(77,032)	(62,360)	(333,832)	(297,404)	(353,138)	(306,176)
Cash & cash equivalents at FY-end	142,713	253,219	385,820	526,765	294,157	285,486	282,063	357,158	538,844	721,731	866,885
Financial metrics											
ROE (%)	20.0	19.9	14.4	19.5	17.2	15.0	14.3	13.2	12.0	12.7	13.9
Debt equity ratio (times)	0.18	0.15	0.09	0.10	0.23	0.27	0.38	0.37	0.38	0.33	0.27
Dividend payout ratio (%)	37.6	40.8	50.1	53.2 ^{*4}	55.2	63.9	69.7	78.6	88.1	73.4	75.4
Ratio of equity attributable to owners of the parent company to total assets (%)	46.89	54.27	53.92	53.78	51.77	52.89	48.17	47.95	46.88	48.65	54.07

*1 2014 was nine months long (Jan.-Sep. 2014) because of a change in fiscal year-end from March to December

*2 Above figures for 2012 are adjusted EBITDA

*3 In 2015, the beverage business was classed as a discontinued operation, due to the Company transferring its shares and other securities in its beverage vending machine operator subsidiary, as well as terminating the manufacturing and sale of beverages. Revenue, cost of sales, SG&A expenses, operating profit, adjusted operating profit, capital expenditures and R&D expenses for 2014 and 2015 shown on this page are based on values for continuing operations

*4 In 2015, the beverage business was classed as a discontinued operation, due to the Company transferring its shares and other securities in its beverage vending machine operator subsidiary, as well as terminating the manufacturing and sale of beverages. The consolidated dividend payout ratio, including the discontinued operation, was 43.6%

Glossary of terms

Unless otherwise stated, terms and numbers reported in this glossary are in accordance with IFRS.

Financials	
Adjusted operating profit	Operating profit + Amortization cost of acquired intangibles arising from business acquisitions + Adjusted items (income and costs)* * Adjusted items (income and costs) = Impairment losses on goodwill ± restructuring income and costs ± others
Adjusted operating profit at constant currency	Constant currency is computed using the same foreign exchange rates as in the equivalent period in the previous fiscal year for the tobacco business. Results at constant currency are provided additionally and are not an alternative to finance reporting under International Financial Reporting Standards (IFRS).
Clusters	The JT Group's tobacco markets are divided into three distinctive clusters: Asia, Western Europe, EMA. Please note that these three clusters are specifically designed to provide insight into our business for guidance purposes only and do not reflect the JT Group's management structure. <ul style="list-style-type: none">• Asia cluster includes the tobacco regions of Japan and Asia Pacific• EMA cluster includes the tobacco regions of Eastern Europe, MENEAT, Americas and Global Travel Retail
Core revenue at constant currency	The sum of revenues in the pharmaceutical business, processed food business, and others, as well as the core revenue in the tobacco business, which is computed using the same foreign exchange rates as in the equivalent period in the previous fiscal year. Results at constant currency are provided additionally and are not an alternative to finance reporting under International Financial Reporting Standards (IFRS).
FCF (Free cash flow)	FCF is the sum of cash flows from operating activities and investing activities, excluding the following items: <ul style="list-style-type: none">• From investing CF: Purchase of investment securities (both short-term and long-term), payments into time deposits, proceeds from sale or redemption of investment securities (both short-term and long-term), proceeds from withdrawal of time deposits and other investing activities not for business operation purposes• From operating CF: Depreciation from lease transactions, interest received, dividends received, interest paid and income taxes related to these items excluding lease transactions, and other items
IFRS (International Financial Reporting Standards)	The JT Group adopted IFRS from the fiscal year ended March 31, 2012.
Profit	Profit attributable to owners of the parent company
Revenue	Revenue excluding tobacco excise taxes and revenue from agent transactions <ul style="list-style-type: none">• Core revenue: Core revenue includes all revenue excluding those from distribution, contract manufacturing and other peripheral businesses.
RRP-related revenue (tobacco business)	Reduced-Risk Products (RRP)-related revenue, as a part of core revenue, represents all sales of RRP, principally consumables, devices and related accessories.
Total volume (tobacco business)	The volume of tobacco-based products which excludes contract-manufactured products, waterpipe, RRP devices and related accessories.

Products	
Combustibles	Combustibles include all tobacco products excluding contract-manufactured products, waterpipe, heated tobacco products, oral and E-Vapor.
FCT (fine cut tobacco)	Loose tobacco products also known as rolling tobacco. These can be used for both RYO (roll-your-own) cigarettes, i.e. using rolling papers, and MYO (make-your-own) cigarettes, i.e. by filling a filter tube with cut tobacco.
GFB (Global Flagship Brands)	Winston, Camel, MEVIUS, LD
RRP (Reduced-Risk Products)	Products with the potential to reduce the risks associated with smoking. <ul style="list-style-type: none">• E-Vapor: Products which consumers use by heating electronically a nicotine-based liquid that contains no tobacco leaf.• Heated tobacco products (HTP): Products that contain tobacco leaf and create a tobacco-enriched vapor by heating electronically the tobacco, either directly or indirectly, without any combustion.• Heated tobacco sticks (HTS): High-temperature heated tobacco products.• Infused tobacco capsules (Infused): Low temperature heated tobacco products.• Oral: Products delivering nicotine in the form of a closed pouch. These pouches can contain tobacco and are known as snus. Without tobacco, these consumables are referred to as nicotine pouches. To deliver nicotine and flavor, these pouches are inserted between the consumer's lip and gum.

Sustainability	
ALP	Agricultural Labor Practices
CDP	Headquartered in London, CDP is the leading international non-profit organization that accelerates action to achieve a sustainable economy, assessing disclosure and actions by companies from around the world.
Contraband	Genuine products smuggled from abroad that are diverted from the legitimate supply chain and sold in a country other than the intended retail market without payment of domestic duty in that country.
Counterfeit	Fake products appearing to be genuine brand products protected by intellectual property rights. Counterfeit products are manufactured without authorization from the rightholders and with the intent to copy the genuine brand to deceive the consumer. They are also sold without duties being paid.
DJSI (Dow Jones Sustainability Indices)	The DJSI was created jointly by S&P Dow Jones Indices and SAM. It is a globally recognized environmental, social and governance (ESG) stock index and sustainability benchmark that tracks stock performance of the world's leading companies in terms of governance and economic, environmental and social dimensions.
GHG emissions	Greenhouse Gas emissions <ul style="list-style-type: none">• Scope 1 emissions: Direct GHG emissions from corporate activities, such as burning of fossil fuels at factories.• Scope 2 emissions: Indirect GHG emissions from consumption of purchased electricity, heat or steam.• Scope 3 emissions: Other indirect emissions, including from manufacture of products bought from other companies.
SBTi (Science Based Targets initiative)	The SBTi was formed in 2015 by CDP, the UN Global Compact (UNGC), the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). The SBTi validates targets submitted by companies to confirm and communicate that they are science-based and in line with the Paris Agreement.
SDGs	The Sustainable Development Goals (SDGs) were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.
TCFD (Task Force on Climate-related Financial Disclosures)	TCFD was established by the Financial Stability Board (FSB) to examine how climate-related information should be disclosed, and how financial institutions should respond. TCFD positions climate change as a serious risk to the world's economy and publishes its recommendations for companies to identify and disclose items such as "Governance," "Strategy," "Risk Management" and "Metrics and Targets."

Others	
Consumers (tobacco business)	Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.
BnU	Billion units
JPY BN	Billion Japanese yen
USD MM	Million US dollars

Awards and recognitions

Dow Jones Sustainability Indices (DJSI)

We are a member of the DJSI Asia Pacific Index for the ninth consecutive year.

[JT Group press release](#), December 2022



S&P / JPX Carbon Efficient Index

We have been selected as a member of S&P/JPX Carbon Efficient Index since its launch in 2018.



Top Employer

JT International (JTI) was certified as a Global Top Employer for the ninth consecutive year.

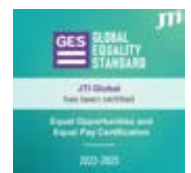
[JTI News & Views](#), January 2023



EY's Global Equality Standard (GES) certificate

In 2021, JTI became one of the first multinational companies to receive EY's new Global Equality Standard. This is one of the only global certificates that assesses companies on equal opportunities and equal pay in the workplace.

[JTI News & Views](#), November 2021



FTSE Blossom Japan Indices

We have been selected as a member of FTSE Blossom Japan Index every year since its launch in 2017 by GPIF. We have also been selected as a member of FTSE Blossom Japan Sector Relative Index since its launch in April 2022.



Morningstar Japan ex-REIT Gender Diversity Tilt Index

We have been selected as a member of Morningstar Japan ex-REIT Gender Diversity Tilt Index (one of the gender diversity indices of GPIF) in April 2023.



Swiss LGBTI Label

In 2020, JTI Geneva, the headquarters of our tobacco business, was awarded the "Swiss LGBTI Label," a certification for companies and organizations with an open and inclusive structure.

[JTI News & Views](#), September 2020



PRIDE Index

In the PRIDE Index, which recognizes the most LGBTQ+-friendly companies, our Japanese operations (JT) achieved Gold status, the highest ranking, in 2022 for the seventh consecutive year.

November 2022



CDP

We continued achieving a place on CDP's "A List" for climate change for the fourth consecutive year.

We were also recognized as a global leader for engaging our supply chain in addressing climate change for the fourth consecutive year.

[JT Group press release](#), December 2022



Science Based Targets

We have set a long-term GHG emissions reduction target in line with the Paris Agreement. GHG reduction targets for 2030 from our operations have been validated in 2022 by the Science Based Targets initiative (SBTi) as being in line with the 1.5°C global warming scenario.

November 2022



White 500

In 2023, JT has been recognized as a Certified Health and Productivity Management Outstanding Organization ("White 500") for its excellent health-conscious management by the Ministry of Economy, Trade and Industry (METI) and the Nippon Kenko Kaigi since the launch of this recognition in 2017.

March 2023



Sports Yell Company

JT was recognized by the Japan Sports Agency as a "Sports Yell Company 2023" for its active efforts to promote sports and improve the health of its employees.

February 2023



Shareholder information

As of December 31, 2022

Common stock

Authorized: 8,000,000,000
 Issued: 2,000,000,000
 (Treasury shares 225,146,463)
 Number of shareholders: 722,051

Share registrar

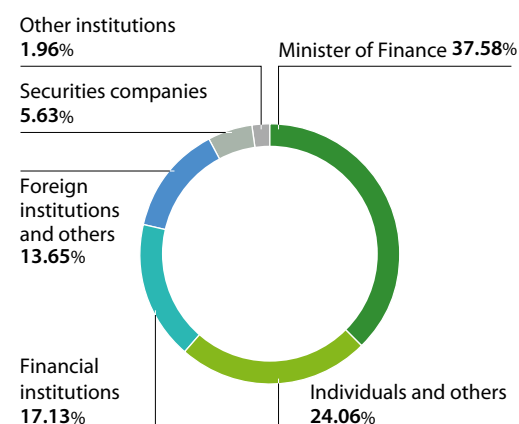
Mitsubishi UFJ Trust and Banking Corporation
 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Listing

Tokyo Stock Exchange: Prime Market

Composition of shareholders

(excluding treasury shares)



Principal shareholders

Name	Shares held
Minister of Finance	666,925,200
The Master Trust Bank of Japan, Ltd. (Trust Account)	176,102,300
Custody Bank of Japan, Ltd. (Investment Trust Account)	64,286,400
SMBC Nikko Securities Inc.	46,559,021
STATE STREET BANK WEST CLIENT – TREATY 505234	23,290,941
SSBTC CLIENT OMNIBUS ACCOUNT	20,568,543
JAPAN SECURITIES FINANCE CO., LTD.	18,279,700
Barclays Securities Japan Limited BNYM	18,088,600
JT Group Employee Shareholding Association	11,665,343
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	11,211,542

Total shareholder return

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
JT	111.2%	117.5%	159.5%	142.9%	140.5%	111.7%	110.7%	104.8%	116.8%	134.4%
TOPIX	118.6%	140.2%	157.1%	157.6%	192.6%	161.9%	191.2%	205.3%	231.5%	225.8%
TOPIX: Foods	112.0%	135.6%	174.3%	170.7%	202.5%	173.7%	174.4%	172.5%	179.9%	192.9%

Note: Baselines for all percentages are a share price and actual performance as of the end of March 31, 2013. TOPIX and TOPIX: Foods are calculated based on figures including dividends. Taking account of a change in fiscal year-end from March to December in 2014, the figures from 2014 onwards are calculated based on a share price and actual performance as of December 31

Contact information

Japan Tobacco Inc.
 1-1, Toranomom 4-chome,
 Minato-ku, Tokyo 105-6927, Japan
 TEL: +81-3-6636-2014
 URL: <https://www.jt.com/>

JT International S.A.
 8, rue Kazem Radjavi
 1202 Geneva, Switzerland
 TEL: +41-22-703-07-77
 URL: <https://www.jti.com/>

Government offerings of JT shares

First Offering

Method	Offering by bids	Offering by non-bids
Offer price (Pricing date)	Bid price: From 1,362,000 yen to 2,110,000 yen Weighted average price: 1,438,000 yen (August 29, 1994)	1,438,000 yen (August 31, 1994)
Number of shares offered	229,920 shares	164,356 shares
Offer term	From August 15 to 18, 1994	From September 2 to 8, 1994

Note:

Listing date: October 27, 1994

Tokyo Stock Exchange: First Section

Second, Third and Fourth Offerings

	Second Offering	Third Offering	Fourth Offering
Method	Offering by book-building formula	Offering by book-building formula	Offering by book-building formula
Offer price (Pricing date)	815,000 yen (June 17, 1996)	843,000 yen (June 7, 2004)	2,949 yen (March 11, 2013)
Number of shares offered	Japan: 237,390 shares International: 35,000 shares (Total: 272,390 shares)	Japan: 198,334 shares International: 91,000 shares (Total: 289,334 shares)	Japan: 145,625,500 shares International: 107,636,300 shares (Total: 253,261,800 shares)
Offer term	From June 18 to 19, 1996	From June 8 to 10, 2004	From March 12 to 13, 2013

Editorial policy

Period covered

In principle, this report covers the period from January 1, 2022 to December 31, 2022, but also includes some information related to activities before and after this period.

Scope of report

Japan Tobacco Inc. and consolidated subsidiaries

Published

June 2023

Referenced guidelines

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

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 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.