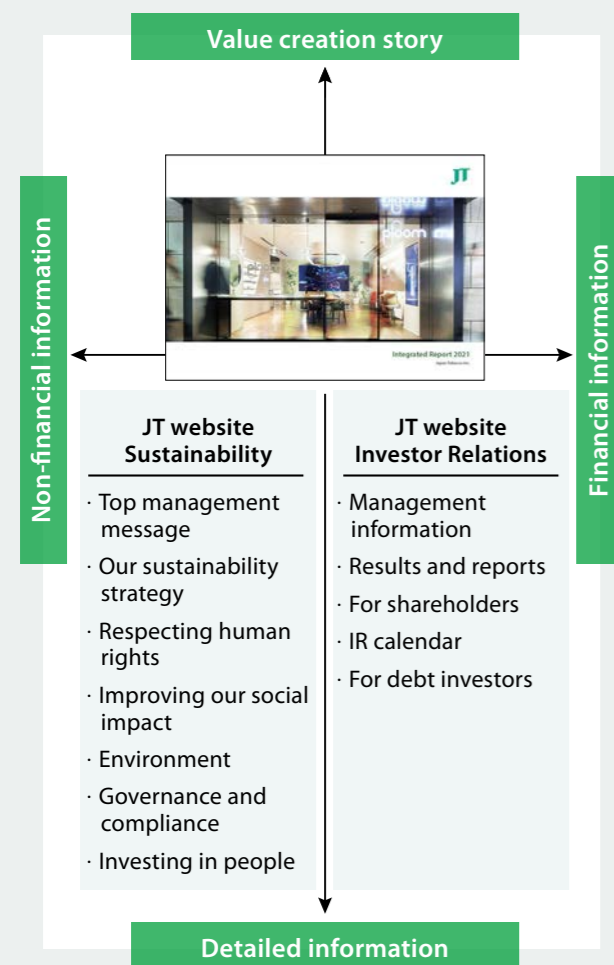




Purpose of our Integrated Report

This report consolidates important information for our stakeholders to better understand the JT Group. For detailed information, please visit our website.

In this report, we integrate financial information, e.g., management principle, business plan and business performance, and non-financial information, namely sustainability information that supports the JT Group's growth in the mid to long term. The purpose of this report is to inform our various stakeholders, including shareholders and investors, of the current and future value creation story of the JT Group.



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" at P.129 for further details.



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CORPORATE PROFILE

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

To provide an overview of the Group, this section discusses the Group management principle and vision that form its foundation for value creation, outlines its businesses, and presents key financial and non-financial performance indicators. The section also has a special section featuring a message from the CEO explaining initiatives the Group is undertaking to continuously deliver value.

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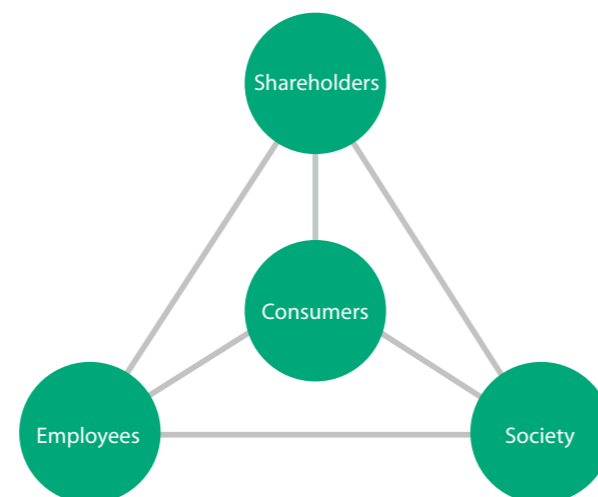
Our management principle

Management principle

To pursue the 4S model

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

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



Consumers



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

Shareholders



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

Employees



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

Society



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

VISION

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

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

Our long, rich history has endowed us with three key strengths: a solid financial base, superior brand equity and a diverse workforce. To realize our vision, we plan to

leverage these strengths as sources of competitiveness in our business activities. We will create a variety of products and services that meet the needs of our consumers and society, enhance the corporate value of the JT Group, and create social value that contributes to the development of a sustainable society.

The JT Group MISSION

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

The JT Group WAY

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

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

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

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

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



Message from the CEO



Masamichi Terabatake

Representative Director and President,
Chief Executive Officer

M. Terabatake

Driving changes on our own initiative

Since its inception, the JT Group has grown by keeping its focus on the future, anticipating challenges and adapting swiftly to change. I am convinced this proactive approach will continue to lead the JT Group towards more sustainable mid- to long-term growth, further supported by organizational reforms and cultivating a working environment where each and every employee can initiate changes on their own.

Knowing the business environment

The JT Group's business environment remains difficult to predict because of changes in the international political situation, and risks related to exchange-rate fluctuations, as well as the persistent impact of the pandemic and the subsequent changes in consumer behavior and operations by businesses around the world.

It is undeniable that all our business segments currently face, and will continue to face, increasingly challenging environments. The tobacco business continues to experience tighter regulations and higher taxes, combined with increasing demand for reduced-risk products (RRP), especially heated tobacco sticks (HTS). Meanwhile, the pharmaceutical business is facing higher hurdles for new drug approval and growing pressure to lower prices, while the processed food business is facing rising costs for personnel, distribution and raw materials.

In addition, digital technology is constantly progressing, consumer preferences and behaviors are evolving with increasing awareness of sustainability and ESG priorities, and the needs and expectations among our shareholders, as well

as society at large, are changing. Amid these major, rapid global trends, it is vital that we drive initiatives proactively rather than react passively.

2022 is also marked by the unprecedented crisis of the war in Ukraine. I would like to express my sincere condolences to those who have tragically lost loved ones in the war, and to the many others who have had to face devastating difficulties, such as having to leave everything behind in order to seek safety. I sincerely hope that peace will return soon.

While the JT Group's first priority is the safety and security of our employees and their families, we are also working hand in hand with international and local aid organizations to establish relief programs and provide immediate help to those affected. We will continue to closely monitor the situation and prioritize our employees and their families' safety, while extending all possible support to those in need, taking all necessary decisions to address the changing situation in accordance with our Group's management principle, which is to pursue the 4S model.

Note: 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.

Message from the CEO

Driving changes on our own initiative

The JT Group has always marked its growth by taking matters in its own hands, adapting swiftly and implementing strategic initiatives. An example of such growth is represented by our tobacco business, where we made large-scale acquisitions, like those of RJR and Gallaher; expanded geographically into emerging markets; enhanced equity, mainly for global flagship brands; and continuously allocated resources to increase presence in the expanding RRP category.

More recently, based on the anticipated, long-term business environment, and in order to increase profitability and strengthen our competitiveness in the tobacco business, we announced in February 2021 that we had refined our investment prioritization to two key categories – HTS and combustibles – and were introducing initiatives to strengthen the tobacco business operating model, including those aimed at combining the existing tobacco businesses and strengthening competitiveness in the Japanese market.

The road leading to the combination of the tobacco businesses took many steps. In the tobacco business, we formerly ran our Japanese-domestic and international tobacco businesses separately, which presented challenges for us when formulating and executing a globally uniform strategy, as well as when striving to ensure effective allocation of global resources. These challenges were especially apparent in the circumstances we faced to strengthen competitiveness in the RRP category. I believed it was urgent to establish an operating structure without divisional borders

between Japanese-domestic and international operations, or between JT and JTI, to allow speedy decision-making under unified management. Additionally, for the JT Group to follow through on its customer-first policy and maintain sustainable growth, we needed a structure enabling us to effectively and efficiently offer products and services that exceeded consumer needs and expectations.

Faced with these challenges, after taking charge as CEO, I worked to unify teams for R&D initiatives and RRP management both in Japan and abroad, led the transformation of our international tobacco business, and relocated the JT head office building in Tokyo. Through these initiatives, the Group has been reinforcing our foundation and sharpening our global competitiveness.

As a result of these initiatives, we kicked off January 2022 with our new operating model, built around a unified, global tobacco business, for the JT Group to further grow and evolve into a truly global company. With this step, the tobacco business headquarter function has been consolidated at the headquarters in Geneva, creating a simpler business operation structure, optimal for accelerating speed through efficient, effective decision-making. I firmly believe that this will enable us to strengthen our competitiveness in the growing RRP category, mainly in HTS, by leveraging and allocating global resources in a prioritized and timely manner with a global perspective, as well as building a system to maximize the value we offer our consumers. Furthermore, going forward, we also plan to share and deploy best practices on a global basis in a more energized and timely manner. In respect to the Japanese market, operations will continue under the global operating model, with Japan set as one of our key markets.

In preparation for the global tobacco business, in the Japanese market we determined that it is imperative that we increase competitiveness to further enhance value to our consumers in an environment where overall business volume has shrunk amidst growing uncertainty. As a result, we have executed initiatives conducive to overcoming anticipated challenges identified in this changing environment. Over the past few years, we have undertaken a number of initiatives, sometimes requiring difficult decisions, such as reforming the sales organization, closing some production

sites, implementing a voluntary retirement program, and reducing the total domestic tobacco cultivation area.

Leaving no stone unturned, we also reorganized the Corporate function. In addition to fulfilling an administrative role, this institution acts to identify and address mid- to long-term management issues. It is designed to be an organization facilitating inter-division collaboration without the constraints of divisional walls, generating high-quality output that addresses issues identified by the JT Group.

The most important factors in these kinds of reform are for each employee to understand the goals, and

correspondingly change their awareness and behavior to become the ones initiating change. Consequently, every member of the Board of Directors, including myself, is actively communicating with employees about the background and intent of the reform initiatives we have been undertaking, so that this knowledge permeates our workforce. By helping each employee become more adaptive to change through these initiatives, we are in turn strengthening the JT Group as an organization. Just as we have been initiating change and overcoming challenges promptly through our strong leadership, we will promote behavioral changes and secure sustainable mid- to long-term growth.

Business Plan 2022

As announced in February 2022, Business Plan 2022, our three-year business plan, marks the continuation of our fundamental pursuit of sustainable mid- to long-term profit growth. More specifically, we remain committed to achieving mid to high single digit average annual growth in adjusted operating profit at constant FX over the mid to long term. We also expect to steadily grow both profit and shareholder returns in line with our shareholder-return policy.

The key to achieving these objectives lies in growth of the tobacco business, which is the core driver of the JT Group's profit growth. Consequently, we will continue to focus on investing our management resources intensively for top-line growth and increasing profitability, designating HTS and combustibles as our top-priority categories. We see that the HTS segment provides the largest potential for sustainable profit growth within the RRP category, which we expect, with anticipated demand increases in this category, to become a strong pillar for our future growth. While the RRP category is our top investment priority in terms of future sustainability of the JT Group, we project nonetheless that combustibles will remain the tobacco industry's biggest category through the coming decade. Therefore, we will also support efforts to continue increasing combustibles' top-line contribution, while enhancing their profitability through lower costs and higher efficiency.

Moving on to our mid-term projections and goal, we project that HTS share in the tobacco industry as a whole will increase from the current 15% to about 20% by the end of

2027. Within this environment, the JT Group announced, in February 2022, its ambition to achieve HTS segment share in the mid-teens across our key markets by the end of 2027, and by doing so, reach break-even in the RRP business.

Having said this, in considering developments in the war in Ukraine, we have decided to suspend the launch of Ploom X in the Russian market, which was planned for 2022, and are reviewing our global launch plans to optimize the future development of Ploom X by being flexible and ensuring a state of readiness.

Needless to say, it is clear that RRP will be of significance in the industry; we expect that they will continue to gain increased attention and traction with consumers as these products have the potential to reduce the health risks associated with smoking by offering solutions that do not involve burning tobacco and produce no smoke and less odor. They thus significantly reduce not only the potentially harmful constituents in smoke generated from burning tobacco leaves, but also the 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.

Moving on to the pharmaceutical and processed food businesses, while they will continue to face a challenging business environment, their role of supplementing profit



Message from the CEO

growth for the JT Group remains unchanged. In the pharmaceutical business, we will continue to enhance the value of products already introduced and still in development, as well as cultivating in- and out-licensing opportunities to reinforce our business foundation. In the processed food business, we will follow through on existing initiatives, such as allocating more resources to high-value-added and high-priced products, mainly in our core frozen and ambient food business, in order to promote a high-quality top-line increase leading to sustainable profit growth.

Toward mid- to long-term growth

Pursuing the 4S model to provide higher value to stakeholders

Change in the social and business environments is accelerating, notably in terms of awareness of sustainable business practices as part of ESG considerations. I believe that a proactive and committed contribution to the development of society, through operations based on pursuing the 4S model, is essential to the long-term growth of the JT Group. To realize this ambition, we have identified, based on the 4S model, a set of priority issues (materiality) for our business and a wide range of stakeholders, and used these to focus our sustainability strategy.

Sustainability at the JT Group

In 2021, we continued to actively undertake initiatives based on our sustainability strategy. With ESG interest growing every year in the business world, we understand it is particularly important to reinforce the foundation of ESG, which is governance. To that end, we reflect our efforts to evolve corporate governance not only in our dialogue with stakeholders, including the capital markets, but also in appropriate responses to social demands related to governance, and analysis of the assessment of Board effectiveness, among other factors. What we have learned from these processes is reported to the management team and Board of Directors, whereupon, after conducting the necessary discussions, it has led to measures for improvement. Examples include a

Lastly, we will continue allocating management resources to, and prioritizing investment in, businesses delivering sustainable profit growth, particularly the tobacco business, the core driver of the JT Group. We will also aim to increase returns to shareholders through mid- to long-term profit growth while maintaining a target payout ratio of about 75%*, and to achieve that objective, we will continue our efforts to grow adjusted operating profit at constant FX.

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

We made it standard practice to involve the Board of Directors, and myself as CEO, in setting the goals for our sustainability strategy, and discussing and managing specific measures for achieving those goals, which we are firmly committed to deliver on. Since 2020, we have been holding regular Sustainability Advisory Forums, chaired by our CSO and involving representatives of JT Group businesses and functions, to discuss sustainability issues. Additionally, as we believe our proactive participation in the sustainability management process is essential, we made the Sustainability Management Division independent of other Corporate groups in January 2022, when we also reorganized our Corporate function.

revision of the director tenure policy and the disclosure of information related to our integrated report.

We are also reviewing the KPI related to executive remuneration in order to strengthen the commitment from management to deliver sustainable profit growth for the JT Group, and to reflect a multifaceted performance scorecard using not only financial indicators, which measure current business performance, but non-financial indicators as well.

Going forward, we will continue to enhance corporate governance based on dialogue with all our stakeholders, as laid out in our management principle of pursuing the 4S model.

As for the environment, climate change is a pressing challenge requiring worldwide attention. To further enhance our

environmental initiatives thus far, and contribute to the shift to a decarbonized society, the JT Group has revised its goals for energy consumption and greenhouse gas emissions in our Environment Plan 2030. We will further enhance and expand our initiatives to achieve carbon neutrality by 2030, and net zero for the entire value chain by 2050.

Concerning our responsibility to society, we have been

conducting human rights due diligence assessments to overcome challenges across our supply chain. Furthermore, we have published the Group's first Human Rights Report. Our social initiatives are multifaceted, including a new Group goal to increase our proportion of women in management to 25% by 2030, while recognizing that it is desirable that this should eventually come to exceed 40%.

Conclusion

Amid a business environment in which we are experiencing major, rapid global change, I believe it is important for us to take a fresh look at the value the JT Group offers to society, the reason for our existence, and the essence that has been, and will continue to be, at our core. In 2020, we created D-Lab within the Corporate research and development division, to explore opportunities beyond the existing scope of business. Today, D-Lab has various projects underway to strengthen our business portfolio, including new businesses.

As such, we will keep striving to demonstrate to our consumers, shareholders and wider society they can entrust the JT Group to deliver "moments of pleasure" in the 20 to 30 years to come.

Lastly, I would like to stress my commitment to assuring the growth of the RRP category as top priority on my agenda, and I look forward to continuing to update you on what the future holds for the JT Group.



At a glance

The JT Group is a leading global tobacco company operating in over 70 markets and our products are sold in over 130 markets. In addition to the tobacco business, we are developing 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 Japan, the Philippines, Taiwan, Italy, Spain, the U.K., Romania, Russia, 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 handles the frozen and ambient food business, mainly for frozen noodles, packaged cooked rice, and frozen okonomiyaki (Japanese savory pancakes); the seasonings business, focusing on seasonings including yeast extracts; and the bakery business through bakery chain outlets, mainly in the Tokyo metropolitan area.

Major products include *Reito-Sanuki-Udon* (frozen noodles), *Takitate-Gohan* (packaged cooked rice), and the and the *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 three of the top ten global-selling brands in its product portfolio.

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

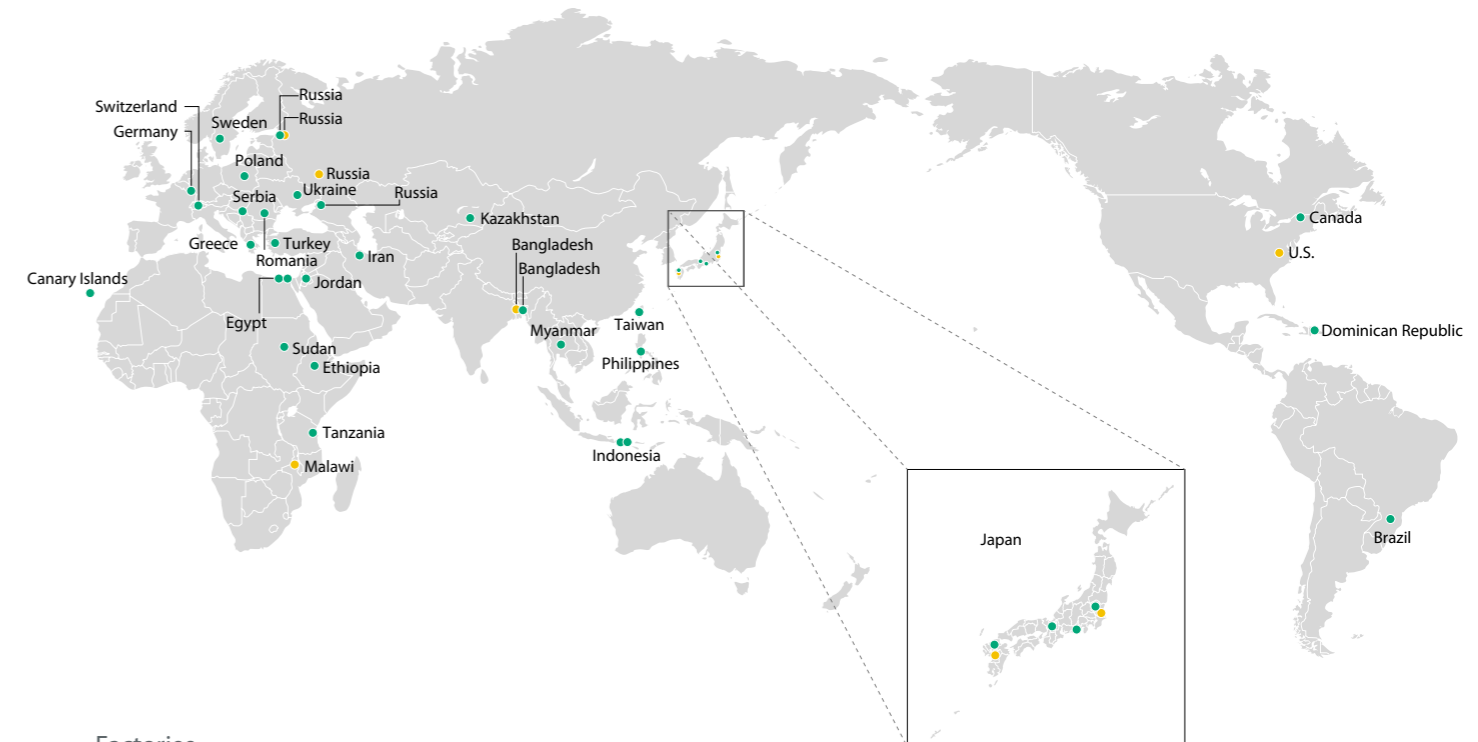
consumers' trust. As of the end of 2021, the Group operates six factories in Japan (four manufacturing tobacco and two tobacco-related factories), and 33 factories in 28 other countries (including tobacco-related factories).

* Excluding China National Tobacco Corporation

Location of Factories related to Tobacco Manufacturing

(As of December 31, 2021)

● Factories manufacturing finished goods ● Other tobacco-related factories



Factories



Tobacco business **39** factories

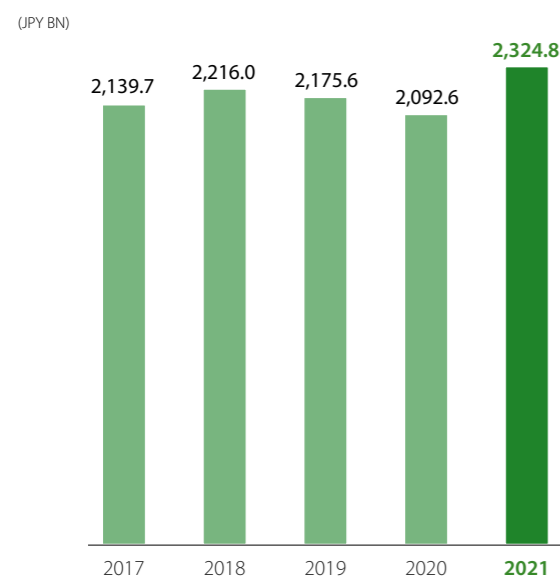
Processed food business **5** factories

*There are no factories in the pharmaceutical business.

Key performance indicators

Financial performance review

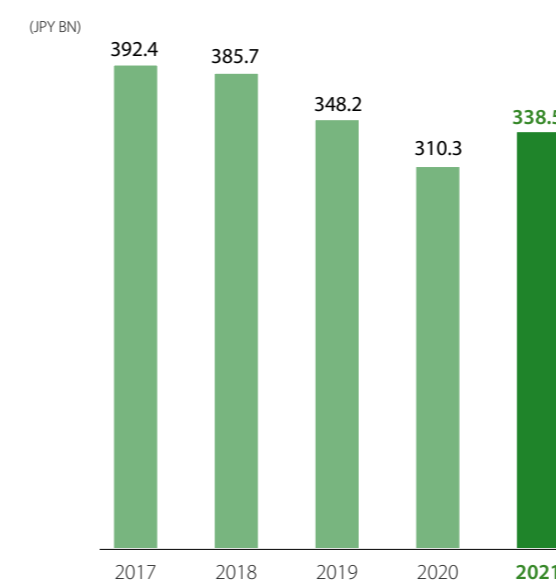
Revenue



JPY2,324.8BN
11.1% YoY increase

Despite continued market share growth and positive price effects in the international tobacco business, consolidated revenue decreased for two consecutive years through 2020, mainly as a result of negative foreign-exchange effects, growth in the Japanese RRP (Reduced-Risk Products) market and a continued downtrend in the Japanese market as a whole. In 2021, consolidated revenue grew 11.1% year on year to 2,324.8 billion yen, driven mainly by positive foreign exchange effects in addition to robust market-share growth and buoyant overall demand in the international tobacco business.

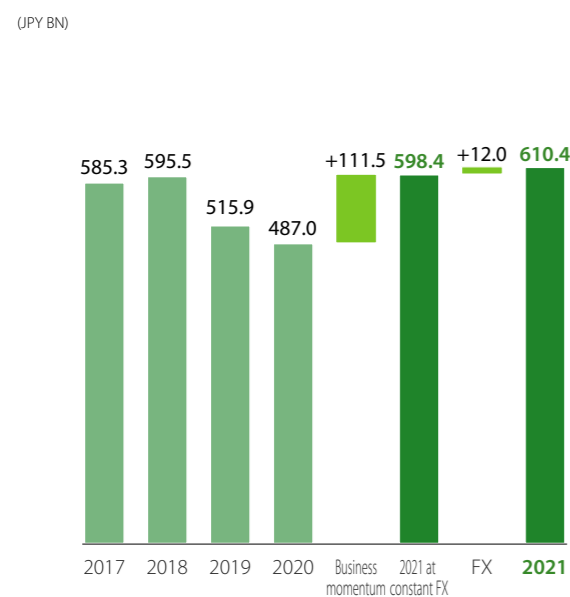
Profit



JPY338.5BN
9.1% YoY increase

Profit decreased from 2017 through 2020, mainly as a result of a decline in operating profit and increasing financial costs net of financial income. In 2021, however, profit grew 9.1% year on year to 338.5 billion yen by virtue of operating profit growth.

Adjusted operating profit

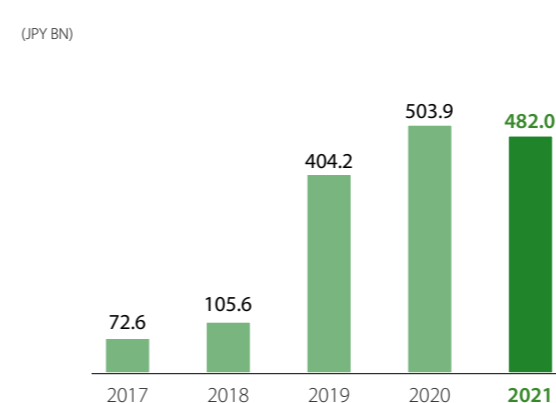


22.9% YoY increase on constant FX basis

JPY610.4BN (reported basis)
25.4% YoY increase

Adjusted operating profit on a reported basis declined in both 2019 and 2020, mainly as a result of negative foreign-exchange effects in the international tobacco business and reduced revenue in the Japanese-domestic tobacco business. In 2021, adjusted operating profit increased 25.4% to 610.4 billion yen, boosted mainly by revenue growth and positive foreign-exchange effects in the international tobacco business. AOP at constant FX grew 22.9% year on year to 598.4 billion yen.

Free cash flow



JPY482.0BN

JPY21.9BN YoY decrease

In terms of free cash flow, the cash-generating capacity of our businesses is stable. In 2021, free cash flow decreased 21.9 billion yen to 482.0 billion yen, largely because of non-recurrence of the cash inflow a year earlier from the sale of the former JT head office building.

Dividend per share



JPY140

Until 2019, we had been increasing our dividend per share every year. Based on the change in our shareholder returns policy, we paid total dividends of 140 yen per share for 2021.


Please see at P.29 for details of our resource allocation policy, including our shareholder returns policy.

Key performance indicators

Non-financial performance review

2021 sustainability highlights

We continuously revisit the material issues of our Group, while striving to achieve our aspirational goals. Summarized here are some of our sustainability achievements and progress. It is paramount that we continue to monitor and report on our strategy, initiatives, goals, and progress. By

 We announced our commitment to accelerate our efforts to reduce greenhouse gas (GHG) emissions across the entire value chain and achieve **net zero GHG emissions by 2050**. We aim to be carbon neutral for our own operations by 2030. Among other initiatives, we plan to achieve this by increasing the proportion of renewable electricity that we use.

▶ Read more on P. 76.

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

 To coincide with the 10th anniversary of the United Nations Guiding Principles on Business and Human Rights, we have published our first **Human Rights Report**. The report explains our approach to human rights' due diligence based on the JT Group Human Rights Policy. It also identifies nine salient human rights issues and the steps we are taking to remedy them.

▶ Read more on P. 73.

 Corporate governance is one of the key priorities of our Group and we work proactively to fulfill this requirement. In our latest Corporate Governance Report, we introduced a **skills matrix for the Directors and Members of the Audit & Supervisory Board**. For the sustainable growth of our Group, we are introducing an **ESG-related index for director remuneration**, starting from FY2022.

▶ Read more on P. 88.

 In 2021, JTI received **EY's Global Equality Standard certificate**, as one of the first multinational companies in the world. EY's GES is one of the first worldwide Diversity & Inclusion (D&I) certifications measuring equal opportunities and equal pay in the workplace.

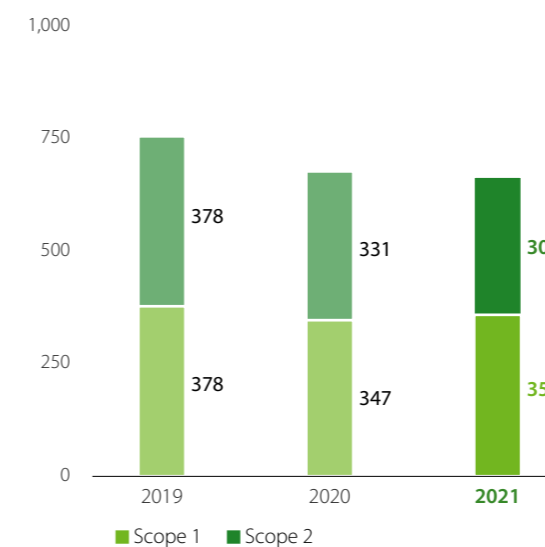
▶ Read more on P. 68.

JT Group environmental performance data

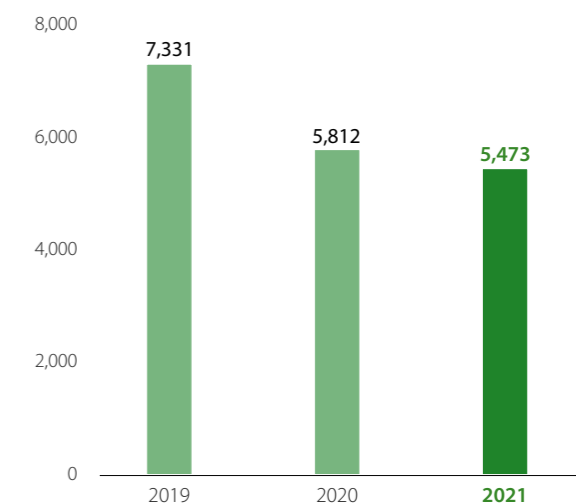
As a global organization, we recognize that we have a key role to play in reducing our environmental impact – not only in our own business operations, but across our value

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

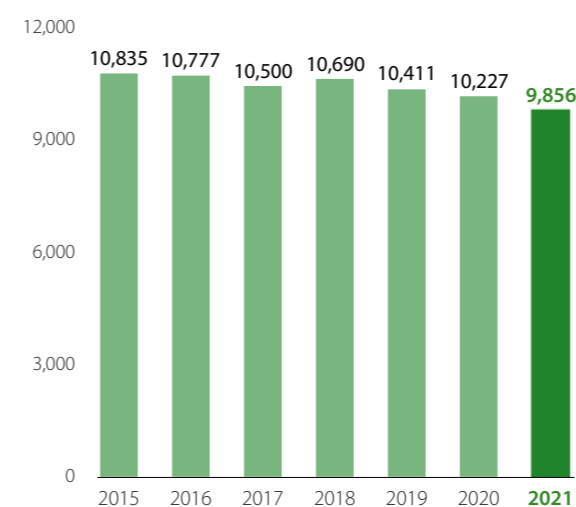
GHG emissions Scope 1 and 2
(CO₂e thousand tons)



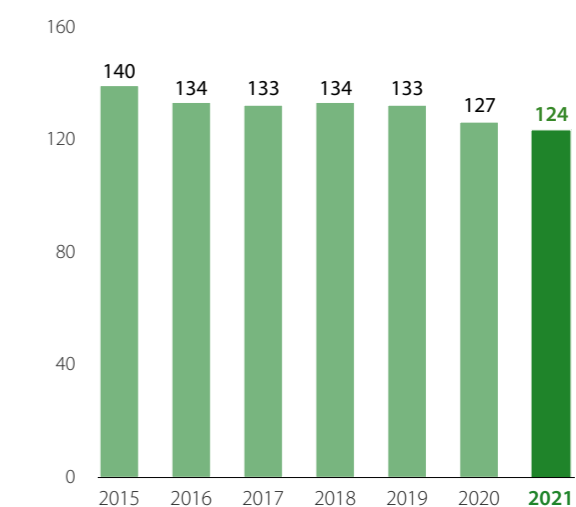
GHG emissions Scope 3
(CO₂e thousand tons)



Water withdrawal
(Thousand m³)



Waste generated
(Thousand tons)



VALUE CREATION

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

This section illustrates the value-creation process that the JT Group has been pursuing by enhancing the value chain based on strengths honed over its entire history.

- 020 Our history
- 022 Our value creation process
- 024 Our value chains

Our history

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

The three strengths underpinned by our history and accomplishments

Solid financial base



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

Superior brand equity



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

Diverse workforce



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

- 1949** Japan Tobacco and Salt Public Corporation founded
- 1957** HOPE launched
- 1969** Seven Stars launched
- 1977** MILD SEVEN launched

- 1985** Japan Tobacco Inc. established
- 1985** Food and pharmaceutical businesses established
- 1993** Central Pharmaceutical Research Institute established

- 1994** JT goes public on Tokyo Stock Exchange
- 1998** JT acquires majority stake in Torii Pharmaceutical Co., Ltd.
- 1999** JT acquires RJR Nabisco Inc.'s non-U.S. tobacco business



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

- 2007** JT acquires Gallaher Group Plc (U.K.)



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



- 2013** MILD SEVEN is renamed MEVIUS



- 2015** JT acquires E-Vapor company, Logic Technology Development LLC

- 2016** JT acquires Natural American Spirit's non-U.S. tobacco business

- 2016** Ploom TECH (Infused*) launched

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

- 2019** Ploom TECH+ (Infused*) and Ploom S (HTS*) launched

- 2021** Ploom X (HTS) launched



- 2022** JT starts new business operating model by combining former Japanese-domestic and International tobacco businesses

1970s and earlier

Origins of the modern Japanese tobacco industry

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

1985–

Privatizing and creating the base of the current business portfolio

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

1994–

Stock listing and challenges for globalization

JT goes public aiming to be a multilateral and international company with tobacco business at its core.

Through M&A, JT obtains the world's leading brands and a global business foundation and grows to become the third largest global tobacco company.

2007–

Strengthening our position as a global tobacco company

By accelerating our global expansion, JT obtains a diverse workforce and foster its financial base.

2015–

Providing new value by addressing increasingly diverse consumer needs and preferences

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

2021–

Redefining our investment prioritization among tobacco categories and strengthening business operating model

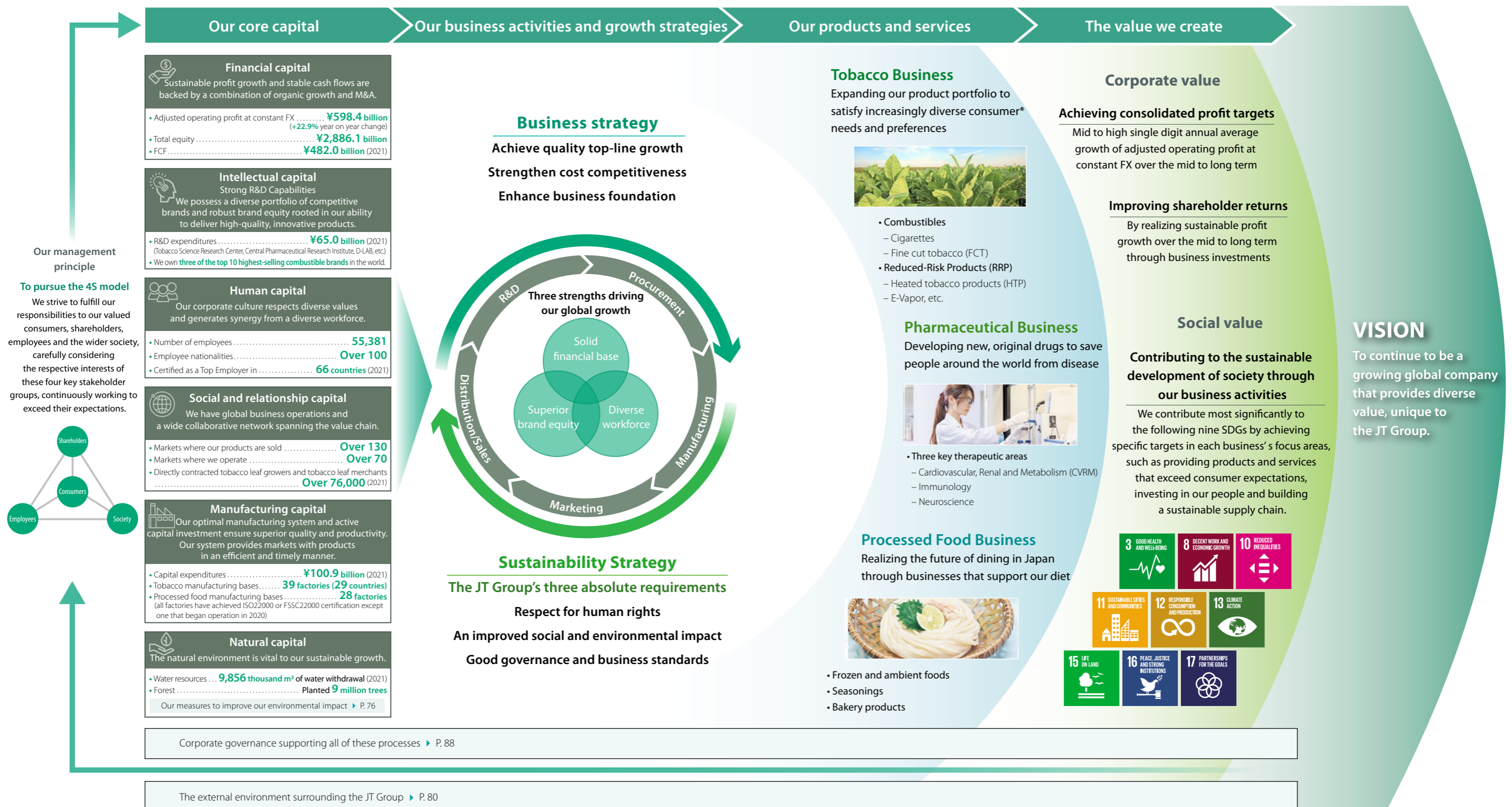
JT allocates management resources especially towards HTS* and Combustibles to strengthen its competitiveness and profitability aiming for its sustainable growth. By utilizing global resources at large with the combined tobacco business, JT endeavors to globally provide products and services exceeding consumer needs and preferences.

Profit
JPY **338.5** BN

* Infused: infused tobacco capsules, HTS: heated tobacco sticks

Our value creation process

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



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

Our value chains

	R&D	Procurement	Manufacturing	Marketing	Distribution/Sales	
Tobacco Business	Strengths	<ul style="list-style-type: none"> 5 R&D centers covering scientific research, technology & product development Consumer-driven R&D focusing on what matters most to consumers* 1,364 IP filings, 90+ innovation partnerships with third-party players 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 39 factories across our footprint, out of which six produce RRP State-of-the-art equipment and manufacturing processes Industry-leading quality standards for all our products 	<ul style="list-style-type: none"> Strong brand equity, notably Winston, Camel, MEVIUS & LD Consumers* at center of our offerings: we provide freedom of choice and superior quality Full compliance with local regulation in all countries where we operate 	<ul style="list-style-type: none"> Sales in 130+ markets Tailored RTC* on market-by-market basis Motivated salesforce with strong ties with trade <p>*Route to consumer</p>
	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 investments behind our GFB and in building Ploom brand Nurturing consumer-centricity mindset across entire organization Additional internal initiatives as self-regulation and 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 tobacconists <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, JTG is implementing initiatives to accelerate the development of new RRP platforms 	<ul style="list-style-type: none"> As JTG 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	Strengths	<ul style="list-style-type: none"> Develop of innovative drugs 		<ul style="list-style-type: none"> Ability to stably manufacture high-quality pharmaceuticals 	<ul style="list-style-type: none"> Conduct responsible detailing activities 	
	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 on ethical drug detailing activity 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 address them	<ul style="list-style-type: none"> Add more research themes and expedite progress Develop proprietary drug-discovery technologies 		<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	Strengths	<ul style="list-style-type: none"> Proprietary yeast, processing and freezing technologies Ability to develop high-value-added products that meet consumer needs and preferences 	<ul style="list-style-type: none"> Stable, cost-competitive sourcing of high-quality ingredients (extensive supplier network and inspection program) 	<ul style="list-style-type: none"> Management systems that ensure stable, efficient (low-cost) manufacturing of high-quality food products based on food safety management 	<ul style="list-style-type: none"> Top-market-share* products/brands (<i>Sanuki Udon</i>, <i>Gottsu-umai</i>) *Fuji Keizai Co., Ltd. Foodstuff Marketing Handbook 2022: Vol. 2, 3 2020 results Market insight based on communication with consumers (identification of consumers' increasingly diverse needs/preferences, e.g. by using fan sites.) 	<ul style="list-style-type: none"> Sales force capable of proposing products that meet consumer needs with an extensive product lineup
	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 Stably supply 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.

BUSINESS and SUSTAINABILITY

This section covers the JT Group's mid- to long-term business and sustainability strategies and initiatives in that context. Here our CFO and CSO explain Group capital policy, financial strategy and the principles for sustainability that together sustain Group value creation.

028	Business Plan 2022
030	Sustainability
034	Message from the CFO
038	Message from the CSO
040	Overview of tobacco business and its sustainability initiatives <ul style="list-style-type: none">• Products & services• Building sustainable supply chains• Optimizing the regulatory environment and tackling illegal trade
060	Overview of pharmaceutical business and its sustainability initiatives
064	Overview of processed food business and its sustainability initiatives
068	Investing in people <ul style="list-style-type: none">• Health and safety
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Business Plan 2022

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

* The content of this section is based on the information disclosed in February 2022.

Operating environment outlook 2022-2024

Uncertainties are expected to increase due to COVID-19, changes in consumer behavior caused by the pandemic and risks of global economic stagnation, in addition to changes in international political conditions, exchange rate fluctuations, and other factors.

In accordance, there is a necessity to:

- Monitor changes in the business environment such as pandemic-driven governmental tax increases to secure financial resources, and tighter, more complex regulations
- Consider uncertain geopolitical risks, such as economic sanctions or political unrest in some markets

RRP (Reduced-Risk Products)

- Continued demand increase especially for HTS (heated tobacco sticks)
- Intensified competition and regulatory developments in leading markets
- Uncertainty in device procurement due to global semiconductor shortage

Combustibles

- Continued downtrading and industry volume decrease in leading markets
- Profit pool likely to expand through pricing opportunities

Group profit target

Mid- to long-term target	Consolidated adjusted operating profit (AOP) at constant FX growth rate of mid to high single digit
Outlook 2022-2024	Annual average growth of a mid single digit rate despite significant investments towards RRP

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

- Adjusted operating profit is used to show, in a readily understandable way, our business performance for the current fiscal year, excluding any effects of amortization costs related to acquisition(s) in the previous years.
- Previously, adjusted EBITDA had been used as an index for performance management, but to better manage business investment and returns, starting with the 2014 Business Plan it was replaced with adjusted operating profit, as the latter does not require the addition of amortization and depreciation costs, which vary with the business investment in a given year.
- In order to more clearly illustrate the strength of our businesses themselves, we adopt the figures at constant FX, thereby disregarding possible exchange rate fluctuations which can move upward or downward significantly over the short term due to factors not directly related to our businesses, such as geopolitical risks.

Roles and targets of each business

Tobacco Business	<p>The tobacco business, the core and driver of the JT Group's profit growth, aims to grow at a mid to high single digit CAGR over the mid to long term of AOP at constant FX.</p> <ul style="list-style-type: none"> • Prioritize investment of management resources towards HTS and combustibles <ul style="list-style-type: none"> – Combustibles to remain the largest category over the coming decade – In RRP, HTS to be highest potential for sustainable profit growth • Strive to fulfill following goals by the end of 2027 (when the HTS segment is estimated to represent 15% - 20%^{*1} of the total tobacco industry): <ul style="list-style-type: none"> – Drive segment share for HTS in the key HTS markets^{*2} to the mid-teens level – Reach break-even^{*3} in the RRP category • Enhance investment in the HTS category to win more support from consumers^{*4} to: <ul style="list-style-type: none"> – Expand geographically (e.g., Russia and Europe) – Continue to improve products – Reinforce our strategic capabilities <p>Please refer to Overview of tobacco business and its sustainability initiatives (P. 40) for more details.</p> <p>^{*1} On a basis of revenue, excluding revenue in China ^{*2} Japan, Russia, U.K., Italy ^{*3} Global basis (assumes existing geographic footprint and the current expansion plan) ^{*4} Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.</p>
Pharmaceutical Business/ Processed Food Business	<p>The pharmaceutical and processed food businesses aim to complement the JT Group's profit growth</p> <ul style="list-style-type: none"> • Pharmaceutical business: Focus on R&D investments toward next-generation strategic products and maximize the value of each product • Processed food business: Ensure sustainable profit growth through quality top-line growth

Resource allocation policy

Resource allocation policy based on the 4S model	<ul style="list-style-type: none"> • Prioritize business investments^{*1} for sustainable profit growth in the mid to long term • Strike a balance between profit growth through business investments and shareholder return <ul style="list-style-type: none"> – Aim to enhance shareholder returns by realizing the Group's mid- to long-term profit growth, while maintaining a strong financial base^{*2} – Target a dividend payout ratio of about 75%,^{*3} a competitive level^{*4} in the capital markets – Consider implementing a share buy-back program, mainly taking into account the Group's financial outlook of the respective year and mid-term capital needs
Shareholder return policy	<p>^{*1} Investment towards the growth of the tobacco business is our highest priority. Pursue growth of AOP at constant FX through quality top-line growth</p> <p>^{*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</p> <p>^{*3} To be in the range of approximately ±5%</p> <p>^{*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</p>

Sustainability

Our material issues

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

Since we first selected our original material issues, external circumstances and the business environment in which we operate have changed. In 2021, we began updating the Group's materiality framework by revisiting and identifying our material issues. With this in mind, external and internal

stakeholders are being consulted to prioritize our new materiality topics.

In updating our materiality, there are several issues we are paying particular attention to: the rise and growth of RRP (Reduced-Risk products); the increasing global awareness to combat climate change; impacts of the COVID-19 pandemic, the progress of information technology; greater diversity in the workplace; regulatory trends such as the revision of Japan's Corporate Governance Code, to name but a few. We also recognize the importance of creating new shared value, together with our stakeholders. Taking these factors into consideration, as well as the ESG issues facing our Group, we will set out our new materiality.

The JT Group's materiality



Overview of the sustainability strategy

The JT Group's sustainability strategy is based on the 4S model, our management principle, and encompasses our materiality analysis. The foundations of our sustainability strategy, which apply across the Group, are outlined below.

In 2021, we updated our JT Corporate Governance Policy and the Group Environment Plan 2030, which includes a commitment for a net zero target.

Three absolute requirements for sustainability

Respect for human rights

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

▶ P. 73

An improved social and environmental impact

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

▶ P. 75

Good governance and business standards

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

▶ P. 88

Focus areas by business segments

We have identified priority areas, aspirational goals and targets for each business segment. As JT Group Environment

Plan 2030 was updated, greenhouse gas emission targets of all of our business segments were also updated.

Tobacco business

We have selected the following four focus areas for tobacco, our core business. In 2019, we set out 11 specific targets covering each focus area and have been reporting on progress. In 2020, we set a new target relating to the appropriate

use and responsible disposal of materials, including plastics, used in our products and packaging. As a result, a total of 12 targets are in place.

Focus areas	Aspirational goals
Products and services	We will be a total tobacco company offering consumers* an even greater choice of products by focusing on quality, innovation, and reduced-risk potential. ▶ P. 50
People	We will be the employer of choice by investing in people. ▶ P. 68
Supply chain	We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain. ▶ P. 54
Regulatory environment and illegal trade	We will ensure the Company is included in policymaking leading to fair and balanced regulation, and enhance our cooperation with governments to combat illegal trade. ▶ P. 57

Read about the targets of our tobacco business and progress in 2021

Sustainability

Pharmaceutical business

The mission of our pharmaceutical business is to create innovative, original drugs to support patients in the shortest time possible. In view of this mission, in 2019, we selected

the following three focus areas. We subsequently set five specific targets for these focus areas.

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

[Read about the targets of our pharmaceutical business and progress in 2021](#)

Processed food business

The processed food business comprises three businesses: frozen and ambient food, seasonings and bakery businesses. Our mission is to deliver safe, high-quality food to our

consumers. In 2019, we selected the following three focus areas. We subsequently set eight specific targets for these focus areas.

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

[Read about the targets of our processed food business and progress in 2021](#)

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

Contributing to the SDGs

The JT Group supports the Sustainable Development Goals (SDGs) adopted by the United Nations. Through our business activities, we will contribute to the SDGs related to our business and its environment. We have mapped related

SDGs against our initiatives for sustainable business, and identified the nine SDGs to which our business can best contribute.



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 2021, three forums were held. We discussed and shared information on a number of sustainability issues such as updating the Group's materiality, progress of the sustainability strategy, action against climate change or diversity and inclusion. Discussions at the forum are appropriately reported to the CEO and board of directors.

// In the processed food business, we seek to provide safe and delicious food for consumers, in the hope that they will choose our products for their loved ones. Through our three businesses of frozen ambient food, seasonings, and bakery, we are working on our sustainability issues. I have participated in the forum since its inception. While being conscious of sustainability trends or regulatory developments and the challenges that we face, the forum serves as a place to discuss the Group-wide sustainability issues. //

Hiromasa Furukawa

Senior Vice President
Food Business



Stakeholder engagement

It is paramount that we regularly engage with our stakeholders, striving to create value for the wider society. Stakeholder engagement is essential for the Group's sustainable growth. Our 4S model is the foundation of our

management principle. In accordance with this principle, we communicate with a diverse group of stakeholders every day.

▶ Read more about [stakeholder engagement](#) on our website.

Message from the CFO

“Even in a highly uncertain business environment, we are working to maintain a strong financial foundation and enhance business investment to achieve profit growth over the mid to long term and raise shareholder returns.”

Nobuya Kato

Senior Vice President, Chief Financial Officer



I took office as CFO in January 2022. Making the most of my experience, particularly related to mergers and acquisitions in the international tobacco business, I am committed to realizing sustainable growth for the JT Group and am undertaking reforms to that end, firmly supporting the CEO in that effort.

Looking back on 2021 results

Our adjusted operating profit at constant FX – our primary performance indicator – increased by 22.9% year on year, driven by the tobacco business through the year in spite of the ongoing pandemic conditions and related high uncertainty. The international tobacco business in particular contributed with a strong pricing effect and volume growth.

Turning to progress regarding our mid to long term KPI goal, specifically, mid to high single digit growth in adjusted operating profit at constant FX, we see that over the past three years we have been reporting year-on-year increases in our growth rate. This has occurred despite difficult conditions in which we have consistently lagged behind our competitors in terms of RRP market share amid overall industry volume growth.

Both revenue and adjusted operating profit on a reported basis increased year on year, the former by 11.1% to 2,324.8 billion yen and the latter by 25.4% to 610.4 billion yen, owing to robust top-line performance and favorable foreign exchange impacts.

Operating profit showed year-on-year growth by 6.4%, to 499.0 billion yen, despite the higher costs in the Japanese-domestic tobacco business, including initiatives to enhance management systems and adjust tobacco cultivation areas. Despite an increase in corporate tax, profit for the term grew by 9.1% year on year, to 338.5 billion yen.

Although our ability to generate cash remains solid, free cash flow was down by 21.9 billion yen compared with the corresponding figure for 2020, partly due to the latter including a one-time revenue from the sale of the former JT head office building.

Operating environment outlook 2022-2024

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 down-trading and contraction in demand, but we believe they can continue to reliably deliver profit by seizing appropriate pricing opportunities and building market share.

Although the pandemic itself is not predicted to have a significant impact on our tobacco business, we must nevertheless consider the possibility that the economic stagnation may prompt some governments to raise tobacco

and/or consumption taxes to secure financial resources. We also project that domestic demand for certain high-value products, which surged in 2020 and 2021 as a consequence of tighter travel restrictions and limited cross-border traffic, and which ultimately contributed to the growth of our international tobacco business, will gradually return to pre-pandemic levels. In addition, we foresee tighter and more complex government regulations on tobacco worldwide, as well as the impact of geopolitical factors on some market environments. However, as a responsible global firm, the JT Group will comply to all regulations, while monitoring the trend in government sanctions and regulations, and take appropriate measures as necessary.

Financial policy

The JT Group draws up and executes its financial plans in line with two core values: resilience, to be able to maintain our businesses despite significant and/or unexpected risks,

such as an economic crisis, and flexibility, to promptly respond to attractive investment opportunities.

Cash flow management

In our cash flow management, we put highest priority on stable cash generation from top-line business growth. On the financial side, we are undertaking initiatives to reduce foreign exchange impact and optimize operating capital. In the tobacco business, particularly in the 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 mid to long terms.

We pursue cash creation via top-line growth, made possible 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 driver of profit growth in our tobacco business, but we refrain from

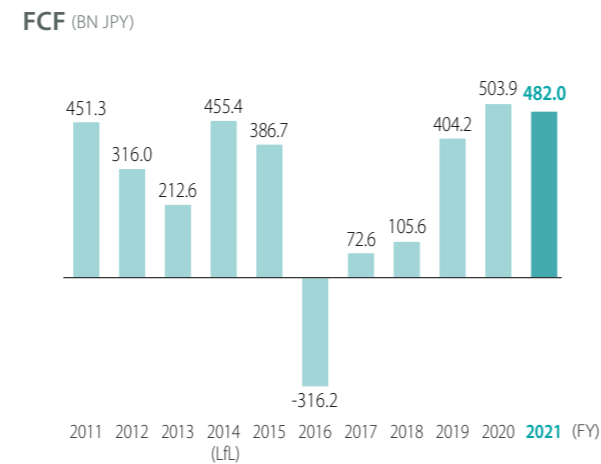
extreme pricing that could harm our brand equity or impair profit growth in the long run. Consequently, we consider it essential to understand the consumers* trends, competition, and regulations in each market before implementing any price revision.

To reduce foreign exchange impact, we utilize natural hedging, by which we mean matching incoming and outgoing currencies, as well as risk-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 to reduce foreign exchange risk, taking into account possible impact on the profit-and-loss statement.

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

Message from the CFO

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. Excluding the temporary impact of M&A and so forth, over the past ten years we have been generating free cash flow of about 400 billion yen per year.



Investment distribution

There is no change in our two key policies for management-resource allocation: give top priority to business investment, and balance profit growth resulting from such investment with shareholder returns. Based on the 4S model, our management principle, we will give top priority to business investments leading to sustainable profit growth, especially in the tobacco business.

In February 2021 we revised our shareholder return policy to balance profit growth and shareholder returns, with the understanding that continued investment is needed to rebuild our share of the RRP market and stay competitive. Although in 2021 we revised our dividends upwards reflecting the strong performance of our international tobacco business, under the current business plan, we will invest about 300 billion yen, particularly in HTS, as the necessity for substantial investment in HTS remains unchanged.

Under the circumstances, and based on the policy I outlined earlier, we will aim to sustainably increase shareholder returns while maintaining a target payout ratio by continuing to increase adjusted operating profit at constant FX, the

foundation of our current-term profit growth, over the mid to long terms. Furthermore, as we have publicly announced, we will be making significant investments to achieve our goals for carbon neutrality by 2030 and net zero by 2050.

Our total shareholder return, including dividends, has continued to be significantly below that of the TOPIX average, mainly due to its stock price performance, and we humbly accept this as an honest evaluation of the Company by our investors. In order to further promote shared value with our shareholders and pay closer attention to the stock-price trend, in our executive-compensation system we have introduced a restricted-stock remuneration plan, paid in Company shares, with the performance share unit linked to business results over the most recent three-year period. Additionally, reviewing our KPIs related to executive remuneration, we have increased the percentage that reported-base results comprise of executive bonuses, while as an initiative to realize mid to long term growth we have introduced new assessment indices, including the ESG index (see P. 100 for details).

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.

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 conducting individual conferences on ESG matters. Due to the pandemic, these IR events are still held mostly online, as in 2021 when we held some 340 individual conferences. IR representatives participate in conferences hosted by securities houses and meets with domestic and overseas institutional investors. On some of these occasions, the CEO, myself as CFO, and the director(s) in charge are present.

In fiscal 2019 we began conferences specifically focused on ESG, to have occasions to seek investor opinion, including assessments of our Integrated Reports, and we continue to remain active in dialogue with investors, making the most of the opportunities we have created. For individual investors, we held an online briefing in May 2021 with about 1,200 participants.

The investor feedback we gather through such IR events is regularly reported to the Board of Directors and shared among all Executive Officers and people in the relevant divisions. Going forward, we will continue our efforts to ensure that investors understand the JT Group's business results and initiatives, and moreover, continue to properly reflect their opinions and expectations in our strategies and business operations.

Better communication with bond investors

The JT Group is also working to enhance communications with bond investors. Corporate bonds are an important means to procure 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 launch them in other regions in the future to reach more bond investors and increase opportunities for

communication.

We have also begun an initiative to upload to our website new content designed for bond investors as part of our ongoing efforts to provide timely information tailored to their needs. 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 our ESG initiatives.

My resolve as a new CFO

In participating in the process of crafting the image of what the JT Group hopes to become over the long term, I hope to set optimal financial targets, KPIs, resource allocation, investment discipline, and so forth, while further expanding and strengthening the foundation for the Group's sustainable growth over the mid to long term. I am aware of the need to implement initiatives to raise our capital efficiency, and will

begin discussions on that soon.

As I mentioned, I will work on sustainable funding for the long-term future. Simultaneously, I will be working on implementing, and further improving, our short and mid-term initiatives and necessary operations, while contributing to increasing our stakeholder engagement.

Message from the CSO

“As the Group CSO, my wish is to embed sustainability into the root of our management. I would like all our employees to take actions that will lead us to the sustainable growth of our society and our business.”

Hisato Imokawa

Senior Vice President, Chief Sustainability Officer



Where we stand

COVID-19 and geopolitical issues have triggered drastic changes to our daily life and to our social environment. As we continue to face challenges from the pandemic, we should take initiative and act swiftly. Changes are also seen within ESG, as ESG investment is gaining increasing

momentum. With both of these factors, we are entering a period of transformation regarding how corporations are managed. Some may take a pessimistic view of the turbulent times, while others would see the changes as opportunities. Needless to say, the mindset of our Group belongs to the latter.

Sustainability of our Group

Pursuing the JT Group's 4S model is about pursuing the sustainability for a foundation as well as the universe where we can exist and be utilized. Based on the 4S model, we have a history of proactively transforming our Group and

are equipped with the ability to transform. It is my belief that disruptive environmental change is an arena where we can show our true strength. Here in lies the essence of our Group's sustainability.

My role as CSO and the challenges

The role of a CSO is to promote sustainability management as a whole group, while anticipating where and how we want to be in the future. I consider myself as part of an ecosystem with a very long-time axis. My role is to persistently strive for new initiatives, to collaborate with a diverse range of partners, and to proactively embed a universal perspective in which we believe. In other words, the role of a CSO is to look ahead to the year 2050, 2100 or even beyond, and to expand or to create the structures we need to enhance our Group's capability and assets, offering both financial and non-financial value.

2022 marks a year of significant transformation for our tobacco business, our core business. It is also the starting point of the transformation of the entire Group. As the Group CSO, my wish is to embed sustainability into the root of our management. I hope that all our employees will take actions that will lead us to the sustainable growth of our society and our business, and I look forward to driving this change together.

2021 Sustainability highlights by our CSO

We have outlined three basic requirements that apply across the whole Group, while each business has set out its own focus areas. The following are some of our initiatives and progress in 2021.

◆ Improving our environmental impact

In the updated JT Group Environment Plan 2030, our target is to achieve net zero greenhouse gas (GHG) emissions by 2050 throughout our value chain. We will continue to work on improving our environmental impact. Our GHG emission target has been revised accordingly. Our initiatives are recognized by external parties. We were recognized by CDP, securing a place on its prestigious 'A List' for tackling climate change and acting to protect water security for the third consecutive year.

◆ Improving our social impact

We have long-term partnerships with local and international organizations, with around 400 community investment programs in 60 countries. These programs help communities to become more inclusive, sustainable, and resilient. In response to the COVID-19 pandemic, precautionary measures were put in place, while we continued to provide opportunities for our employees to engage with their communities.

◆ Respecting human rights

Our approach to human rights' due diligence is collated and described in this report and is based on our Group Human Rights Policy, our commitment to respecting human rights and our past and current initiatives. In 2021, we issued our first JT Group Human Rights Report.

◆ Investing in people

The effect of the COVID-19 pandemic persisted throughout 2021. We continued to find flexible ways to work, primarily through remote working. We prioritized the safety and well-being of our employees and their families, by organizing or providing information about COVID-19 vaccinations. As reported in the previous report, we have set out a Group-wide target for representation of women in leadership and we continue to work on diversity initiatives.

◆ Governance

Corporate governance is one of the priority agendas for the JT Group and we work proactively to fulfill this requirement. To ensure sustainable profit growth, we believe it is essential to further secure a strong commitment of the Group's management. In this light, we are introducing an ESG-related index for director remuneration, starting from FY2022.

◆ Business progress

Each business has set out focus areas with sustainability targets. In our tobacco business, we are reporting on the target progress for Reduced-Risk Products to reflect our resource allocation and focus on HTS (heated tobacco sticks). In leaf supply chain management, Agricultural Labor Practices (ALP) remains our core program. Preparatory work is underway for the program to be extended to additional sourcing countries.

We are also working to establish frameworks for pursuing sustainability initiatives.

◆ Sustainability Advisory Forum

In order to discuss our sustainability issues and challenges, we have held regular Sustainability Advisory Forums since 2020. CSO is the Chairman of the forum, and heads of the JT Group businesses and functions attend.

◆ Materiality

Since we first set out our material issues, external circumstances and the business environment in which we operate have changed. Bearing this in mind, we started to update the Group's materiality in 2021. The new materiality will take into account the changes that our Group has gone through as well as current ESG issues. We will of course engage our stakeholders throughout the process.

Overview of tobacco business and its sustainability initiatives

Eddy Pirard

Chief Executive Officer,
JT International S.A.

Starting in 2022, post the combination of our two tobacco businesses, we embarked on a journey guided by a unique strategic focus, under a single management team. By bringing together resources, talents and expertise, we are confident that we will enhance our competitiveness in numerous areas, most notably in RRP (Reduced-Risk Products).

Tobacco industry overview

The tobacco industry includes different product categories. While the best-known category is cigarettes, others include FCT (Fine Cut Tobacco), cigars, pipe, oral and waterpipe tobacco. In addition to these, there is a new category – RRP (Reduced-Risk Products) – which has been gaining popularity in recent years and encompasses different segments.

One RRP segment is HTP (Heated Tobacco Products), which is growing in selected markets. HTP contain tobacco leaves and generate a tobacco-enriched vapor by heating the tobacco with no combustion. In general, HTP is regulated and taxed as other tobacco products. In the HTP segment, tobacco companies are focusing primarily on developing HTS (heated tobacco sticks) through continuous innovation. An additional product line-up in the HTP segment is Infused (infused tobacco capsules), a hybrid system which vaporizes tobacco using indirect heating.

A second RRP segment is E-Vapor. E-Vapor products, which heat a nicotine-based liquid instead of tobacco leaves, have reached a certain market presence in several countries. Initially they were not regulated or taxed as tobacco

products, as they do not contain tobacco leaves. However, countries have started to make regulatory and/or tax changes to account for this relatively new RRP segment.

Another RRP segment is comprised of oral products, which take the form of small pouches to be inserted in the mouth between the lip and the gum. Oral products can contain tobacco, like snus, or not, like nicotine pouches. This segment has been growing in popularity, mainly in mature oral tobacco markets such as Europe and the U.S.

The global combustibles industry volume totals the equivalent of 5.4 trillion units annually, representing a value of roughly US\$830 billion*. The largest cigarette market is China, which accounts for over 40% of global volume, followed by Indonesia, the U.S., Russia, Turkey, Germany and Japan*. In China, there is a near-monopoly run by a state-owned enterprise covering product manufacturing, distribution and sales.

Global combustibles industry volume* is declining, although we have seen some exceptional trends during the

Note: 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.

pandemic, including a return to industry volume growth in certain markets. Nonetheless, the tobacco industry profit-generating model remains robust. Even amid the current, challenging environment, we expect the industry value to continue growing during Business Plan 2022, mainly driven by a positive combustibles price/mix variance. This divergence between industry value growth and volume contraction is expected to continue. The RRP category, though smaller than combustibles, has been growing year after year, and we expect this growth to continue, notably in HTS. The largest RRP markets include the U.S., Japan, the U.K., Russia, Italy, China and South Korea. Importantly, and unlike in the combustibles category, the most successful RRP segment can vary from one market to another, depending on consumer preferences.

Excluding China National Tobacco Corp. (CNTC), the biggest global players in the tobacco industry are the JT Group, Philip Morris International, British American Tobacco, and Imperial Brands. In addition to these four majors, key players

in the RRP category include JuuL Labs, a U.S. company specializing in E-Vapor products, and Swedish Match, a Swedish company focused primarily on oral products.

The JT Group's tobacco business is ranked third in the world (excluding China) by shipment volume. The Group operates in over 70 markets while its products are sold in over 130 markets. It owns brands with strong equity as GFB (Global Flagship Brands), which satisfies a diverse worldwide demand from adult consumers.

Following the global pandemic in 2020, the outlook for the tobacco industry has become increasingly uncertain. While the impact on consumer behavior will persist to some extent, we expect that COVID-19 will not have any material impact in the mid term. We will continue to monitor changes in the business environment, as conditions differ from market to market, and some governments may raise taxes to fund fiscal spending in response to the pandemic.

* Based on 2021 data.

Tobacco business strategy

In recent years, the tobacco industry has substantially evolved, driven by increased traction from RRP, as technology and product quality improvements generated higher consumer acceptance and adoption over past attempts to introduce products with the potential to reduce the risks associated with smoking.

A clear and focused strategy

The JT Group believes that the RRP adoption trend will continue, as these products have potentially less risk for the adult consumer. To address this evolving environment and ensure sustainable growth in the mid to long term, the JT Group has articulated a clear strategy for its tobacco business, prioritizing management resources towards HTS, the fastest-growing RRP segment, 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 will support this prioritization of resources, globalize the Group's knowledge and expertise, drive increased agility, and accelerate 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 mid to long term.

Accelerating efforts in RRP

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

The JT Group expects 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 segment. To increase

Overview of tobacco business and its sustainability initiatives

our consumer base in HTS, we will invest approximately 300 billion yen between 2022 and 2024 including R&D, commercial expenses and capital expenditures. This is approximately 100 billion yen more than the investments made over the last three years. Another investment area will address R&D efforts towards next generation products, as we strongly believe the RRP category will continue to expand beyond the current product line-ups.

In July 2021, the JT Group launched Ploom X, its latest heated tobacco device, in Japan. The initial consumer feedback and reaction renewed 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 several international markets where HTS appears to be a satisfactory alternative to combustibles products.

This effort will be complemented by focused investments in other product segments, as the JT Group believes success in the RRP category is not limited to one single solution. These additional segments, such as Infused, E-Vapor and oral, will be considered exploratory opportunities in which 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.

The role of combustibles

Based on internal estimates, 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.

In line with its 4S model, 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, with the intent of maximizing returns and supporting the investments in RRP. Initiatives to support this strategy include GFB equity building, market prioritization, and investment markets.

GFB represent almost 70% of our global volume.

Consistently investing in the strengthening of the equity of Winston, Camel, MEVIUS and LD is key to increasing, or at least maintaining, the JT Group's market share in the combustibles category.

In addition, market prioritization will enable an emphasis on driving returns while investment markets will focus on delivering future growth in the combustibles category.

These initiatives, combined with a solid pricing environment, will deliver quality top-line growth, sustainable profit increase and cash generation to fund efforts in RRP.

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 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 customer expectations.

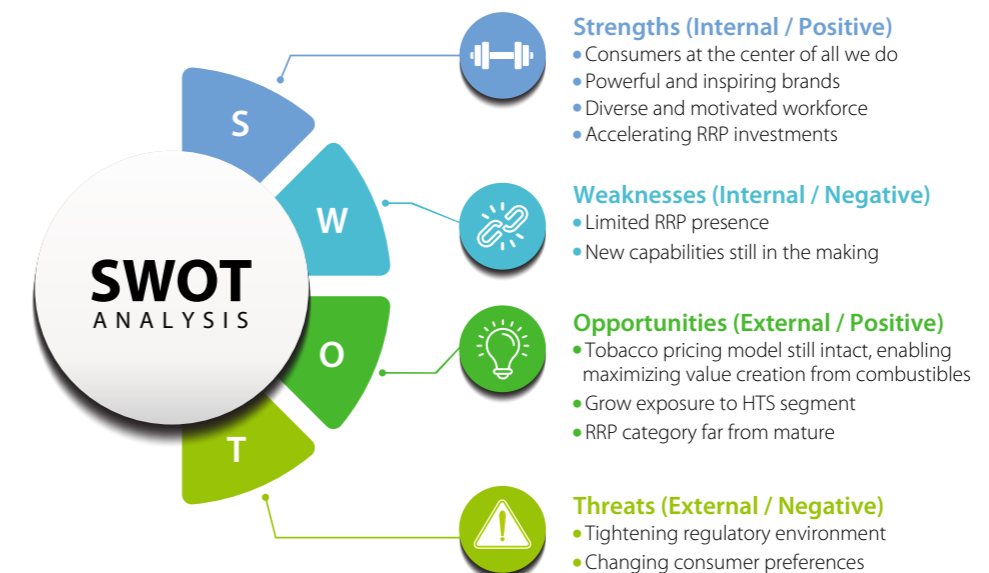
The JT Group also considers corporate initiatives like the simplification of internal structures and the implementation of Global Business Service centers to better support markets, the purpose of these moves being to continuously improve margins, while maintaining quality, and to enhance cash flow generation by optimizing working capital and capital expenditures.

Building business foundations

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

With business operations in at least 70 markets and sales in more than 130 markets, the JT Group's global employee workforce is very diverse, including over 100 nationalities. As the Group believes that the quality of human resources is the key to business activity and performance, it will strengthen human resource development and enhance its ability to attract, develop, and retain employees on a global basis.

SWOT analysis of tobacco business



Business Plan 2021 and its progress

Strategy in Business Plan 2021	Achievements in 2021
Concentrate our management resources on HTS and combustibles	Japanese-domestic and international resources partially reallocated to HTS, our priority segment in RRP Revised remuneration scheme to include RRP KPIs from 2022 onwards
Further strengthen RRP portfolio and digital strategies	Launched Ploom X in Japan, supported by digital campaigns and new Ploom X CLUB portal
Concentrate existing tobacco businesses into one tobacco business	Combination effective from January 1, 2022 From blueprint to execution in only 18 months
Strengthen competitiveness in Japanese market	Top-line and bottom-line strategies implemented, together with new operating model

In February 2021, we announced our Business Plan 2021, together with our new strategy for the tobacco business. Since then, both the Japanese-domestic and international tobacco businesses have implemented a series of initiatives in line with this plan.

In the international business, management focus in 2021 was on HTS and combustibles. Resources were partly reallocated to the HTS segment and new capabilities, as science, R&D and digital were strengthened.

In the Japanese-domestic business, Ploom X, our most advanced heated tobacco product, was launched in July, capturing 6.5% SoS in Q4. In combustibles, the continued downtrading was addressed with greater focus on portfolio management and new SKU launches.

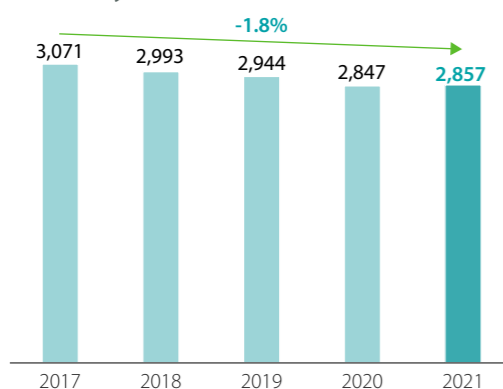
All these initiatives built a solid foundation to meet Business Plan 2021 targets and generate sustainable profit growth in the mid to long term.

Overview of tobacco business and its sustainability initiatives

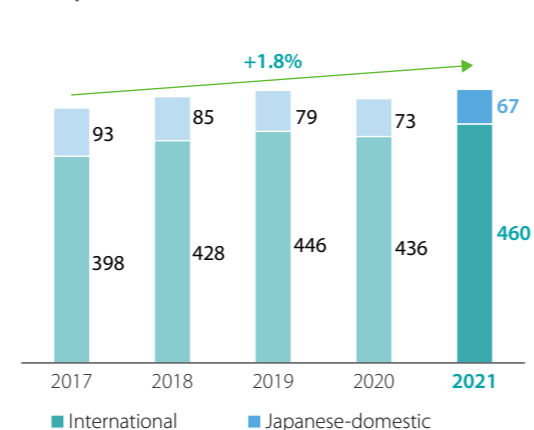
Performance over last five years

The combined international and Japanese-domestic tobacco businesses outperformed the industry volume over the last five years through continued market share gains driven by GFB and acquisitions in important markets. This performance, together with solid pricing and cost discipline, enabled the combined tobacco businesses to consistently grow currency-neutral core revenue and adjusted operating profit.

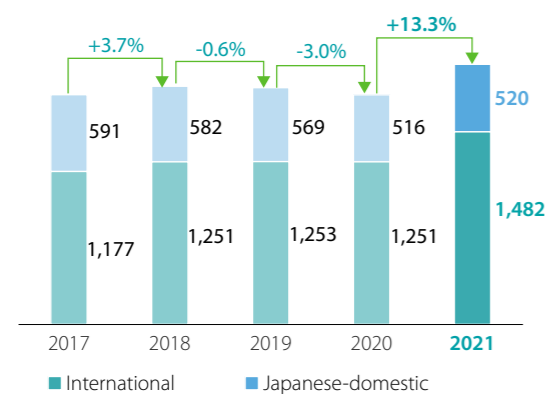
Total industry volume (BnU) *1



Total shipment volume (BnU) *2

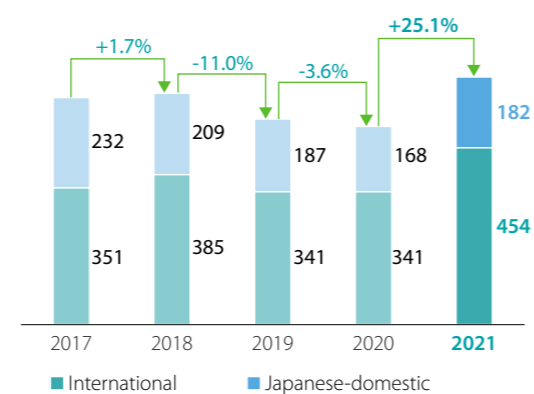


Core revenue (JPY BN) *2



Var at const FX	2017-18	2018-19	2019-20	2020-21
	+7.7%	+5.6%	+1.9%	+7.9%

Adjusted operating profit (JPY BN) *2



Var at const FX	2017-18	2018-19	2019-20	2020-21
	+8.9%	+3.2%	+7.3%	+22.8%

Winston

CAMEL

LD MEVIUS

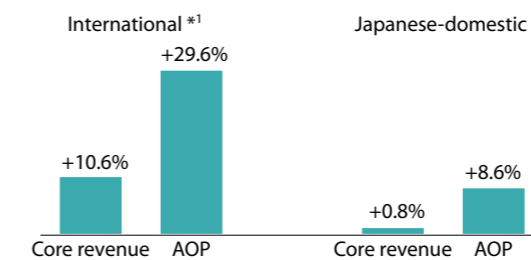
*1 Based on internal estimates and excluding China

*2 The year-on-year variances are calculated based on the sum of the Japanese-domestic and the international tobacco businesses.

2021 performance and 2022 outlook

Overview

2021 core revenue and AOP variance vs. PY



Our robust 2021 performance in both the international and Japanese-domestic tobacco businesses reflects the benefits of our strong strategic focus and executional excellence, despite COVID-19 continuing to impact the industry and consumers globally.

The international tobacco business delivered industry-leading performance across all key indicators. Building on the continued strong market share momentum in its top-30 markets, and supported by a more resilient industry volume in the first half, mainly due to lower illicit trade, total volume grew to a historical record of 460 billion units.

These impressive volume gains, combined with strong on-going pricing, resulted in solid top-line growth, and core revenue growing 10.6% at constant FX. Adjusted operating profit at constant currency also outperformed, setting a record growth rate and marking the eleventh consecutive year of double-digit increase.

In the Japanese-domestic tobacco business, both revenue and profit increased for the first time in five years. The positive price/mix contribution exceeded the negative impact from combustibles volume decline and the RRP revenue growth further boosted the top-line. Adjusted operating profit for the year was above guidance due to higher revenue and reduced production costs, despite continued investments in RRP.

These results would not have been possible without the commitment and dedication of our employees around the world.



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

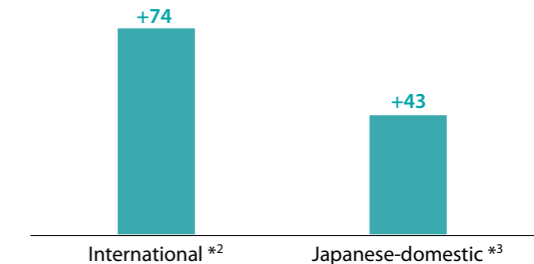
*2 Contribution to core revenue growth at constant FX

*3 Contribution to combustibles core revenue growth

*4 Based on JTI's top-30 markets (Cigarettes + FCT)

Price/Mix

2021 price/mix variance (JPY BN)



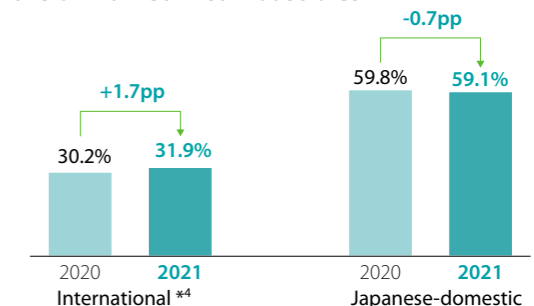
In the international tobacco business, we generated approximately 74 billion yen in favorable price/mix variance to core revenue, an amount in line with the average of the previous five years, with all clusters delivering positive contributions.

Pricing was driven by Russia, Spain, Taiwan, Turkey and the U.K., along with many other markets, notably Canada, Germany, Kazakhstan, the Philippines and Ukraine.

The Japanese-domestic tobacco business, following the October 2020 retail price increase, registered a strong price/mix variance of approximately 43 billion yen, which positively impacted core revenue.

Share of market

Share of market in combustibles



In the international tobacco business, we accelerated our growth momentum, delivering significant market share gains by leveraging the strong equity of our brands, the high quality of our products, and the execution excellence of our teams. As a result, we grew share 1.7 percentage points to 31.9% across our top-30 markets, following a 1.4 percentage point increase in 2020.

In the Japanese-domestic tobacco business, while our market share declined in 2021 due to continued downtrading, we have implemented portfolio strategies to resume share gains in the near-term.

Overview of tobacco business and its sustainability initiatives

GFB (Global Flagship Brands)

2021 marked another year of volume growth for GFB. These flagship brands now exceed 350 billion sticks and represent almost 70% of our global volume.

Winston volume grew 15 billion units across more than 60 markets globally, most notably in Iran, Italy, Poland and Turkey. The brand registered the highest ever combustibles share in more than 30 markets around the globe, driven by meaningful innovation.

Camel grew 18 billion units year on year in over 50 markets, primarily in Germany, Indonesia, Japan, Russia, Spain and Turkey. Among our top markets, Camel combustibles share increased 1.0 percentage points to 5.8% in Japan, and 4.5 percentage points to 5.3% in Russia.

MEVIUS volume was down 3 billion units due to the downtrading trend in Japan. Outside Japan, the brand grew volume, despite the continued impact of travel restrictions across Asia Pacific.



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LD declined slightly due to industry volume contraction in Ukraine, which was not offset by LD volume growth in Jordan and Poland.

Going forward, we will continue strengthening the brand equity of our GFB to sustain their momentum across our global footprint.

2022 outlook

Since January 2022, following the unification of our two tobacco businesses, we started on a journey guided by a unique strategy, under a single management team, fully committed to deliver sustainable profit growth in the mid to long term.

The 2022 forecasts represent the estimates for the JT Group's entire tobacco business.

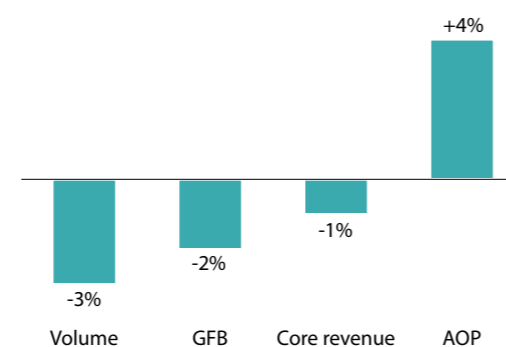
Continued combustibles market share gains, amidst a declining industry volume and the expected, unfavorable comparison in the first half resulting from the gradual easing of COVID-19 restrictions, are expected to result in a total volume contracting by approximately 3%, partially offset by RRP volume growth.

While we expect solid combustibles price/mix contribution to continue, as well as RRP-related revenue contribution, core revenue is forecast to decline by 1% due to combustibles volume decline.

Adjusted operating profit is expected to increase by 4%, at constant FX, mainly driven by combustibles pricing and benefits generated by our initiatives to strengthen the competitiveness of the tobacco business.

On March 10, 2022, we announced the suspension of all new investments and marketing activities in Russia, including the planned launch of our latest heated tobacco product, Ploom X. We are deeply concerned by the developments in the war in Ukraine, where many people are facing tragedy and devastation, and we sincerely hope peace will return soon. We will continue to closely monitor the situation and prioritize the safety of our employees and their families by extending all possible support to affected people.

2022 guidance *



* 2022 variance vs. prior year. Core revenue and adjusted operating profit (AOP) at constant FX

Key markets

In 2022, we started to report three clusters: Asia, with Japan, the Philippines and Taiwan as key markets; Western Europe, with Italy, Spain and the United Kingdom as key markets, and EMA*, with Romania, Russia and Turkey as key markets.

Except for Japan, we grew our share of combustibles market in all key markets in 2021. The strong performance was driven by GFB, as well as local brands in the Philippines and the U.K.

Key market	Combustibles SoM 2021	Variance vs. PY
Asia		
Japan	59.1%	-0.7pp
Taiwan	48.1%	+0.3pp
Philippines	36.7%	+5.1pp
EMA*		
Romania	29.8%	+0.7pp
Russia	39.8%	+1.5pp
Turkey	27.7%	+1.1pp
Western Europe		
Italy	26.7%	+0.9pp
Spain	27.8%	+1.1pp
United Kingdom	45.8%	+0.8pp

Japan

In 2021, total tobacco industry volume was down year on year by 3%. In combustibles, volume decreased by 8% due to growth of the RRP category, retail price increases and natural decline.

RRP grew to account for 30% of the total tobacco industry in 2021, driven by pandemic-led changes in consumer behavior, as well as new HTP launches and marketing initiatives.

Our sales volume underperformed the industry due to consumers' shift towards RRP and downtrading in combustibles.

In combustibles, given the current trends, we have strengthened our efforts to capture downtrading by developing the lower-priced MEVIUS S Slim line and E series. In addition, we have positioned Camel in the value price range to capture the outflow from cigarillos.

In RRP, we made steady progress with the launch of Ploom X in July 2021, as described in further detail in the RRP section.

In 2022, we forecast total tobacco industry volume to decline by approximately 4%, with the RRP category expected to moderately expand.

Russia

In 2021, industry volume declined by approximately 3%, despite one of the largest excise tax increases experienced in Russia. Lower illicit trade volumes, due to travel restrictions, and the growing HTS segment partially offset the excise tax impact.

The pricing was robust, enabling the full pass-on of the excise tax and fueling the growth of the industry's net sales year on year. Although the value segment continued to expand, cigarettes remained affordable at an average price of US\$2 per pack.

In this environment, our shipment volume increased by 5.1%, and declined by only 0.2% when excluding inventory adjustments, clearly outperforming the rest of the industry.

Boosted by GFB, our combustibles share grew 1.5 percentage points to 39.8%. Importantly, our total tobacco share increased 0.4 percentage points to 36.7%. As detailed in the RRP section, Ploom continued to grow share and distribution coverage.

The U.K.

In 2021, we started the year on a very high comparative base due to almost nine months of COVID-19-related disruptions in 2020. Industry volume had grown double-digit while our own volume had outperformed, driven by strong market share gains.

Twelve months later, our performance in the U.K. remained impressive. Although industry volume continued to be favorably impacted by travel restrictions and reduced illicit trade, we saw a gradual unwind of these catalysts in the second half of 2021.

Thanks to our well-balanced portfolio, Benson & Hedges in cigarettes and Sterling in FCT strengthened their respective positions, leading to a 0.8 percentage-point market share increase, setting a record at 45.8%. Our share of retail value also grew 0.8 percentage points.

In 2022, while we forecast a total tobacco industry decline to low double digits due to factors such as higher non-U.K.-duty-paid volume, we are confident that we can outperform this situation, driven by the strong equity of our brands and operational excellence.

* Eastern Europe, Middle East, Africa & Americas

Overview of tobacco business and its sustainability initiatives

RRP (Reduced-Risk Products)

The RRP category is composed of several segments including HTS (heated tobacco sticks), Infused (infused tobacco capsules), E-Vapor, and oral. As announced in February 2021, the JT Group will prioritize the allocation of resources to HTS, with the other segments viewed as exploratory opportunities for the time being.

2021 RRP performance

In Japan last July, we introduced Ploom X, our first HTP (heated tobacco products) born from a global development effort. At the end of December, four-and-a-half months after its nationwide rollout, the share of Ploom X in the HTS category grew to 6.5%.

During the second half, we expanded the lineup of Ploom X refills by introducing several new flavors under the MEVIUS and Camel brands. In addition, we ran awareness campaigns, expanded device color and accessories offerings, and leveraged Ploom shops to drive more trials.

In order to improve our communication with consumers and further ascertain their preferences, we reinforced our presence in the digital channels with our new Ploom X CLUB portal. After less than six months since going live, 250,000 consumers were already members of Ploom X CLUB.

These initiatives resulted in Ploom X device sales in Japan surpassing 1 million units in December 2021, exceeding our expectations.

At the end of December, Ploom X represented over 50% of our RRP mix in Japan. Driven by Ploom X, our share of the RRP category in Japan reached 11.8% in the last quarter.

In Russia, the HTS segment in 2021 represented approximately 9% of Russia's total industry volume. The segment continued to grow, albeit at a slightly slower pace than in 2020. Ploom also grew, reaching a 4.1% share of segment in December, an increase of 1.5 percentage points compared to the same period in the prior year, and within a highly dynamic and competitive environment.

In addition, our Ploom distribution coverage in Russia has tripled year on year to reach over 105,000 outlets, or around 60% of the total number of outlets.

Building on consumer insights and learnings from Japan, we accelerated the introduction of improved HTS. The new sticks offer greater satisfaction to consumers in Italy, Russia and the U.K., by bringing richer tastes and flavors.

In our exploratory RRP segments, we focused on important markets. In E-Vapor, with our Logic brand, we prioritized Ireland, Poland, the U.K. and the U.S. In nicotine pouches, we prioritized Sweden, Switzerland and the U.K., leveraging our Nordic Spirit brand. In Infused, we will keep focusing on Japan with our pocket-size "Ploom TECH+ with" device. In these segments, we will continue to improve our consumer knowledge and ensure we have a winning business model before committing extensive resources.



RRP outlook

We estimate that the HTS segment will represent 15% to 20% of total tobacco net revenues by the end of 2027, confirming HTS as the biggest segment in the RRP category. In February 2022, we announced our ambition to reach break-even in the RRP business by achieving an HTS segment share in the mid-teens across our key HTS markets by the end of 2027. The potential implications on the 2027 ambitions, if any, of the decision to suspend new investments, marketing activities and the launch of Ploom X in Russia are under assessment.

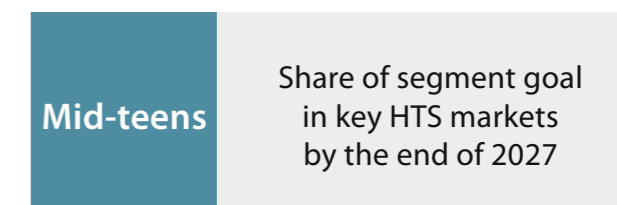
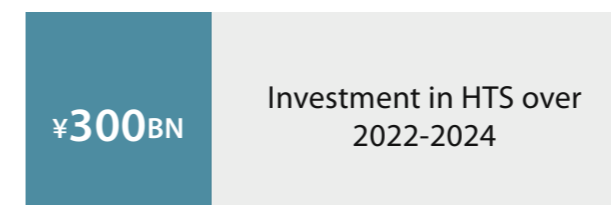
To increase our consumer base in HTS, we will invest approximately 300 billion yen between 2022 and 2024, in R&D, commercial expenses, and capital expenditures, among other matters. This is approximately 100 billion yen more

than the investments made over the last three years.

Through this accelerated investment, we plan to achieve geographic expansion, strengthen our product pipeline, and reinforce our strategic capabilities.

The HTS segment requires significant investments and achieving profitability takes time. In the short term, the biggest investments will be in Ploom brand equity building, consumer acquisition and retention programs.

This high initial marketing investment will be optimized in the mid term, paving the way to break even. Going forward, we will continue to enhance our existing offerings, as well as developing a robust product pipeline to keep acquiring new adult consumers in the mid to long term.



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Overview of tobacco business and its sustainability initiatives

ploom

Products & services (RRP)

Responsible innovation focusing on consumer choice has always been at the heart of what we do at the JT Group. The growing global market for potentially RRP (Reduced-Risk Products) is a bold new frontier for delivering exactly that. We believe that the direction the vaping products market takes will – and should – be driven by consumers. It is up to us, the innovators in the tobacco industry, to listen to consumers and ensure their needs are met with high-quality products.

We have committed to investing significantly in heated tobacco propositions to compete in the growing global market of RRP. In the tobacco industry as a whole over the mid-term, we estimate the HTS segment will represent 15-20%* of total revenues by the end of 2027. To make the most of future growth opportunities, we will continue to explore non-combustible products such as E-Vapor and nicotine pouches.

* On a basis of revenue, excluding revenue in China

Target in tobacco business: RRP

Reduced-Risk Products (RRP) offer real benefits to consumers and society. Our responsibility as a manufacturer is to continuously develop and launch RRP that meet consumer expectations and to provide information on them. We will lead in providing a range of consumer choice in the RRP category.



Our key heated tobacco product in 2021



▶ Read more about our RRP portfolio at [JT.com](https://www.jt.com).

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 among consumers.

Ploom X and the power of teamwork

Developed as a global initiative, Ploom X is designed to deliver the satisfying taste and elegant design that consumers are looking for.

To kick off this truly global project, our Product Design team partnered with a design agency in the U.K. The technical configuration was then carried out by our R&D teams in Japan, Germany, and Hong Kong. The products are now manufactured in China, and quality assurance takes place in Japan and Germany.

Ploom X features aesthetic and innovative design,

with a more intuitive user experience and no buttons on its surface. This cutting-edge device is equipped with a new heating technology, which focuses on air flow, significantly improving user experience.

A perfect example of “One Team” spirit, Ploom X is the first product we have ever developed remotely. Everyone involved went the extra mile to make the project a success, in spite of the challenges of working across different time zones during a pandemic. The result is a new star product that will help us to secure future growth.

A consumer-centric approach

We take a consumer-centric approach to research and development, and focus on four major factors that motivate consumers to consider RRP:

- The potential of reducing the risks associated with smoking
- Affordability and value for money
- Social considerations
- Convenience of usage in a variety of locations and situations

This approach to our RRP research and development enables us to drive strong benefits for all of our key stakeholders: consumers, shareholders, employees, and the wider society.

JT Science: an online resource for all

JT Science is a valuable online resource for both scientists and non-scientists. Our mission is to inform, educate, and collaborate with anyone interested in learning about the science behind our products – from consumers and scientists to the regulatory community.

We strive for an open, balanced, and fair environment where factual scientific data and assessments are shared in a transparent way.

While there are currently no globally agreed standards for assessing the risk-reduction of the alternatives to combustible tobacco products, our team of scientists is developing methods and applying them in research contributing to the increasing scientific evidence on RRP. We will continue with these studies and share progress updates on [our science website](#).

RRP supply chain

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

sophisticated portfolio. In addition to our in-house production capabilities, we source from manufacturers across Asia and Europe.

Overview of tobacco business and its sustainability initiatives

Products & services (Responsible recycling and disposal schemes)

We are constantly searching for ways to further reduce environmental impacts along our value chain (upstream and downstream). We do this through improved product design and development, responsible procurement, and efficient delivery of our products and services. Adopting innovative technologies and ways of working is also essential. We will reduce the environmental impact of our products and packaging through:

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

Target in tobacco business: Product materials and packaging

We will reduce the environmental impact of our products and packaging through design solutions, facilitating responsible collection and disposal, and consumer awareness and education. More specifically, we will reduce our packaging (including plastic) and ensure that the remaining 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.




Ploom - Return scheme in Japan

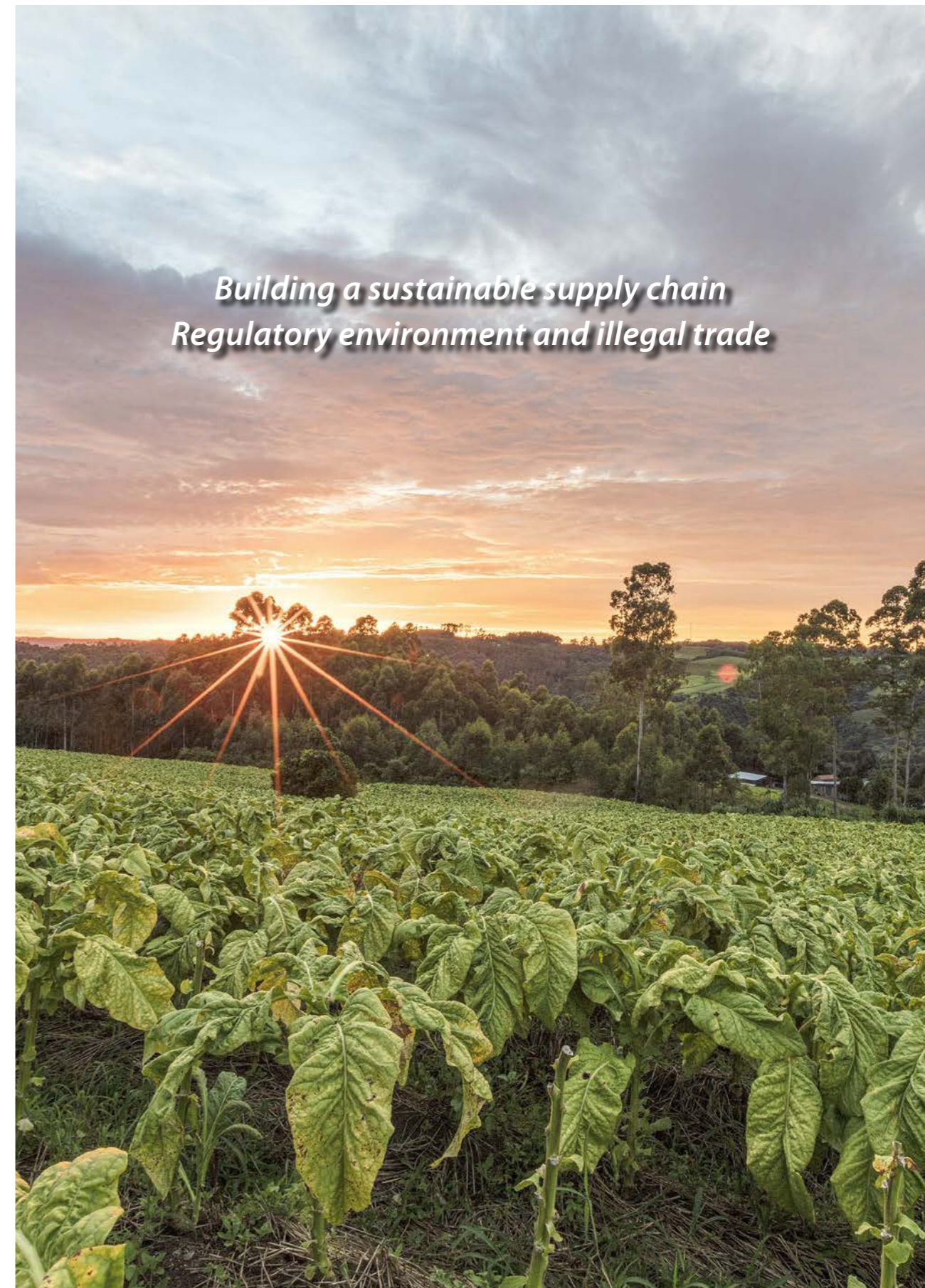
In 2019, we collected used Ploom devices, capsules, and cartridges by introducing convenient collection boxes at around 300 shops selling Ploom in Tokyo.

In 2020, this program was expanded to include the tobacco industry and we continue to be one of the participating companies, and it was successfully launched throughout Japan in 2021.

Key achievements since 2020, were the introduction of around 1,200 collection points in 47 prefectures in total.



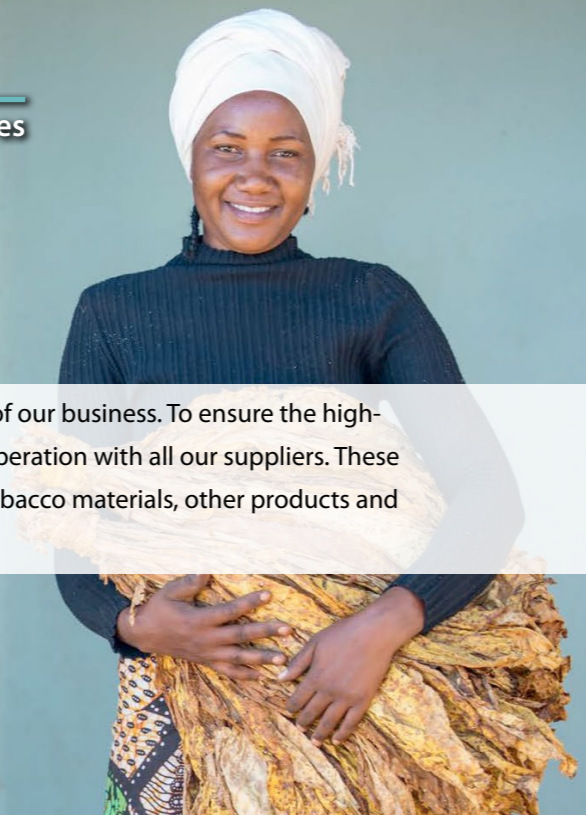
▶ Read more on responsible recycling and disposal schemes on JT.com.



Overview of tobacco business and its sustainability initiatives

Building sustainable supply chains

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



Leaf supply chain

We manage our leaf supply chain through a Supply Chain Due Diligence (SCDD) process that takes into account social, environmental, and economic impacts. Since 2019, we have committed to specific targets tackling greenhouse gas

emissions, forestry, and Agricultural Labor Practices (ALP). These targets are explained later in this section.

▶ Read more about our [Leaf Supply Chain Due Diligence](#).

Target in tobacco business: Agricultural Labor Practices

We will implement our Agricultural Labor Practices (ALP) program in all sourcing countries by 2025.



Key progress in 2021

In 2021, the business intention was to implement ALP in two more sourcing countries, Ethiopia and Bangladesh, as part of ALP target. A great deal of time, effort, planning, and preparation was required to prepare the ALP roll-out in these new regions. This included translating ALP documentation into local languages and training local management, supervisors, and Agronomy Technicians. The team also tailored ALP observation criteria to the prioritized issues identified in these country's Supply Chain Impact Assessments (SCIAs).

ALP was successfully implemented in Bangladesh in November 2021; unfortunately the program couldn't be implemented in Ethiopia due to a worsening geo-political situation and security concerns in the country. Roll-out of ALP in Ethiopia has been rescheduled to 2022.

Prior to implementing ALP in Bangladesh and Ethiopia, the local teams undertook detailed SCIAs in both countries with

the human rights consultancy, twentyfifty Ltd. This involved two to three weeks conducting in-country interviews with contracted growers, farm workers, and the broader growing community. Once issues were identified, the local teams ran a prioritization workshop to select the salient issues. These salient issues then enabled them to select the most relevant ALP observation criteria for those origins, rather than implementing with all possible observation criteria. This tailored approach was very effective.

Our approach to sourcing

We source tobacco through two supply models which are either directly contracted growers or third-party leaf merchants. These two models each supply approximately 50% of the total volume. In 2021, we worked with more than 59,236 directly contracted growers in Bangladesh, Brazil, Ethiopia, Japan, Malawi, Serbia, Tanzania, Turkey, the U.S., and Zambia. Contracting leaf growers directly enables us

to produce a customized crop, while improving growers' productivity, leaf quality and leaf integrity. The direct contracting model also allows us to maintain verifiable provenance and traceability of leaf supply. At the same time, contracting from third parties is essential to maintain a flexibility of leaf supply. Through our ALP program, we work closely with these suppliers and support them in improving labor practices on their farms.

Agricultural Labor Practices (ALP)

Our ALP are based on the International Labour Organization's conventions and recommendations. The program consists of three pillars: tackling child labor, respecting worker rights, and ensuring workplace health and safety. As part of our approach to continuous improvement, the ALP program allows us and our suppliers to identify challenges on farms and improve growers' labor practices. Our Agronomy Technicians carry out observations on the ground, and report through our online leaf portal. We regularly review and act on these findings. We require our third-party leaf merchants to agree to the same ALP standards before we enter into a contractual agreement, and we track ALP implementation reports yearly.

Sustainable Tobacco Program (STP)

Our international tobacco business is one of the five global manufacturers on the Sustainable Tobacco Program (STP) Steering Committee. Since 2019, we have been working with third-party leaf merchants, external subject matter experts, and various organizations on STP development. One of the key themes of the STP is "Human and Labor Rights." We carried out pilot self-assessments on this subject in 2020. Online self-assessments for the crop year 2021 also began. Preparation for detailed in-country pilot assessments is underway for 2022. As of June 2021, we have appointed an external STP Secretariat to support the STP Steering Committee in running the program.

Addressing child labor

In 2020, we introduced a new governance model for Achieving Reduction of Child Labor in Support of Education (ARISE), transferring ownership of the program to the representatives of subsidiary's local offices in countries where we grow our tobacco. These representatives are now responsible for managing local partnerships, assessing projects, and implementing activities at a local level. These changes will allow

us to maximize efficiency, strengthen our relationship with growers, and harmonize the program with other relevant community projects. Moving forward, we will embed the ARISE program within the "Respond" element of our SCDD process: Identify, Prioritize, Respond, Measure, Communicate and Report. We will also integrate data requirements for child labor into our existing leaf monitoring system, Leaf Point.

2021 was a year of transition for our flagship program ARISE following the formal launch of our new ARISE model at the beginning of the year.

Under the new model, the overall ARISE strategy remains largely unchanged, as it has proven to be successful. However, we now determine projects and project goals based on local needs and challenges, and define Key Performance Indicators (KPIs) accordingly.

The non-profit organization Winrock International continued to implement the ARISE program during the first six months of the year, before our tobacco business took over the full responsibility for identifying and implementing projects during the second half of the year.

Unfortunately, due to COVID-19 related issues such as school closures, we had to pause or adapt some of our programs in 2021, and delay some of the project deliverables. However, in spite of these challenges, our local teams successfully launched three new ARISE programs in Malawi, Tanzania, and Zambia. Other locations are preparing to follow suit in 2022.

Moving forward, we will continue to expand this vitally important program into countries where we have identified a significant risk of child labor.

▶ Read more about the [ARISE program](#).



Overview of tobacco business and its sustainability initiatives

Our non-tobacco materials, other products and services

We are just as committed to following social and environmental due diligence in our non-tobacco materials, other

products, and services supply chain. All of our suppliers are required to comply with our [Supplier Standards](#).

Target in tobacco business: Supplier screening

We will screen all key suppliers against environmental, social, and governance criteria by 2023.



Supplier screening

Our people, operations and supply chain stretches across the entirety of the globe and we are keenly aware that our business doesn't operate in a vacuum. We know that the social, ethical, and environmental footprint of our products is also dependent upon our suppliers' own actions.

Our Group-wide supplier screening process ensures that we apply enhanced due diligence. Prior to entering into a commercial relationship, our key suppliers* undergo a detailed qualification and selection process, including screening and onboarding. This process allows us to learn more about the supplier and understand any gaps versus our standards and requirements. In particular, it highlights any potential risks relating to compliance, human rights, environment, and health and safety. If any risks are identified through this process, we offer support on how to mitigate the risks and make necessary improvements. We follow progress on a yearly basis and, if there is no improvement after an agreed duration, we may consider terminating our relationship with the supplier.

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

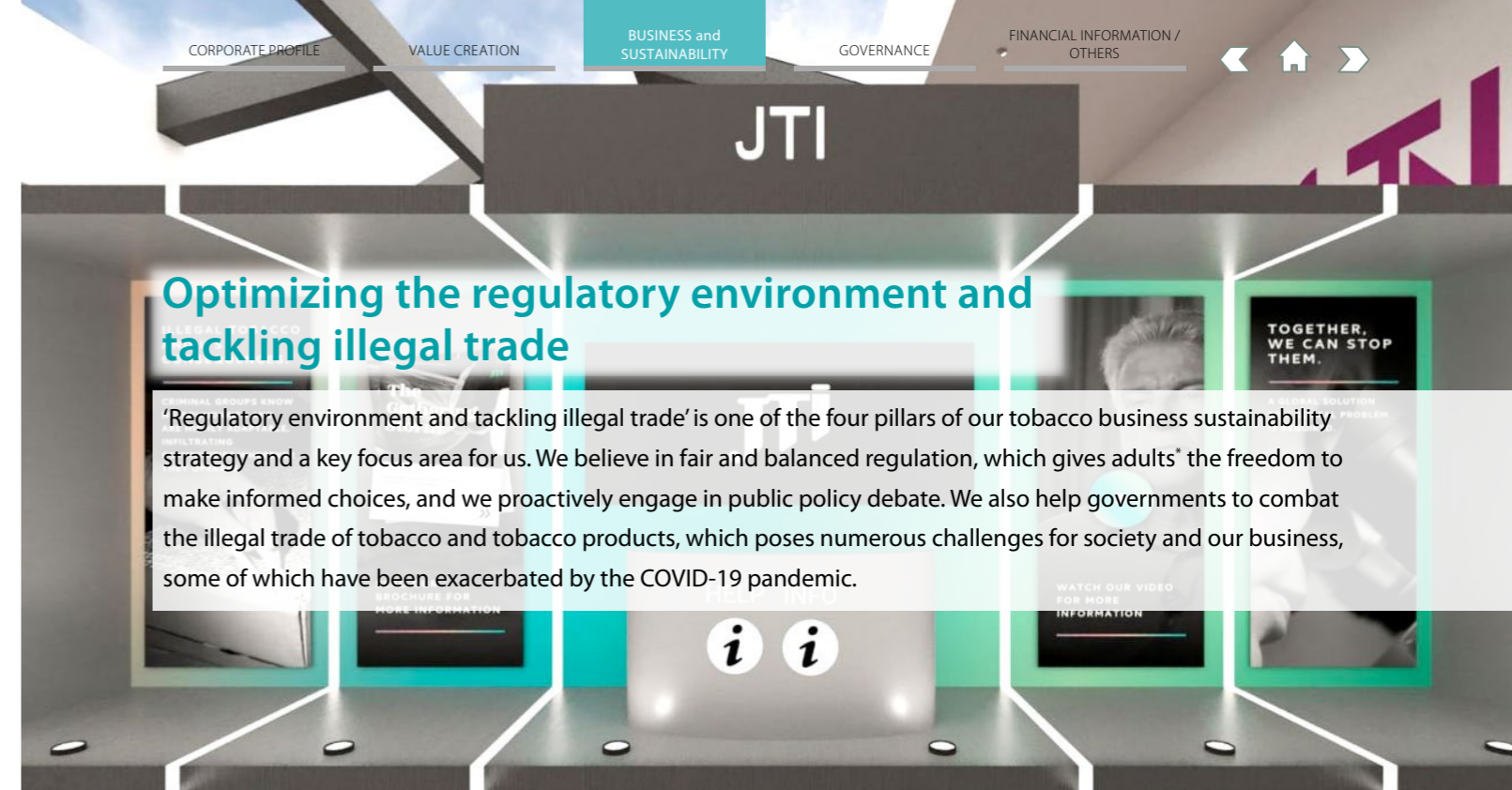
In our Japanese-domestic tobacco business, we screen key suppliers using our supplier database, which lists companies according to their D-U-N-S® Number**. In 2021, we built on this process by reassessing the key suppliers identified as high-risk in 2020. We also helped these suppliers to make the necessary improvements.

New partnership with a leading sustainability ratings company

To structure and enhance our screening methodology, our international tobacco business is now implementing a new supplier information management system. We have also partnered with a leading global sustainability ratings company to conduct individual sustainability performance assessments of high-risk suppliers. This will help us to monitor environmental and social risks and enable transparent and responsible practices across the supply chain.

* Key supplier is defined as (a) suppliers with a planned or actual annual spend of more than 500,000 U.S. dollars or equivalent, (b) companies involved in our Know Your Supplier (KYS) program, (c) third-party leaf merchants, (d) intermediaries or (e) contract manufacturing and licensees.

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



Target in tobacco business: Engagement

We will always protect our ability to participate in public policy debate with the aim to achieve balanced regulation that meets societal concern and supports business growth.



Optimizing the regulatory environment

We value and support the freedom for adults* to make informed choices. We play our part by being transparent about our products, and ensuring that consumers are aware of the associated risks when deciding whether to use our products or not. That is why we are transparent about our positions on [smoking and health](#).

We adhere to [six core principles](#) that define our attitude to smoking. We also work in a highly regulated operating environment. We monitor trends in order to anticipate future changes in regulation and engage with authorities where we see excessive or unworkable initiatives being proposed.

▶ Read more about our views on specific regulatory topics on [JTI.com](#).

Developments in 2021

In 2021, we engaged openly and transparently in public policy debate and made our views known to regulators, NGOs, and other relevant stakeholders in the countries where we operate. We responded on regulatory issues of concern to society and business, such as the reduction of the impact of certain plastic products on the environment and restrictions on characterizing flavors. We also participated in public discussions around good governance, anti-illegal trade, better regulation, transparency, and sustainability. Publishing our [external engagement principles](#) was another important step.

Global Tobacco and Nicotine Forum 2021 (GTNF)

In 2021, we took part in the virtual Global Tobacco & Nicotine Forum. This international conference brought together the industry's key stakeholders. We participated in panel discussions on risks emerging from the COVID-19 crisis, key causes of the illegal trade of tobacco and

nicotine products, and strategies to curtail the rise of illegal networks.

▶ Read more about our views on regulation and the latest regulatory developments in the industry at [JTI.com](#).

* 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.

Overview of tobacco business and its sustainability initiatives

Tackling illegal trade

Illegal trade fuels modern slavery, organized crime, and terror groups. It causes harm to society and consumers, as uncontrolled products circumvent regulations and quality controls, and undermines legitimate tobacco businesses. That's why tackling illegal trade is a top priority for us. Our Anti-Illicit Trade team is recognized as the industry leader in this area. This global team supports our long-term, sustainable future by protecting our business and reputation – as well as our consumers and society – from criminal elements.

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

Target in tobacco business: Illegal trade

We will engage in dialogue with law enforcement agencies, with the goal to exchange intelligence regarding illegal tobacco products, in order to support the reduction of illegal tobacco products.



Progress in 2021

In 2021, our Anti-Illicit Trade team provided 1,627 intelligence reports to law enforcement agencies, leading to the seizure of over 3.27 billion illegal cigarettes. Based on our information, law enforcement raided more than 53 counterfeit tobacco factories and storage locations.

As a direct result of our work to tackle illegal trade, notified seizures of counterfeit products in the EU have remained consistently high over the past five years (over 98% of products seized are counterfeit). During the same period, notified seizures of our own genuine products in the EU decreased by 90%, thanks to our local teams' efforts in securing our supply chain, with the support of the global Anti-Illicit Trade team. This has been acknowledged by both Europol and many law enforcement agencies. For example, the U.K.'s HM Revenue and Customs recognized our international tobacco business as an industry leader in the fight against illicit trade.



Illegal tobacco factories raided by LEAs with JTI's contribution (2020-2021)

A responsible approach

By tackling illegal trade, our tobacco business complies with applicable laws and regulations while fulfilling its obligations under the European Union Cooperation Agreement, signed in 2007.

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

Compliance also means the implementation and operation of our Track and Trace program. This helps us to track the

movements of products along the supply chain, supporting our supply chain analysis. The program has been an important element of our compliance policy for more than a decade – firstly as a self-regulation measure and later to meet legal requirements in a growing number of jurisdictions.

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

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

The perfect storm

The COVID-19 pandemic has blunted rather than extinguished the production and supply of illegal product. Some decrease in supply and production was evident in more strictly controlled economies during the pandemic. Western markets in particular saw relatively little reduction in the production and availability of illegal product. This is despite criminal groups initially finding it difficult to source technicians and skilled workers to work on illegal production.

During the pandemic, heightened EU border controls and regulations made it more difficult for criminals to bring illegal cigarettes to their markets of choice – usually those with high taxation policies, such as the U.K. and Ireland. By moving illegal production and supply chains inside the EU, criminals avoided border controls and reduced the risk of seizures or detection. More recently, with the lifting of COVID-19 related travel restrictions and opening of borders, the global supply of illegal product has started to increase exponentially.

The resourcefulness of criminals is such that the flow of

illegal product was still viable even when traditional sales outlets were out of action. Technology was and still is increasingly being deployed to enable sales of illicit product to continue. This is a trend that's likely to persist. With sales opportunities unavailable during the pandemic, the online world has become the environment of choice for criminals to sell illegal tobacco products.

▶ Read more about our approach to tackling illegal trade, the impact of COVID-19, and global trends at [JTI.com](https://www.jti.com).



Other key wins in 2021

- Over 3.27 billion illegal cigarettes seized thanks to intelligence reports provided by our team to law enforcement.

- 41% decrease in seizures of our genuine products resulting from our efforts to ensure the security of our supply chain.

▶ Read more about how we tackle illegal trade on [JT.com](https://www.jti.com).

Overview of pharmaceutical business and its sustainability initiatives



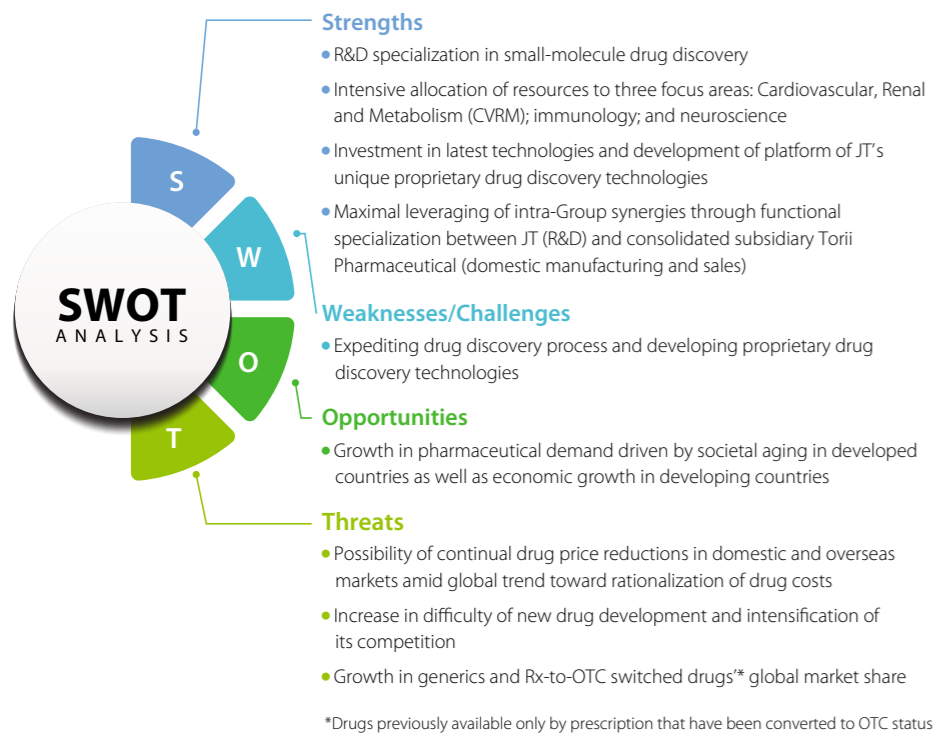
Muneaki Fujimoto

Senior Vice President,
President of Pharmaceutical Business

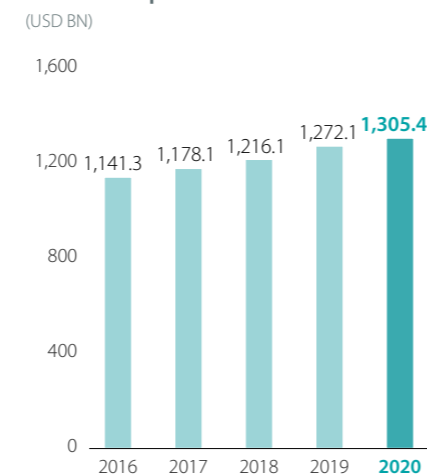
We are committed to creating innovative, original drugs to support patients in the shortest time possible. We are proud to have received manufacturing and marketing approval in Japan for CORECTIM® Ointment 0.5% and 0.25% for an indication of atopic dermatitis, and ENAROY® Tablets 2mg-4mg tablets for the treatment of anemia associated with chronic kidney disease. We have been making steady progress in our R&D and aim to contribute to sustainable profit growth.

Business environment

SWOT analysis of pharmaceutical business



Worldwide pharmaceutical market* (USD BN)



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(Data Period, Year 2016-2020)
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Pharmaceutical business basic strategy

The pharmaceutical business aims to contribute stable profits. Its basic strategy is to:

- Focus on R&D investments towards next-generation products and out-licensing them at the optimal point in time; and
- Maximize value of each product.

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

Business Plan 2021 strategy and achievements

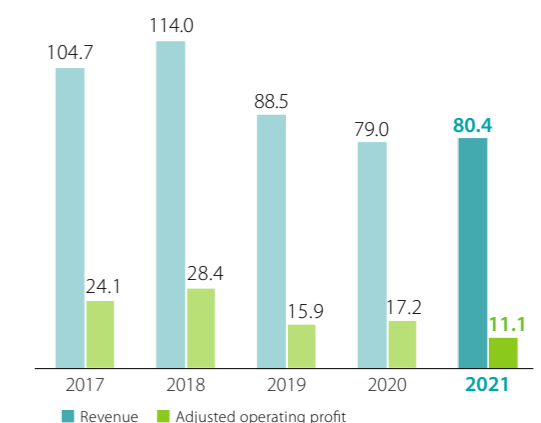
Strategy in Business Plan 2021	Achievements in 2021
Focus on drug discovery capabilities	<ul style="list-style-type: none"> • Focused on R&D areas where accumulated knowledge can be effectively utilized • Searched for drug targets with high therapeutic effects based on a deep understanding of biological phenomena and diseases • Developed platform of JT's unique proprietary drug discovery technologies, including AI drug discovery technology • Promoted open innovation with external research institutions such as academia
Develop compound pipeline	<ul style="list-style-type: none"> • Commenced overseas clinical trial for JTT-861, a compound discovered by JT • Commenced phase-II clinical trial in Japan for JTE-451 as topical medication • Maximized product value <ul style="list-style-type: none"> –Received Japanese regulatory approval to add iron-deficiency anemia as new indication for Riona® tablets and launched promotions –Received Japanese regulatory approval to manufacture and sell CORECTIM® Ointment 0.5% and 0.25% (for pediatric atopic dermatitis) • For clinical development status of other drugs, please visit our website.
Enhance both in- and out-licensing activities	<ul style="list-style-type: none"> • Commenced phase III clinical trial in Japan for JTE-061 (tapinarof), in-licensed from Dermavant Sciences GmbH. Tapinarof is jointly developed by JT and Torii Pharmaceutical.

Pharmaceutical business 2021 performance

Revenue increased by 1.8% driven by top-line growth at our consolidated subsidiary, Torii Pharmaceutical, which was partially offset by a decrease in overseas royalty income. Torii Pharmaceutical reported its major growth in sales of drugs for skin diseases and allergies, which led to its top-line growth.

Adjusted operating profit decreased by 35.4% due to an increase in R&D expenditures and SG&A expenses at Torii Pharmaceutical.

Revenue and adjusted operating profit (JPY BN)



Overview of pharmaceutical business and its sustainability initiatives

Sustainability initiatives through business activities

Case study: Developing original drugs to save people 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 2021, we invested 29 billion yen in R&D. Our clinical development as of February 14, 2022, can be found [here](#).

As a result of our initiatives, in Japan we launched ENAROY® 2mg-4mg tablets (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 Japan, we are currently conducting a phase-III clinical trial in infant patients (under the age of 2) with atopic dermatitis. The top-line results of the trial, which were released in 2021, showed the CORECTIM® ointment's effect in improving skin eczema. The safety of the ointment within the treatment period was also confirmed. Based on these results and other clinical studies, we will aim to submit a manufacturing and marketing application for delgocitinib ointment in Japan.

To enrich the lives of patients of all ages who are suffering from diseases, and the lives of their families, we will continue to research and develop original drugs that can be used safely and with peace of mind.



Our sustainability strategy and focus areas

In the pharmaceutical business, we selected three focus areas and set five specific targets for these focus areas in 2019 and have been reporting on progress every year.



Products and services

Aspirational goal

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

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



People

Aspirational goal

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

We strictly adhere to specific processes to ensure that our pharmaceutical business activities are always carried out in a responsible and appropriate way. We provide e-learning

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

Product safety and responsibility

Aspirational goal

We will strictly comply with all relevant laws, regulations, and industry standards in order to deliver safe drugs to patients. We have developed our own guidelines on how to conduct annual inspections to ensure that our production methods fully comply with government recommendations.

We 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](#)

Overview of processed food business and its sustainability initiatives

Hiromasa Furukawa
Senior Vice President,
Food Business



The processed food business comprises three businesses: frozen and ambient food, seasonings and bakery businesses. Our mission is to deliver safe, high-quality food to our consumers. We aim to contribute to the JT Group's profit growth by continuing to optimize production operations, mainly in the frozen and ambient food business, and by achieving high-quality top-line growth through such means as increasing sales of our more profitable products.

Business environment

SWOT analysis of processed food business



Processed food business basic strategy

The processed foods 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;
- increase profitability by optimizing production operations; and
- minimize the impact of inflation in raw materials and logistics costs.

The processed food business operates three businesses. The frozen and ambient food business's core products include frozen *udon* noodles, packaged cooked rice and *okonomiyaki* (Japanese savory pancakes); the seasoning business's products include yeast extract and oyster sauce; and the bakery business operates a chain of bakery outlets, mainly in the Tokyo Metropolitan area.

Business Plan 2021 strategy and achievements

Strategy in Business Plan 2021	Achievements in 2021
Build highly-profitable product portfolio	In the core frozen and ambient food business, we made steady progress in allocating more resources to high-value-added/high-priced products, among other initiatives
Optimize production operations • Further increase TableMark Group's productivity	In addition to converting freezers to non-fluorocarbon refrigerants, we strengthened our production platform and increased productivity through such means as relocating/consolidating production lines

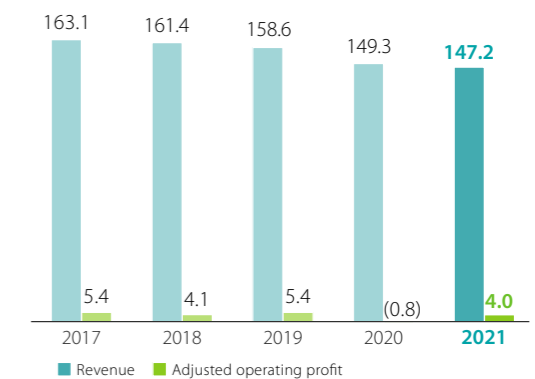
Processed food business 2021 performance

Revenue is in a slight downtrend but remains in a long-term growth trend in the core frozen food category. Adjusted operating profit has been holding up fairly well, bolstered largely by product mix improvement and cost-cutting, except in 2018, when raw material costs soared, and 2020, when the pandemic erupted. However, the impact of labor and logistics cost inflation stemming from labor shortages and the impact on raw material costs of international market and exchange-rate movements still need to be monitored.

In 2021, revenue was down 1.4% year on year as a result of two factors. First, demand for the frozen and ambient food business's household products decreased relative to its 2020 level, which was transiently boosted by the pandemic. Second, sales to the food service industry by the frozen and ambient food and seasonings businesses also decreased.

Adjusted operating profit increased 4.7 billion yen year on year, largely as a result of non-recurrence of an impairment loss booked against the bakery business a year prior, and a reduction in SG&A expenses.

Revenue and adjusted operating profit (JPY BN)



Overview of processed food business and its sustainability initiatives

Sustainability initiatives through business activities

Case study: Use of plastic film discontinued inside Gottsu-umai okonomiyaki packaging, reducing annual plastic usage by 34t and CO₂ emissions by 160t

The processed food business's sustainability strategy designates "providing products and services that exceed consumers' expectations" as a priority. We aim to meet consumer needs with products embodying a commitment to quality and technology. Another priority is to build a sustainable supply chain. We are endeavoring to reduce environmental and societal risks to ensure our supply chain's mid- to long-term sustainability. Based on such a mindset, we are focused on developing environmentally conscientious products while meeting consumers' needs.

▶ Please visit [our website](#) for more on the processed food business's sustainability strategy.

TableMark's Gottsu-umai Okonomiyaki series has been driving the frozen *okonomiyaki* market since its launch in 1999. Even today, it remains the top-selling product*¹ in the frozen *okonomiyaki* market.

Both numbers of frozen-food users and demand for more convenient food products are increasing against a societal backdrop of growth in dual-breadwinner and single-occupant households, coupled with an increased frequency of at-home meal preparation as spent more time at home during the pandemic.



Product packaging as of March 2022

The four Gottsu-umai Okonomiyaki products were previously covered with a sheet of plastic (polyethylene) film inside the pouch in which they are sealed. We recently discontinued this practice, saving consumers the trouble of peeling it off before cooking. We expect the move to reduce our plastic usage by some 34t and our CO₂ emissions by roughly 160t*² per year. Meanwhile, consumers will generate less household trash in addition to being able to enjoy delicious *okonomiyaki* with less hassle.

Confident that such initiatives will lead to further growth in the processed food business, we will continue to provide safe products that consumers can enjoy with peace of mind.

*1. Fuji Keizai Co., Ltd.


Foodstuff Marketing Handbook 2022: Vol. 2, 3
2020 results

*2. Estimated using Ministry of the Environment's 3R resource intensity calculation method based on the Gottsu-umai Okonomiyaki series' actual plastic film usage in 2020

▶ See [our website](#) for more information on the JT Group Environment Plan 2030.



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. 

Four perspectives on food safety management

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



Food safety standards

We make sure that all of our factories* are certified to the global food safety standard FSSC 22000. FSSC 22000 is recognized by the Global Food Safety Initiative (GFSI), the food industry's global body for promoting food safety management. All the factories contracted to manufacture frozen food products on our behalf are required to meet the food safety standard ISO 22000 or FSSC 22000, as an assurance of food safety. We also work with multiple independent advisors, who have helped to develop our approach to food safety since 2008. External expertise enables us to provide our employees with a greater awareness of new developments and important topics in the field of food safety and/or quality control. In order to ensure food safety, we have introduced a system that records information about our products at every stage of the process, from the raw materials and production to processing, distribution, and sales. This means we can retrace our product to any point, if necessary.

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

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. We are working on further utilization of factory cameras and enhancement of our drug management system both in our own factories and our contracted factories.

Enhancing food quality

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

Further food communication

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

▶ Read more on [JT.com](#).

Investing in people

Our employees are assets to the Company: their skills and spirit are the driving force behind everything we achieve. At the JT Group, we are pleased to be an employer of choice. 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 and inclusive culture where everyone can feel comfortable and be themselves.

Target in tobacco business: Employer of choice

We will be a certified employer of choice every year in at least 60 countries by focusing on talent management, rewards, and empowerment.



The JT Group human resources management philosophy

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



Developing and retaining talent

Today's business environment is evolving rapidly, and COVID-19 adds additional pressures. To attract, develop, and retain the best talent, we need to remain flexible, for example by adapting to remote ways of working.

We have implemented various global and regional learning programs. Many of our courses are offered online, enabling employees to develop new skills even when working from

home. We constantly invest in our employees, including at a managerial level, to ensure they flourish in their careers.

We believe that engaged employees lead to long-term employee retention, increased productivity, and improved quality of work. The high level of employee engagement across our Group helps us to minimize employee turnover.

Employee engagement

We carry out an annual employee engagement survey at a 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 maintain our reputation as a top employer.

In our international tobacco business (JTI), we carry out an employee engagement survey every year. In 2021, 89%

of eligible JTI employees took part in the survey. Overall, employees reported being clear about our Company vision and how they are contributing to it, with 81% saying they are confident in our leadership team. 87% also responded favorably to the question "How happy are you working at JTI?" (the main metric of employee engagement). The variations between different business units highlighted the need to develop tailor-made action plans with local relevance.

Diversity and inclusion

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

▶ Read more about our external recognition on [P.126](#).

Gender equality – women in leadership

One of our commitments is to promote gender equality in the workplace. To further empower women, we hold workshops for top management and line managers, as well as training and seminars for women 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.

LGBT+ inclusion

Supporting our LGBT+ employees is vital for us to create a more equal JT Group, in which everyone is empowered to be themselves and do their best. In 2021, JT and JTI co-signed the UN Standards of Conduct for Business Tackling Discrimination against the LGBTI community.

▶ Read more about our Human Resources on [JT.com](#).

Race & Ethnicity

Our international tobacco business is committed to breaking down barriers and creating a safe environment which allows people of all races and ethnicities to thrive in the workplace, diversifying all levels of the business, including leadership. We are working with a group of volunteers who make up embRACE, an employee resource group focused on race and ethnicity.

New Ways of Working (N-WOW)

Recognizing that different people have different working styles and needs, we promote a flexible workplace environment that allows all employees to fulfill their potential. In July 2021, our international tobacco business launched its global N-WOW policy, adopting a hybrid way of working that focuses on outcomes rather than time spent in the workplace.

Wellbeing

In light of COVID-19, well-being has become more important and relevant than ever before. In 2020, we launched a global well-being program to support the physical, mental, emotional, and financial well-being of our people and the communities in which we operate.

MyGeneration

We value the diverse perspectives that each generation brings to the workplace. Our vision is to support age-diverse teams, creating optimum conditions for collaboration, knowledge exchange, and mutual respect. To support this mission, we created two MyGeneration working groups at the headquarters of our international tobacco business in 2020.

Investing in people

Health and safety

Our employees have the right to be protected from work-related injuries and illnesses. It is our responsibility to provide them with a safe working environment and to promote a culture that prioritizes health and safety.

Our global health and safety mission reflects our vision of zero workplace injuries. We aim to provide leadership in the development and implementation of global standards and programs to properly manage and mitigate health and safety risks arising from our business activities. It's also important to us to build awareness and develop a sustainable safety culture across the business.

Target in tobacco business: Zero injuries

In line with our vision of zero workplace injuries, we will reduce injury rates by 25% by 2023 and 50% by 2030. (Baseline year: 2015).



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.

- **Nothing 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. Business results must never conflict with safety performance.

- **Safety is everyone's responsibility**

Everyone shares the responsibility for a safe and healthy workplace, and we each have a role to play to make this a reality.

- **We do the right thing**

All our offices, sales operations, and factories shall always comply with all national and local laws and regulations.

guidelines across our international tobacco business.

Considering the growing number of female employees, the policy also includes maternity protection for female drivers. Focusing on driver behavior, the new guidelines require local offices to conduct a risk assessment to identify high-risk drivers. They must also send periodic progress reports and action plans. In 2020, we completed a Driver Safety Compliance Assessment. The results showed that our markets comply with 80% of our global guidelines on average. In 2021, this figure increased to 85%.

Driver safety training

We trained 1,380 employees in driver safety in 2020 and 2,361 in 2021. Due to the pandemic, some of the training was carried out remotely (online driver risk assessment and coaching sessions), but we also organized 'on the road' training for high-risk drivers, where possible. Our plan is to train a further 4,000 drivers in 2022.



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

Supporting employee well-being

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

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

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

In 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.

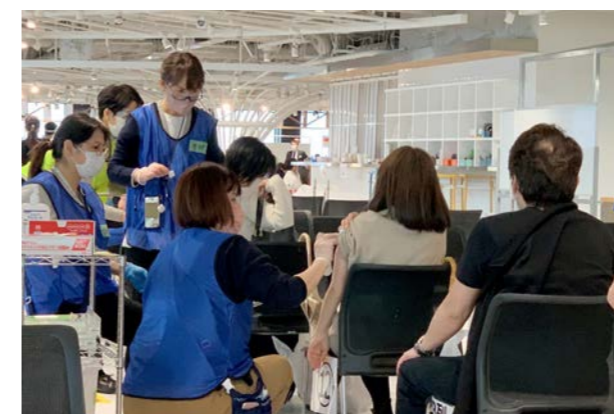
Since the onset of COVID-19, we have continued to offer employees one-to-one interviews with our health staff via video calls. We also continued to run online programs focusing on sleep, diet, and exercise.

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 sixth 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.

Our response to COVID-19

In 2020 and 2021, responding quickly and effectively to the COVID-19 pandemic was a priority. We have taken considerable measures to ensure the safety of all employees and their families, and all of our other stakeholders. The quality of our response allowed us to maintain operations even at the peak of the pandemic while reducing the impact on our employees.



Vaccination program

In 2021, at all 20 of our sites in Japan, we offered COVID-19 vaccinations to all JT Group employees and their families, business partners, etc. In total, we vaccinated around 20,000 people.

In our international operations, we also offered workplace vaccinations where possible, in line with local government guidelines and regulations. We actively encouraged employees to get vaccinated if possible, and produced an employee information booklet about the vaccine.

By the end of 2021, 80% of JTI employees (over 36,000) had been vaccinated: well above the average national vaccination rate in most locations. This is a significant achievement, which highlights the success of our vaccination campaigns.

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

Three absolute requirements for sustainability

The JT Group's three absolute requirements for sustainability

- 1. Respect for human rights P. 73
- 2. An improved social and environmental impact P. 75
- 3. Good governance and business standards P. 88

Respect for human rights

Respecting human rights is one of the three absolute requirements that drive our sustainability strategy. We respect human rights across our value chain and recognize the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The [JT Group Human Rights Policy](#) follows the framework provided by the UN Guiding Principles on Business and Human Rights. Our human rights strategy is based on five pillars; Embed, Identify and prioritize, Respond, Measure, and Report. This circular approach provides a systematic way of conducting ongoing due diligence and is in line with the UN Guiding Principles, the OECD-FAO Guidance for Responsible Agricultural Supply Chains.

JT Group Human Rights Report

To coincide with the 10th anniversary of the UN Guiding Principles, we published our first standalone Human Rights Report which examines the potential 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 more on the [JT Group Human Rights Report](#).

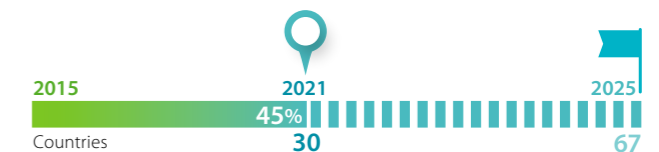


Making our ambitions a reality

We have committed to assess 100% of high-risk countries* by 2025.

In 2021, we assessed five new markets: Cambodia, Jordan, Nigeria, Angola and Romania. In total, we completed 10 Human Rights Impact Assessments and 17 self-assessment questionnaires across our entire value chain. We also conducted one Supply Chain Impact Assessment (SCIA), one Grower Livelihoods Assessment and used our leverage to conduct a supplier human rights workshop. By the end

of the year, 30 out of 67 (45%) high-risk countries had been assessed.



[Read more on 'Human Rights Impact Assessments: key findings' on JT.com](#)

We believe this demonstrates our approach to prioritizing, which involves considering where our greatest risks to people lie. It also shows our willingness to go into countries with histories of human rights allegations and assess the on-the-ground reality.

potential human rights risks in at least six countries each year.

We will continue to prioritize countries based on a set of risk-based criteria; we are committed to assessing actual and

* In addition to the high-risk countries identified, we completed the assessment in Japan, home to our HQ and many subsidiary companies, given its scale of businesses; tobacco, pharmaceuticals, and processed food. We also conducted the assessment in Switzerland (HQ of tobacco business), China and Thailand (processed food).

Three absolute requirements for sustainability

Respect for human rights

Key progress in 2021

In 2021, we published our first standalone Human Rights Report. This gave us the opportunity to look back on our achievements, and recognize the path to take in our future human rights journey. We also identified nine salient human rights issues. These will be the core of our human rights due diligence from now on. Other milestones

included upgrading our self-assessment questionnaire, and launching this tool in five new countries. Designed to focus on the newly established salient issues, the updated questionnaire also covers the response to new COVID-19 related guidelines and controls.

Salient issues

In 2021, we identified nine salient issues:

- Child labor
- Environmental impacts
- Fair wage
- Forced labor
- Harassment and gender impacts
- Health and safety
- Health risk
- Non-discrimination and equality
- Working hours

Identifying salient issues

To identify the salient human rights issues for the JT Group, the assessment analyzed them for severity and likelihood, in line with the UN Guiding Principles. We identified the full range of human rights that could potentially be negatively impacted by our activities, before prioritizing potential negative impacts by severity and likelihood.

Assessing severity

The severity of human rights impacts was assessed by their scale, scope, and irremediability. Based on this, we identified the severity of each human rights issue with a scoring system for risk mapping.

Assessing likelihood

After assessing the likelihood of human rights issues in the JT Group, we analyzed our five key business categories: Leaf sourcing, Processing, Manufacturing, Office, and Sales and Marketing, across 130+ countries. We also determined the magnitude of risk for operational categories in each country, by quantifying each risk using environmental and social country indices published by Verisk Maplecroft and country indices published by international organizations.

Mapping risk

This mapping exercise was done for our three businesses; tobacco, pharmaceuticals, and processed food. In the consolidated map of those businesses, the issues of high severity and high likelihood were finally identified as salient in the JT Group.



Improving our social impact

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

JT Group Target : Community investment

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



Our focus areas

Through long-term partnerships with local and international organizations, we have around 400 community investment programs in 60 countries. Based on global and local needs, these programs help communities to become more inclusive, sustainable, and resilient. We focus on three specific issues:

1. Reducing inequalities, e.g., helping underprivileged people gain access to food and education.

2. Improving community resilience in disaster-prone areas, e.g., providing access to clean water.
3. Protecting the environment, e.g., replanting trees with the help of our employees.

In 2021, in spite of COVID-19 restrictions, we implemented 328 programs to reduce inequalities, 22 programs to improve community resilience, and 32 programs to protect the environment globally.

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 2021, we invested around 50 million U.S. 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 a company's 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.

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).

We actively encourage our employees to take part in

▶ Read more about our community investment activities on [JT.com](#).

Three absolute requirements for sustainability

Improving our environmental impact

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

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

The JT Group Environment Plan 2030

Our JT Group Environment Plan 2030 sets objectives and targets to address our key environmental risks and opportunities across three focus areas: Energy and Emissions, Natural Resources, and Waste. The revised targets for GHG emission reduction by 2030 are in line with science-based thinking and the JT Group is currently preparing to obtain

validation of its targets from the Science Based Targets initiative. 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 target 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 de-carbonise our business operations.

	Objective	Target
Energy	JT Group will transition all of its energy use to zero carbon energy by 2050.	We will increase the proportion of renewable electricity that we use to 50% by 2030 and 100% by 2050.
Emissions	JT Group will reduce its emissions and commits to be Carbon Neutral for its own operations by 2030 and achieve Net-Zero Greenhouse Gas emissions across its entire value chain by 2050.	<p>We commit to reduce absolute Scope 1 & 2 GHG emissions by 47% in line with a 1.5 degree reduction pathway by 2030 from a 2019 base year.</p> <p>We commit to reduce absolute Scope 3 GHG emissions associated with purchased goods and services by 28% by 2030 from a 2019 base year.</p>

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 analysis since 2019, and we endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2020. Read the results of our first round of analysis result on [P. 78](#).



Agroforestry contributes to forest conservation

Ensuring a sustainable wood supply and further contributing to forest conservation and rehabilitation are key objectives set out in the JT Group Environment Plan 2030.

Our Agroforestry Programs address sustainable forestry, wood use, and management. In Malawi and Zambia, we encourage growers to build ‘live barns’ by planting trees that will form the main structure of a Burley curing barn within three years. This helps conserve vital wood resources and reduces grower’s barn maintenance effort and costs. In Brazil, Tanzania, and Zambia, where we contract growers that require wood as a fuel source for curing, we promote best forestry practices, validated through dedicated forestry R&D, to achieve 100% renewable wood supply by 2030.

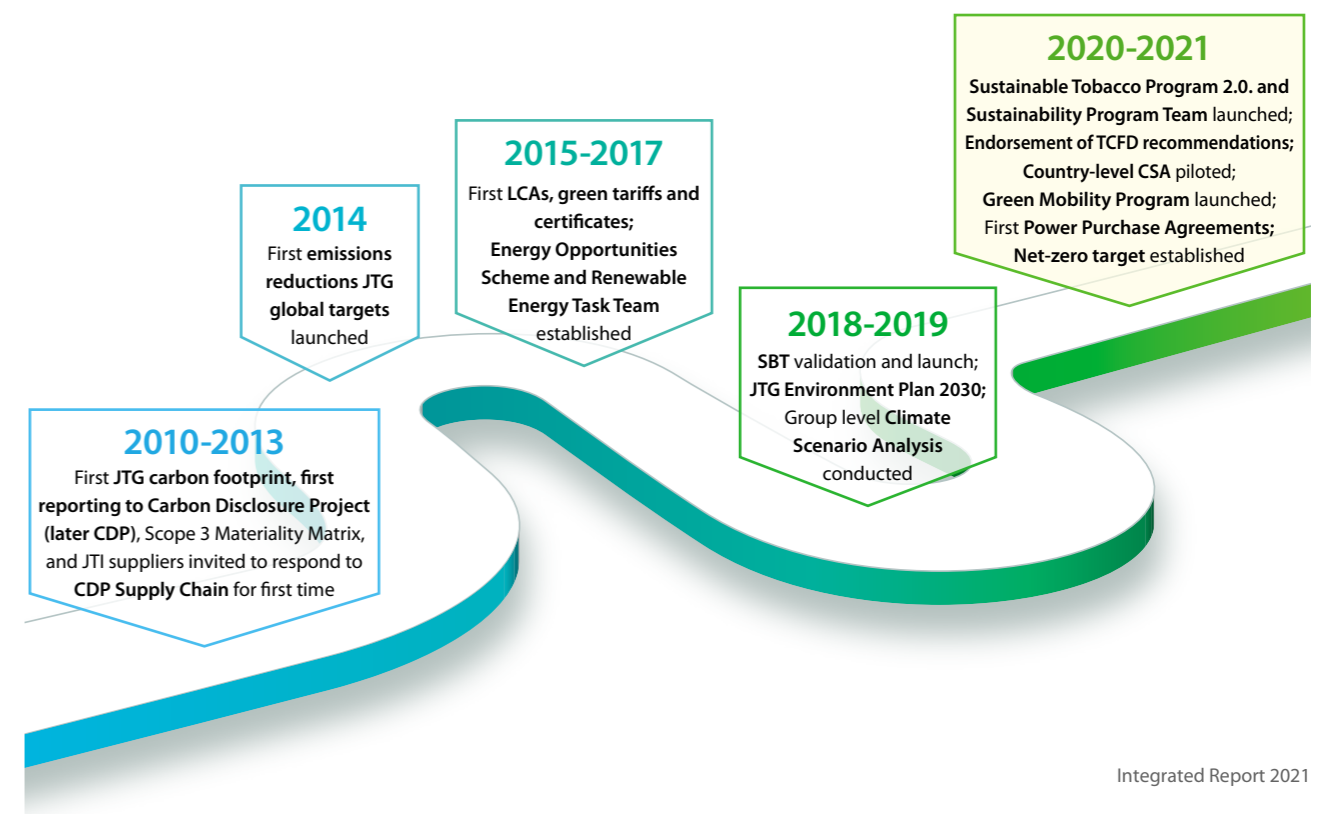
We are using a remote-sensing, high-resolution satellite imagery monitoring platform to help us monitor the effectiveness of woodlots, to estimate wood production on small-scale farms, and to verify progress of forestry targets both for ourselves and our growers. Data are captured at field level by our Agronomy Technicians via the AgroMobility mobile application and then uploaded to the monitoring platform.



10 years of climate action

Addressing climate change is not new for JT Group; we have achieved a lot during the last 10 years. However, we recognize that there is much more to do. Our dedication to

stronger science-based targets and to our net-zero commitment, provide a clear pathway for the years ahead.



Three absolute requirements for sustainability

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 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 operations. In February 2022, we committed to be carbon neutral for our own operations by 2030. We also aim to achieve net-zero GHG emissions for our entire value chain by 2050. In support of this, we have set more ambitious 2030 science-based reduction targets, for which we will seek SBTi (Science-Based Targets initiative) validation. We also aim to obtain validation for our longer-term net-zero target.

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

Indicator	Description
Governance	Climate-related issues are of strategic importance to our business. Through our business-wide Enterprise Risk Management (ERM) process, we have identified climate-related risk as one of our Enterprise Level Risks (ELR) for our tobacco business. This risk also needs to be considered in local risk inventories and assessment processes. Board oversight is critical and climate-related issues and potential impacts on business strategy are discussed in quarterly Board-level meetings. ▶ Governance report
Strategy	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. ▶ Risk factors (P. 80)
Risk management	We consider climate-related risks and identify risk mitigation and management approaches through our ERM process. 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. We will compare business-wide risks from local assessments and identify the most critical ones.
Metrics and targets	Our Group Environment Plan 2030 includes absolute reduction of GHG emissions from our own operations by 47% (2030 versus 2019). We have also set a longer-term GHG emission reduction target, as well as targets for renewable electricity. These are backed by our Group-wide climate scenario analysis. ▶ Read more about JT Group Environment Plan 2030 and Environmental data/External verification on JT.com.

Scenario analysis

Physical risk: leaf sourcing

Changes in environmental conditions for leaf growing include the CO₂ level in the atmosphere, as well as shifts in the presence and prevalence of tobacco crop pests and diseases related to climate change. Other factors include water scarcity and higher-than-average temperatures and unusual precipitation pattern. All of these could impact the

availability and quality of key natural resources for the JT Group, including tobacco leaf. This 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	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. 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).

Transition risk: carbon pricing

Increased carbon tax may also increase procurement costs of tobacco leaf and other materials, and impact Company expenditure in our direct operations. For example, a carbon tax may be imposed on raw or secondary materials, or for services used in each phase of the agricultural value chain

(e.g. agricultural chemicals, agricultural machineries, processing machineries, storage and distribution). As a result, the JT Group will bear the additional costs and/or these will be transferred onto the raw material price.

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 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 new JT Group Environment Plan 2030.

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.129.

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 For more details on activities to eradicate illicit trade, please see Tobacco Business: Regulatory environment and illegal trade (P. 57) for more details.
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 Please see Regulation and Key Laws (P. 84) for more details.
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>	Market share fluctuations may affect our financial results. Additionally, markets in which we operate sometimes become embroiled in price competition due to events such as a brand repositioning or a price cut in pursuit of market share gains. Such price competition may negatively impact our profit margins in individual markets.	<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

*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
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. As announced in 10th of March 2022, concerning the recent Russia-Ukraine war, the Company suspended all new investments and marketing activities in the Russian market. In addition, as announced in 28th of April 2022, given the challenging and unpredictable environment, the Company has continued to evaluate various options for the Russia business, including the potential transfer of ownership. 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 2021.	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
6 Currency risk	Our operations' global scope exposes us to currency risk. While we prepare our consolidated financial statements in Japanese yen, our overseas subsidiaries prepare their financial statements in various other currencies, including the Russian ruble, euro, pound sterling, Taiwanese dollar, U.S. dollar and Swiss franc. Changes in such foreign currencies' exchange value against the yen affect our reported earnings. Additionally, in our international tobacco business, JT International Holding B.V. consolidates its foreign subsidiaries' financial statements into financial statements presented in U.S. dollars. Its financial statement data are affected by changes in exchange rates between the U.S. dollar and other local currencies used by those foreign subsidiaries. We generally do not hedge risks stemming from such currency translation of financial statements except to hedge the currency risk posed by translating foreign subsidiaries' equity into yen. We hedge this risk with foreign-currency debt, a portion of which is designated as net-investment hedges. 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 U.S. dollar, are affected by changes in other currencies' exchange rate against the U.S. 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. In recent years, the global spread of COVID-19 has triggered a global economic slowdown and wrought unprecedented changes in lifestyles. We must closely monitor the COVID-19 pandemic's impact on our businesses, including mid to long-term consumption/demand trends. 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 adversely affect our operations and/or financial results through such occurrences as a global economic slowdown or lifestyle changes.	<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	Certain JT Group companies are being sued for damages due to smoking, marketing of tobacco products and exposure to secondhand smoke. Lawsuits involving smoking-related health claims are pending against certain JT Group companies, including suits where we may be found to have indemnity obligations pursuant to the agreement under which we acquired RJR Nabisco Inc.'s non-U.S. tobacco business. We cannot predict the outcome of any current or future lawsuits. Additionally, we may be sued on grounds other than smoking-related health claims. For example, we could be sued on a product liability claim in the event that a product-quality problem were to arise.	If a lawsuit is decided against us, we may be held liable for substantial damages, and/or incur other consequences, that could adversely affect our financial results. Additionally, critical media coverage of ongoing lawsuits against us could make the public less tolerant of our products and lead to stricter public regulation of smoking. Such media coverage could also lead to subsequent lawsuits against us and additional litigation expenses.	<ul style="list-style-type: none"> Establish internal and external coordination channels, swiftly ascertain information on litigation and related matters and share it with management and concerned organizational units Continue to appropriately defend against litigation claims in coordination with external legal counsel <p>▶ Please see Litigation (P. 87) for more details.</p>
9 Natural disasters	Our financial results could be adversely affected by earthquakes, 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 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. 76) 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 secondhand smoke, regulation of tobacco products' contents and emissions, regulation of tobacco product disclosures, regulation of tobacco products' packaging and labeling, regulation of tobacco advertising, promotion and sponsorship) and measures to reduce the supply of tobacco products (e.g., measures to prevent illicit trade in tobacco products and sales of tobacco products to minors*). The Japanese government ratified the FCTC in June 2004.

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

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

The EU revised its July 2001 Tobacco Products Directive (TPD) effective May 2014. The revised TPD tightened restrictions on tobacco product packaging and labeling, added new regulations on tobacco product additives and E-Vapor products, and 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 minors* 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. The U.S., for example, banned the sale of certain flavored E-Vapor cartridges in February 2020. With a global regulatory consensus yet to take shape, regulatory treatment of RRP varies widely among markets/countries.

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 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 include not marketing to minors* and not encouraging anyone, including adults*, to start smoking or dissuading anyone from quitting. We believe that preventing minors* from smoking is an issue that requires society-wide engagement. We are pursuing various initiatives to address this issue in coordination with governments and concerned organizations in addition to appropriately operating in accord with our GMPs.

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

*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.

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 working to upgrade our safety management from four standpoints - food safety, food defense, food quality and food communication - so that it can provide consumers with safe, 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 ten ongoing health care cost recovery cases in Canada pending against JTI-Macdonald Corp. (hereinafter referred to as JTI-Mac), our Canadian subsidiary and JT's indemnitees (RJR Nabisco Inc.'s affiliates), brought by Canadian provinces. In addition, there are 8 pending class actions in Canada where plaintiffs are seeking damages for harm allegedly caused by smoking of cigarettes. Damages claimed in some of these cases reach sums in the multi-billion-dollar range. We will continue to take all appropriate actions to defend such claims vigorously and 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' 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 the 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" of our Consolidated Financial Statements' "Contingencies" note for major lawsuits to which some of JT's subsidiaries or indemnitees are named as defendants.

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

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

GOVERNANCE

Enhancement of corporate governance is a key management priority for the JT Group as it continually works to improve.

This chapter provides an overview and outlines our initiatives to enhance Group governance, which supports all our business activities, setting out a framework for transparent, fair, timely and bold decision-making in pursuit of the 4S model.

Here, our Chairperson of the Board and Outside Directors explain details of board discussions and their work to enhance governance.

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Message from the Chairperson

“Doing all we can to create a better future for the JT Group and our society as a whole”

Mutsuo Iwai
Chairperson



I was elected to chair the Board of Directors of Japan Tobacco Inc. effective from the beginning of fiscal 2022. To keep building our corporate value, especially in an environment of constant, drastic change, it is vital that now, more than ever, we take our decisions and actions to the next level. Just as all our directors make the most of their respective skills and expert knowledge, I too will tap into my experience as deputy chair up to fiscal 2021 and as a leader in the Group's tobacco and processed food businesses for years before, and do my utmost to help cultivate our

A stronger operating model for the tobacco business

As of January 2022, the Company has introduced a new operating model that unifies our former Japanese-domestic tobacco business and international tobacco business. The Board of Directors approved this reorganization as a necessity for the Company's mid- and long-term growth. Further, our Outside Directors expressed strong support for it as well, emphasizing that this will facilitate the evolution of the initiatives we have been taking as a global company along more forward-looking lines.

At the same time, we made decisions on measures to

2027 goals for RRP and HTS

While the Company will work to ensure sustainable growth on the strength of a unified tobacco business, it is important to clearly show our road map for success. In February 2022, we publicly announced the goals we aim to achieve by 2027. Ahead of this announcement, the Board had received reports

corporate value over the mid to long term.

In meetings of the Board in fiscal 2021, we discussed an ideal operating model for sustainable profit growth, business strategies to that end, and corporate governance practices to help sustain them. We also considered ways to help make our society more sustainable, an essential condition for our own sustainable growth. Please let me now share some of what came out of those discussions.

reinforce our competitiveness in the domestic market, including an early voluntary retirement program. The Board of Directors instructed Executive Officers to communicate the new measures to everyone in the Company in ways that will fuel motivation, assuring that employees affected by the new measures, especially those retiring early, are fully provided with care, and emphasizing that the success or failure of the new operating model depends on the awareness and actions of not just the management team but of each and every employee going forward.

from executive officers on the status of RRP-related markets, product development, customer response to our products, and business risks. I understand that the tobacco business is steadily implementing global initiatives, and I hope to see yet further progress as we enhance investment under Business Plan 2022.

Revision of Shareholder Return Policy

For sustainable profit growth over the mid to long term, Company policy balances profit growth with shareholder returns, with highest investment priority placed on growth of the tobacco business. In order to fully embody this established principle and moreover demonstrate our resolve to build shareholder returns through profit growth, we on the

Board have revised our shareholder return policy. In discussion, we agreed that it is important to follow through on our strategy to attain our mid-term goals for RRP and HTS, and promptly show results that contribute to sustainable profit growth.

Stronger corporate governance

I believe that ensuring the Company can achieve sustainable mid- and long-term profit growth – while assuring stakeholder interests and contributing, ultimately, to the development of our economy and society – necessitates further reinforcing corporate governance. In this context, the effectiveness of the Board of Directors, which is responsible for supervising all the Company's businesses, is especially important. For that reason, we assess the effectiveness of the Board every year, and proactively work to address any challenges revealed from the assessment results, so as to make our corporate governance practices even better. An Outside Director commented that the Company's Board is already far more effective than those of many companies, and yet we will commit ourselves to facing the challenges identified by our assessments and continue working to improve.

We also place high value on our discussions with stakeholders, including those representing the capital markets, as well as a range of monitoring results, and continually create opportunities to hear shareholder opinions through dialogue about our ESG responsibilities. The suggestions we receive through these initiatives lead to discussion by the Board on how to improve. For example, in fiscal 2021 we decided to revise our KPI related to executive remuneration so as to encourage sharing with investors at a deeper level, and strengthen our commitment to growth over the medium and longer terms.

▶ For details about assessments of Board effectiveness and our initiatives for improvement, see [P. 96](#).

▶ For details about executive remuneration, see [P. 98](#).

Building sustainability for our businesses and our society

Our businesses are rooted in interaction with the society in which we operate. This is why, for our sustainable growth, it is essential to contribute to social development through our business operations. Based on this understanding, the Company has made it a standard practice to involve the Board of Directors in the processes of setting sustainability goals, discussing specific measures to achieve them, and managing their progress. I believe this has borne impressive fruit, such as new targets for greenhouse-gas emissions, environmental goals concerning our products and packaging, and our target ratio for women in management, as well as the JT Group's recent first report on human rights, which summarizes our initiatives in this area, especially regarding our tobacco business. The Group's progressive initiatives have met with resounding support from our Outside

Directors, and I myself feel confident about them as well.

At the same time, I recognize the strong interest the capital markets are demonstrating in what the Company is working to achieve over the long term and our strategies for success. The Board maintains close contact with our Executive Officers to ensure that any insights are applied to our operations.

In light of our changing environment, popular interest in the sustainability of our businesses as well as the society where-in they operate will only grow. The JT Board of Directors will continue our utmost effort, through dialogue with our stakeholders, to help build a better society in which the Group can sustainably grow.

Messages from Outside Directors



Main Kohda
Independent Outside Director

I will do my utmost to help JT win better understanding among our stakeholders.

I have long held a very positive evaluation of the JT Group as an organization that is highly aware of its own need for self-transformation. I particularly value its commitment to carefully and comprehensively designing initiatives to enhance its operating model and optimizing its workforce with further growth in mind, constantly challenging itself and never being satisfied with the status quo. Under pandemic conditions these initiatives have required decisions that are far more consequential than is normally the case, but I believe that they have been the right decisions for cultivating the mid- to long-term growth of the Group.

In terms of sustainability, the JT Group maintains an ambitious approach relative to the industry as a whole, and I expect it will follow through on those initiatives to steadily achieve the goals set out in its sustainability strategy. As market interest in corporate ESG responsibilities rises, it is essential for us to maintain good communication with investors to foster their positive evaluation of the Group's efforts, based on the understanding that we see sustainability as an investment rather than a cost. I will do my best to facilitate these endeavors.



Yukiko Nagashima
Independent Outside Director

I am committed to supporting the JT Group to embrace the kind of organizational evolution demanded by frequent and unanticipated change.

Currently, the JT Group is conducting in-depth discussions regarding its purpose and what it wants to become in the future. Above and beyond the specific attributes of our vision, what I think is important in these kinds of discussions is how its ethos is reflected in the ways we conduct our business, and whether all employees have a sense of ownership in that. Only with that accomplished, I think, will we truly become what we want to be. While I understand that the Executive Officers are already attending to this carefully, as a director, I want to help chart our vision of the future as set out in the mid-term Business Plan, incorporating each business and in sync with the purposes of the Group.

It is also important for the Board of Directors to pursue further discussion, from a long-term perspective, on such key topics as what the Company aims to become. Concerning the assessment of the effectiveness of the Board, I can confirm that the necessary processes have been well executed, and the results are being fed back to the Board. Improving our discussions from a long-term perspective has been identified as a challenge for 2022 and beyond. I will endeavor to help enhance initiatives to support the Board in carrying forward, and improving, its work for sustainable growth of the JT Group.



Masato Kitera
Independent Outside Director

In a drastically-changing international environment, I will contribute to the sustainable development of the unique businesses that comprise the JT Group.

I vividly remember the days during my stay in Geneva, 20 years ago, when I learned about JT's global businesses and ambitious M&A strategies. The environment surrounding JT today is very different. The global environment has changed substantially just in the past few years, with the pandemic and emerging geopolitical risks. To win the understanding of investors and other stakeholders under these circumstances, we must effectively articulate our management team's directions for the Company, as well as our determination to pursue them, in the most supportive ways.

JT has adjusted its performance indicators for executive remuneration to better integrate its initiatives for mid- to long-term growth and to more thoroughly share our values with shareholders. This is nothing less than a strong commitment from management. The recent inclusion of non-financial indicators is especially positive, and we will ensure that our assessment framework functions as intended and remains easy for stakeholders to understand.



Tetsuya Shoji
Independent Outside Director

If everything seems under control, you're not going fast enough.

I have only recently been selected as an Outside Director of the JT Group, but I understand that today's capital market expects JT to demonstrate how it will achieve and maintain sustainable growth in a rapidly and radically changing business environment. Originally a public corporation, JT has evolved through many changes, not least of which was privatization, to become what it is today – but I believe that bolstering the confidence of the capital market necessitates that it continues to evolve and transform.

While working for Nippon Telegraph and Telephone, another formerly public corporation, I experienced major transformation as well. The mindset I adopted to handle that process is encapsulated by the quote

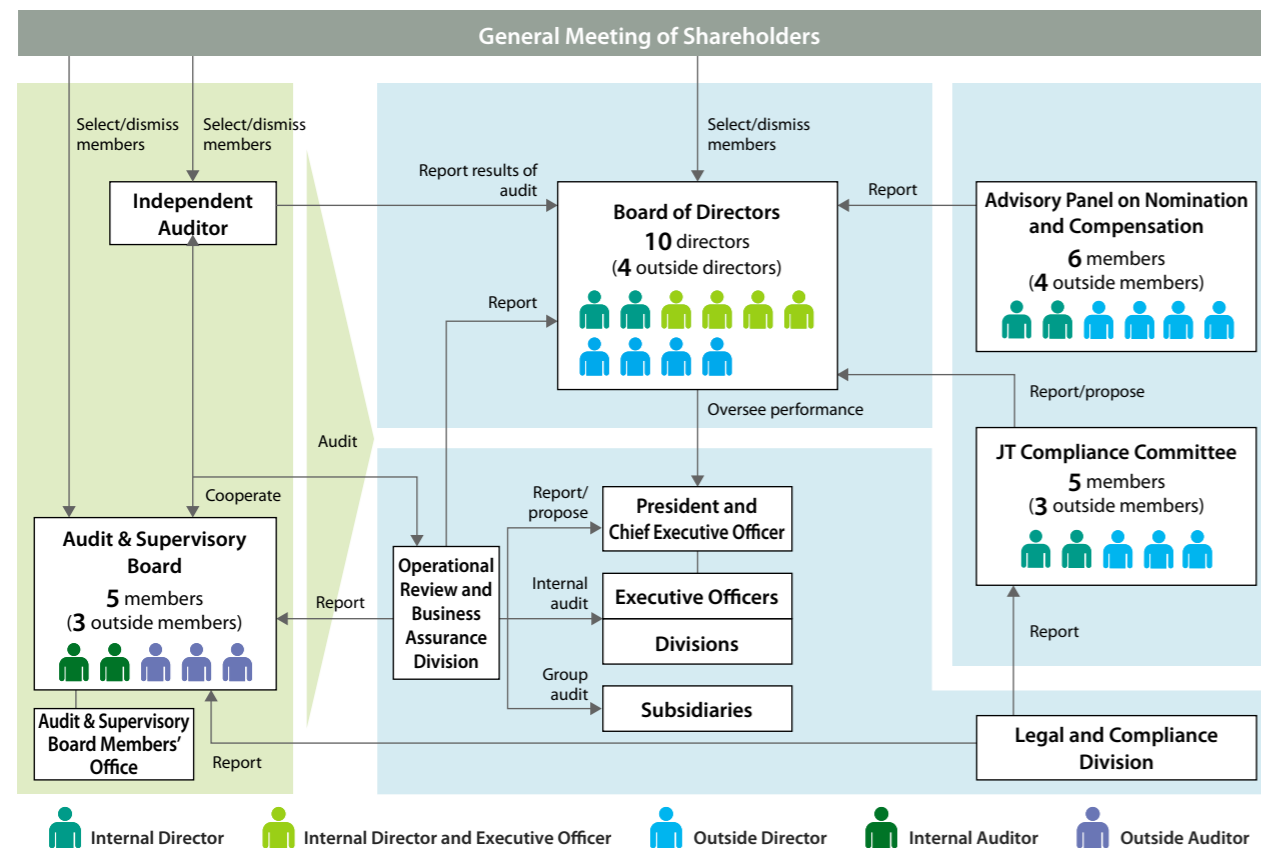
from racing driver Mario Andretti above, describing what I believe is an ideal mindset for facing change. Based on personal experience, I believe that it is essential for a company not to settle for the status quo, but rather to constantly challenge it, or, as I like to phrase it, "to advance, lead and maintain an international perspective."

It is vital to make a habit of continually evolving and updating both ourselves and our work. As a member of the Board, I will work with the management team to rise to the challenge of breaking free of complacency, and fostering sustainable growth and development for the Group as it continues to hone the high-quality technology and innovative expertise it has been cultivating for all these years.

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 mid to long term, 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 has been revised in June 2021 to include 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 100% attendance rate in fiscal 2021)

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 mid to long term 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 2021.

Advisory Panel on Nomination and Compensation (met 5 times with 100% attendance rate in fiscal 2021)

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 FY2022 term. In 2021, it met to specify the skills required of the Board of Directors; discuss the development of a skills matrix; review remuneration levels; review executive candidates; deliberate on candidates for the Board of Directors nominations; and review the key performance indicators (KPIs) for the executive bonus and performance share units for FY2022.

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

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 2021, 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 annually evaluate 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. 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.

The evaluation items are as follows.

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

The Board effectiveness evaluation for 2020 yielded generally positive results across all evaluation items as continuing from 2019. It confirmed that the Board is functioning not only effectively but increasingly so. On the other hand, the evaluation identified areas where further improvement is warranted. The areas of improvement include ones related to the Board's operations to further enhance discussions, and ones to further increase information-sharing that could contribute to in-depth discussions on corporate governance and further enhancements of the quality of the Board's decision-making. In addition, the Board has incorporated the ongoing impact of the COVID-19 pandemic on the Company's business and worked on making the following improvements throughout 2021.

- Effective and efficient operations of the Board of Directors aimed to further enhance discussions
 - Continued to hold detailed pre-meeting briefings regarding material matters
 - Secured sufficient deliberation time by allocating appropriate time for each agenda

- Continued online Board meetings and improved the meeting operations
 - Further enhancement in discussions and information sharing for better-quality decision-making by the Board
- Shared enriched information on the following matters:
 - Updates on material measures concerning mid- to long-term strategies
 - Updates on material measures and verification of their effectiveness
 - Updates on corporate governance and its future policies
 - Updates on dialogues with shareholders and investors
 - COVID-19 pandemic's impact, countermeasures, and updates on Group employees and each business

As with the previous year, the results of the Board's evaluation on its effectiveness in 2021 provided generally positive feedback and exhibited improvements in the categories mentioned above. Even 2022 onwards, the Board will continue to pursue improvements required for the issues listed below, in order to continuously enhance its effectiveness.

Key issues	Our action plans going forward
<ul style="list-style-type: none"> • Initiatives to further improve quality of deliberations and discussions • Enhancement of discussions from long-term perspective 	<ul style="list-style-type: none"> • Continued improvements in Board of Directors operations • Further expansion of opportunities to discuss mid- to long-term strategies, etc. • Further expansion of progress reporting and information sharing on key measures, etc.

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 mid- to 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 30s or younger, 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. Another motivation is for Torii to acquire increased competitive advantage in its business through factors, such as credibility building and recruitment of excellent human resources, both of which are important in the pharmaceutical business.

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

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

We have instituted the Group's Responsibility and Authority Regulations as an internal decision-making 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.

Corporate governance

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 mid to long term
- 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 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 mid- to 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 and of performance share unit, 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 mid to long term. The composition of executive remuneration is as follows.

Directors who also serve as Executive Officers

The remuneration is composed of base salary, executive bonus, restricted stock remuneration plan and performance share unit plan (PSU), as shown by percentage terms in the diagram below, assuming baseline amounts for executive bonuses and PSU. This composition reflects that their role is to achieve performance targets through day-to-day operational execution.

Respective shares ^{*1}	Base salary	Short-term incentive	Mid- to long-term incentive	
	Base salary Approx. 33~42%	Executive bonus Approx. 31~35%	Restricted stock remuneration ^{*2}	PSU ^{*2}
	Approx. 25~33%			
Payment method	Cash		Shares	Shares & cash ^{*3}

*1 Respective shares of total remuneration vary depending on each director's duty, as shown by the range in the diagram.

*2 The ratio of restricted stock remuneration to PSU is 3:1

*3 50% of the total amount of PSU is paid in cash for tax payment budget

*4 The diagram above is based on the Company's assumptive performance and share price. Respective shares fluctuate in accordance with the fluctuations of the performance and share price.

Directors who do not serve as Executive Officers (excluding Outside Directors)

Directors who do not serve as Executive Officers (excluding Outside Directors) 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 mid- to 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 Nominations 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

An executive bonus for Directors who also serve as Executive Officers is paid as monetary remuneration reflecting the performance in the fiscal year. Adjusted operating profit at constant FX and profit (attributable to the owners of the parent company) are the key performance indicators (KPI), respectively weighted at 75% and 25% in calculating the amounts of executive bonuses. Performance-linked payout is based on the KPI achievement in the range of 0% to 200%. In the event that we acknowledge that a Director who is a recipient of a bonus has conducted wrongful

behavior, a part of the received bonus is subject to return to the Company.

Starting from FY2022, we have decided to introduce core revenue at constant FX, adjusted operating profit on a reported basis and an RRP (Reduced-Risk Products)-related index as new KPIs on top of its existing KPI. Core revenue at constant FX, adjusted operating profit at constant FX, adjusted operating profit on a reported basis, and profit are the KPI, weighted at 15%, 35%, 25% and 25%, respectively. Performance-linked payout is based on the KPI achievement and is in the range of 0% to 190% with either -10%, 0% or +10% added/deducted to results depending on evaluations of the RRP-related index.

Restricted Stock Remuneration Plan

The Restricted Stock Remuneration Plan is designed to further enhance shared value in the mid to long term 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 the resolution of the

Corporate governance

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 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 mid to long term and to commit to achieving business results over the mid-term. 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, we have decided to introduce an ESG-related index on top of profit. 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, 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

From 2022 onwards, we have introduced new 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 conducive to mid- to long-term growth and further strengthen the shared value with

shareholders. With this revision, the ratio that performance on a reported basis accounts for in the KPIs used to determine executive bonuses, our short-term incentive, has increased to 50%.

Executive bonus

	KPI	Purpose/Details	Ratio
Existing	Adjusted operating profit at constant FX	Assess performance of business itself which is foundation of sustainable profit growth	35%
	Profit	Introduced to share attainment rate of profit growth with shareholders	25%
Newly-added	Core revenue at constant FX	Assess growth rate of top line. This KPI is introduced given significance of assessment of top-line growth to realize mid- to long-term sustainable profit growth	15%
	Adjusted operating profit on reported basis	Assess business performance including FX impact. This KPI is introduced to assess current performance from multifaceted perspective considering balance between constant FX basis and reported basis	25%
	RRP-related index	Assess qualitatively implementation of strategies and attainment rate regarding RRP (Reduced-Risk Products), our focus area	±10%

PSU			
	KPI	Purpose/Details	Ratio
Existing	Profit	Introduced to share attainment rate of profit growth with shareholders	100%
Newly-added	ESG-related index	Introduced in order for us (evaluatee) and shareholders (evaluator) to seek agreement on what is conducive to corporate value In 2022, we adopted our progress on initiatives to realize net zero as ESG-related index, specifically target attainment rates to reduce GHG emissions	±10%

Total amount of remuneration in 2021

Category	Total amount (JPY MM)	Total amount by component (JPY MM)				Numbers (persons)
		Base salary	Executive bonus	Restricted stock remuneration	PSU	
Directors (excluding Outside Directors)	1,405	482	549	191	183	6
Audit & Supervisory Board Members (excluding outside members)	83	83	—	—	—	2
Outside Executives	133	133	—	—	—	7
Total	1,621	698	549	191	183	15

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 and PSU are categorized as non-monetary compensation.
4. The diagram above includes a Director who resigned on March 24, 2021.

Maximum amount of executive remuneration

The maximum total amount of executive remuneration for all Directors is 1,100 million yen per year (of which 100 million yen is set for Outside Directors). This amount comprises base salary and executive bonus. The maximum total amounts of restricted stock remuneration and PSU for the Directors who also serve as Executive Officers are 210 million

yen per year (115,200 shares) and 130 million yen per year (76,800 shares), respectively. The maximum total amount of remuneration for the Audit & Supervisory members is 240 million yen per year for all of the members. These maximum amounts are all approved at the Annual General Meetings.

	37th Annual General Meeting on March 23, 2022			
	Total amount	Internal Executives		Outside Executives
		Who also serve as Executive Officers	Who do not serve as Executive Officers	
Base salary	Within 1,100 million yen (100 million yen for Outside Directors)	○	○	○
Executive bonus		○	—	—
Restricted stock remuneration	Within 210 million yen Within 115,200 shares	○	—	—
PSU	Within 130 million yen Within 76,800 shares	○	—	—
Total	Within 1,440 million yen			





Management structure

Directors and Members of the Audit & Supervisory Board

Ten Directors (including four Outside Directors)

(As of March 23, 2022)




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: 36,000		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.	Significant Concurrent Positions Outside the Company Outside Director, Benesse Holdings, Inc. Outside Director, TDK Corporation		
June 2013 Senior Vice President; and Chief Strategy Officer				
	Shigeaki Okamoto Deputy Chairperson of the Board Date of birth: February 20, 1961 Number of shares held: 0		April 1983 Entered the Ministry of Finance (hereinafter the Ministry)	July 2018 Administrative Vice Minister, the Ministry (Retired from the office in July 2020)
	July 2001 Head of Management Office, General Coordination Division, Planning and Coordination Bureau, Financial Services Agency	June 2021 Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. (Current Position)		
	July 2002 Director for Supervisory and Financial Risk Stabilization Management, General Coordination Division, Supervisory Bureau, Financial Services Agency	December 2021 Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office (Current Position)		
	July 2004 Director of Research Division, Budget Bureau, the Ministry	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office (Current Position)		
	July 2006 Director for the Budget Bureau, Planning and Administration Division of Budget Bureau, the Ministry	March 2022 Deputy Chairperson of the Board (Current Position)		
	July 2009 Head of Secretariat Division, Minister's Secretariat, the Ministry	Significant Concurrent Positions Outside the Company Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd.		
	August 2012 Deputy Director-General of the Budget Bureau, the Ministry	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Osaka Head Office		
	July 2015 Deputy Vice Minister, the Ministry	Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office		
July 2017 Director-General of the Budget Bureau, the Ministry				
	Masamichi Terabatake* Representative Director and President, Chief Executive Officer Date of birth: November 26, 1965 Number of shares held: 132,700		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.			
	Naohiro Minami* Representative Director and Executive Vice President Date of birth: January 21, 1964 Number of shares held: 48,300		April 1986 Joined the Company	March 2018 Representative Director and Executive Vice President, Chief Financial Officer and Communications
	December 2005 Controller	January 2022 Representative Director and Executive Vice President; Finance and Corporate Communications (Current Position)		
	July 2010 Deputy Chief Financial Officer; and Controller	Significant Concurrent Positions Outside the Company Supervisory Board Member, JT International Holding B.V.		
	June 2012 Senior Vice President; Chief Financial Officer; and Controller			
	July 2012 Senior Vice President; and Chief Financial Officer			
	January 2018 Executive Vice President, Chief Financial Officer and Communications			

	Kiyohide Hirowatari* Representative Director and Executive Vice President Date of birth: November 11, 1965 Number of shares held: 47,700		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	July 2014 Senior Vice President; and Chief Legal Officer	June 2012 Senior Vice President; Chief Legal Officer; and Vice President, Legal Division	January 2019 Representative Director and Executive Vice President, Corporate, Pharmaceutical and Processed Food Businesses
	July 2014 Senior Vice President; and Chief Legal Officer	January 2015 Senior Vice President; Head of Tobacco Business Planning Division, Tobacco Business	January 2017 Senior Vice President, Human Resources	January 2022 Representative Director and Executive Vice President, Corporate, Sustainability Management, Pharmaceutical and Processed Food Businesses (Current Position)
	January 2015 Senior Vice President; Head of Tobacco Business Planning Division, Tobacco Business	January 2018 Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance		
	January 2017 Senior Vice President, Human Resources	January 2018 Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance		
	Kazuhito Yamashita* Director Date of birth: February 4, 1963 Number of shares held: 33,100		April 1986 Joined the Company	January 2019 Senior Vice President, Compliance, Sustainability Management and General Affairs
	May 2007 Vice President, Corporate, Scientific & Regulatory Affairs Division, Tobacco Business	March 2019 Member of the Board and Senior Vice President, Compliance, Sustainability Management and General Affairs	July 2009 Vice President, Corporate Affairs Division, Tobacco Business	January 2022 Member of the Board and Senior Vice President, Corporate Governance and Compliance (Current Position)
	July 2009 Vice President, Corporate Affairs Division, Tobacco Business	June 2010 Senior Vice President; and Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	June 2010 Senior Vice President; and Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	
	June 2010 Senior Vice President; and Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	January 2015 Senior Vice President; and Head of China Division, Tobacco Business		
	January 2015 Senior Vice President; and Head of China Division, Tobacco Business			
	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)
	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)
	March 2005 Member of the Council for Transport Policy, the Ministry of Land, Infrastructure, Transport and Tourism	Significant Concurrent Positions Outside the Company Novelist	November 2006 Member of the Tax Commission, Cabinet Office, Government of Japan	Outside Director, Japan Exchange Group, Inc.
	November 2006 Member of the Tax Commission, Cabinet Office, Government of Japan	Outside Director, Mitsubishi Motors Corporation	June 2010 Member of the Board of Governors, Japan Broadcasting Corporation	
	June 2010 Member of the Board of Governors, Japan Broadcasting Corporation			
	Yukiko Nagashima Director (Independent Outside Director) Date of birth: April 4, 1961 Number of shares held: 0		April 1985 Joined Recruit Co., Ltd. (Current 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.
	January 2008 President and Representative Director, Recruit Staffing Co., Ltd.	Standing Audit & Supervisory Board Member, Recruit Co., Ltd.	October 2012 Corporate Executive Officer, Recruit Holdings Co., Ltd.	Standing Audit & Supervisory Board Member, Recruit Co., Ltd.
	October 2012 Corporate Executive Officer, Recruit Holdings Co., Ltd.	Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)	June 2016 Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)	Standing Audit & Supervisory Board Member, Sumitomo Corporation
	June 2016 Standing Audit & Supervisory Board Member, Recruit Holdings Co., Ltd. (Current Position)	Standing Audit & Supervisory Board Member, Recruit Co., Ltd.	April 2018 Standing Audit & Supervisory Board Member, Recruit Co., Ltd. (Current Position)	
	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, the 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	June 2020 Outside Director, Marubeni Corporation (Current Position)
	September 2012 Assistant Chief Cabinet Secretary	March 2021 Outside Director of the Company (Current Position)	November 2012 Ambassador Extraordinary and Plenipotentiary of Japan to People's Republic of China	Significant Concurrent Positions Outside the Company Outside Director, Marubeni Corporation
	November 2012 Ambassador Extraordinary and Plenipotentiary of Japan to People's Republic of China	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 2009 Senior Vice President and Head of General Affairs, Nippon Telegraph and Telephone Corporation	Outside Director, Mitsubishi Logistics Corporation (Current Position)	June 2012 Senior Executive Vice President and Representative Member of the Board, NTT Communications Corporation	March 2022 Outside Director of the Company (Current Position)
	June 2012 Senior Executive Vice President and Representative Member of the Board, NTT Communications Corporation	Significant Concurrent Positions Outside the Company Corporate Advisor, NTT Communications Corporation	June 2015 President & CEO and Representative Member of the Board, NTT Communications Corporation	Outside Director, Sapporo Holdings Limited
	June 2015 President & CEO and Representative Member of the Board, NTT Communications Corporation	Outside Director, Hitachi Zosen Corporation	October 2018 Representative Member of the Board, NTT, Inc.	Outside Director, Mitsubishi Logistics Corporation
	October 2018 Representative Member of the Board, NTT, Inc.			

Management structure

Five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) (As of March 23, 2022)

	Ryoko Nagata Standing Audit & Supervisory Board Member Date of birth: July 14, 1963 Term of office: 4 years from March 2019 Number of shares held: 12,400	April 1987 April 2001 June 2008 July 2008 July 2010	Joined the Company Vice President, Products Division, Food Business Division, Food Business Senior Vice President; Head of Beverage Business Division; and Vice President, Product Division, Food Business Division, Food Business Senior Vice President; and Head of Beverage Business, Food Business Senior Vice President; and Head of Beverage Business	June 2013 January 2018 March 2018 June 2021 Significant Concurrent Positions Outside the Company	Senior Vice President, CSR Senior Vice President, Assistant to President Standing Audit & Supervisory Board Member of the Company (Current Position) Outside Director, Honda Motor Co., Ltd. (Current Position) Outside Director, Honda Motor Co., Ltd.
	Hiroshi Yamamoto Standing Audit & Supervisory Board Member Date of birth: November 29, 1963 Term of office: 4 years from March 2019 Number of shares held: 2,600	April 1987 July 2008 June 2012	Joined the Company Vice President, Non-Tobacco Material Procurement Division, Tobacco Business Vice President, Operational Review and Business Assurance Division	March 2019 Significant Concurrent Positions Outside the Company	Standing Audit & Supervisory Board Member of the Company (Current Position)
	Toru Mimura Standing Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: December 26, 1955 Term of office: 4 years from March 2019 Number of shares held: 0	April 1979 July 2010 July 2011 January 2012 September 2012 July 2013	Entered the Ministry of Finance Deputy Director-General of the Planning and Coordination Bureau; Secretary-General of the Executive Bureau, Certified Public Accountants; Auditing Oversight Board, Financial Services Agency Director General, Kinki Local Finance Bureau, the Ministry of Finance Deputy Director-General, Minister's Secretariat, the Ministry of Defense (hereinafter the Ministry) Director-General, Bureau of Personnel and Education, the Ministry Director-General, National Institute for Defense Studies, the Ministry	July 2014 October 2015 September 2016 October 2017 March 2018 March 2019 Significant Concurrent Positions Outside the Company	Director-General, Bureau of Finance and Equipment, the Ministry Vice-Minister of Defense for International Affairs, the Ministry Chairman, Sampo Japan Nipponkoa Research Institute Inc. Director, Eltes Co., Ltd. Registered as Attorney at Law (Current Position) Standing Outside Audit & Supervisory Board Member of the Company (Current Position) Attorney at Law, Shiba International Law Offices
	Hiroshi Obayashi Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: June 17, 1947 Term of office: 4 years from March 2019 Number of shares held: 0	April 1970 April 1972 May 2001 January 2002 June 2004 June 2006 July 2007 July 2008 June 2010 March 2011 April 2011	Judicial Apprentice Appointed as Public Prosecutor Director-General of the Rehabilitation Bureau, the Ministry of Justice (hereinafter the Ministry) Deputy Vice-Minister of Justice, the Ministry Director-General of the Criminal Affairs Bureau, the Ministry Vice-Minister of Justice, the Ministry Superintending Prosecutor, Sapporo High Public Prosecutors' Office Superintending Prosecutor, Tokyo High Public Prosecutors' Office Prosecutor-General Registered as Attorney at Law (Current Position) Outside Audit & Supervisory Board Member, Daiwa Securities Co., Ltd. (Current Position)	June 2013 June 2014 March 2015 June 2020 Significant Concurrent Positions Outside the Company	Outside Director, Mitsubishi Electric Corporation (Current Position) Outside Audit & Supervisory Board Member, Nippon Steel & Sumitomo Metal Corporation (Current Nippon Steel Corporation) Outside Audit & Supervisory Board Member of the Company (Current Position) Outside Director, Audit & Supervisory Committee Member, Nippon Steel Corporation (Current position) Attorney at Law, Obayashi Law Office Outside Audit & Supervisory Board Member, Daiwa Securities Co. Ltd. Outside Director, Mitsubishi Electric Corporation Outside Director, Audit & Supervisory Committee Member, Nippon Steel Corporation
	Koji Yoshikuni Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: September 7, 1952 Term of office: 4 years from March 2019 Number of shares held: 0	April 1975 June 2003 June 2005 June 2007 February 2010 April 2012	Joined Japan Broadcasting Corporation (hereinafter the Corporation) Director Responsible for Finance of News Department, the Corporation Executive Director, Yokohama Broadcasting Station, the Corporation Chief of Secretariat for Board of Governors, the Corporation Senior Director, the Corporation Executive Director, the Corporation	April 2017 March 2019 April 2019 Significant Concurrent Positions Outside the Company	Vice President and Professor, the Graduate School of Project Design Auditor, Hosei University (Current Position) Outside Audit & Supervisory Board Member of the Company (Current Position) President, the Graduate School of Information & Communication (Current Position)

For reasons for appointment of the Directors, please refer to the [Notice of Convocation of the 37th Ordinary General Meeting of Shareholders](#).

For reasons for appointment of the Audit & Supervisory Board members, please refer to the [Notice of Convocation of the 34th Ordinary General Meeting of Shareholders](#). We have established a set of independence criteria. For details, please refer to 'JT Corporate Governance Policy'.

Executive Officers

(As of January 1, 2022)

President

Masamichi Terabatake
Chief Executive Officer*

Executive Vice Presidents

Naohiro Minami
Finance and Corporate Communications

Kiyohide Hirowatari

Corporate, Sustainability Management, Pharmaceutical Business and Food Business

Senior Vice Presidents

Kazuhito Yamashita
Corporate Governance, Compliance

Junichi Fukuchi

Chief Executive Officer, Tobacco Business, Japan

Yuki Maeda

Chief Financial Officer, Tobacco Business, Japan

Eiichi Kiyokawa

Sales, Tobacco Business, Japan

Senior Vice Presidents

Kenji Ogura
Corporate Affairs & Communications, Tobacco Business, Japan

Chigusa Ogawa

Leaf Procurement, Tobacco Business, Japan

Yasuhiro Nakajima

Head of RRP Japan Office, Tobacco Business, Japan

Shuichi Hirose

Marketing, Tobacco Business, Japan

Akihiro Koyanagi

Manufacturing, Tobacco Business, Japan

Daniel Torras

Performance & Integration, Tobacco Business, Japan

Muneaki Fujimoto

President, Pharmaceutical Business

Shigenori Ohkawa

Head of Central Pharmaceutical Research Institute, Pharmaceutical Business

Hiromasa Furukawa

Food Business

Kei Nakano

Corporate Strategy

Takehisa Shibayama

Information Technology

Hiroyuki Fukuda

Corporate Communications

Osamu Hirose

General Counsel

Hisato Imokawa

Chief Sustainability Officer

Nobuya Kato

Chief Financial Officer

Yoshiyuki Mishima

People & Culture

* Masamichi Terabatake concurrently serves as President, Tobacco Business.

Members of JTI Executive Committee

(As of April 1, 2022)

Eddy Pirard

President and Chief Executive Officer

Koji Shimayoshi

Executive Vice President and Deputy CEO

Roland Kostantos

Chief Operating Officer

Vassilis Vovos

Senior Vice President, Finance & Sustainability, Chief Financial Officer

Guergana Andreeva

Senior Vice President, People & Culture and Corporate Security

John Fraser

Senior Vice President, Legal & Regulatory Affairs, and Chief Compliance Officer

Tom Greene

Senior Vice President, Chief Digital and Information Officer, Global Business Services

Lucine Ovumyan

Senior Vice President, Corporate Affairs and Communications

Takehiko Tsutsui

Senior Vice President, Reduced-Risk Products

* The members above report directly to Eddy Pirard, President and Chief Executive Officer.

Management structure

The concept of skills necessary for the Directors

The JT Group aims to achieve sustainable profit growth and enhance corporate value over the mid to long term by pursuing the 4S model, which is our management principle. Based on our 4S model, our vision is to continue to be a growing global company that provides diverse value, unique to the JT Group.

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.

- 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 mid to long term, 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, vision 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.

Areas in which skills are expected to be particularly effective

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

- "D&I/Organizational Behavior and Human Resource Management," one of our focus areas, 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 members of the Audit & Supervisory Board to oversee the job performance of the Directors, we are particularly expecting members of the Audit & Supervisory Board 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 Members of the Audit & Supervisory Board

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	●	●		●	●	●		●	●
Naohiro Minami	Representative Director	●	●	●			●			●
Kiyohide Hirowatari	Representative Director	●			●	●	●	●	●	●
Kazuhito Yamashita	Director		●		●		●	●		
Main Kohda	Outside Director		●	●			●	●		●
Yukiko Nagashima	Outside Director	●					●		●	●
Masato Kitera	Outside Director		●		●		●	●	●	
Tetsuya Shoji	Outside Director	●	●			●	●		●	●
Ryoko Nagata	Audit & Supervisory Board Standing Member	●					●	●	●	
Hiroshi Yamamoto	Audit & Supervisory Board Standing Member		●	●	●		●			
Toru Mimura	Audit & Supervisory Board Standing Outside Member			●	●	●	●			
Hiroshi Obayashi	Audit & Supervisory Board Outside Member				●		●	●	●	
Koji Yoshikuni	Audit & Supervisory Board Outside 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 director 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 need to be monitored 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 \(P. 80\)](#) for more on risks facing the JT Group.

Compliance

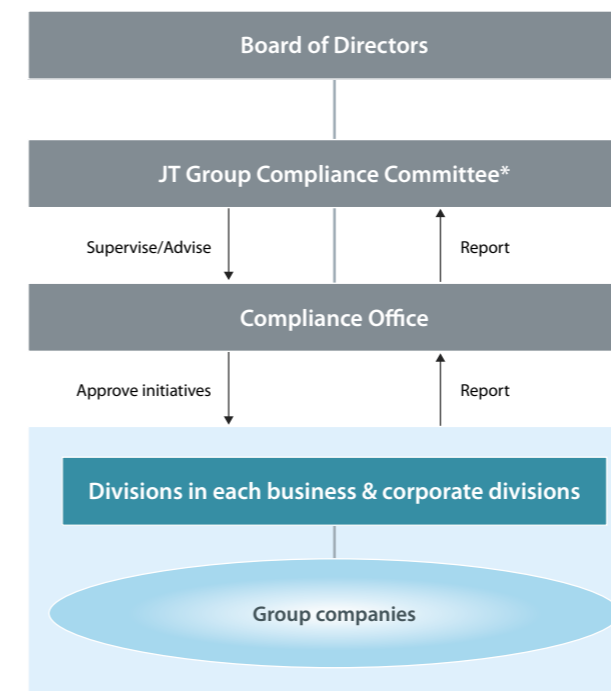
We enforce strict compliance. We have instituted a Code of Conduct that mandates that all directors and employees act in compliance with applicable laws, government regulations, our Articles of Incorporation and societal norms pursuant to regulations established by the Board of Directors. To ensure fair 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 2021, 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 2022 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 2 internal and 3 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 2021, 96.6% 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 Global Quality Assurance in January 2022 as a new organization independent from the tobacco business's markets and

other global operational functions. Global 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 categories: 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 required IT risk mitigation measures, including access restrictions, anti-virus defenses, education, audits and monitoring. We endeavor to appropriately manage and safeguard our IT systems, data and other information assets. We are pursuing initiatives to strengthen 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 globally

conduct security-related educational activities to promote proper handling of information assets by all employees. In 2021, 99.4% of JT and its Japanese Group companies' employees attended security training programs. Additionally, we designated effective information management as a 2021 compliance priority and provided user education in light of information security's growing importance in a remote work environment. We are also conducting educational activities in our international tobacco business, having rolled out our internally-developed i-secure program across all overseas geographies. The i-secure program's effectiveness is constantly being measured by employee behavior metrics. It has been instrumental in raising employees' information security consciousness.

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 mid-term 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 chapter provides financial information, shareholder information and information pertaining to other aspects of the JT Group as its business activities work in concert to create value.

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11-year consolidated financial data

	IFRS adopted		Fiscal year-end changed									(Millions of yen)
	2011 ^{*1}	2012	2013	2014 ^{*2,*4}	2015 ^{*4}	2016	2017	2018	2019	2020	2021	
Revenue	2,033,825	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	
Cost of sales	(892,034)	(899,437)	(979,975)	(822,538)	(920,056)	(872,433)	(843,558)	(933,034)	(942,299)	(898,001)	(956,861)	
SG&A expenses	(733,169)	(733,486)	(828,942)	(752,559)	(789,346)	(754,115)	(786,911)	(770,407)	(831,707)	(784,472)	(888,574)	
Operating profit	459,180	532,213	648,260	499,880	565,229	593,329	561,101	564,984	502,355	469,054	499,021	
Profit attributable to owners of the parent company	320,882	343,596	427,987	362,919	485,691	421,695	392,409	385,677	348,190	310,253	338,490	
Adjusted EBITDA/Adjusted operating profit	577,132 ^{*3}	621,977 ^{*3}	641,777	588,684	626,657	586,777	585,300	595,463	515,927	486,952	610,434	
Capital expenditures	118,992	137,450	156,158	112,448	129,751	112,998	140,905	159,808	131,434	112,883	100,882	
Depreciation & amortization	118,845	116,462	132,921	122,171	139,057	140,794	145,407	158,671	183,852	179,654	187,057	
R&D expenses	51,461	56,862	57,103	44,008	57,796	58,193	60,600	65,377	64,079	60,847	65,016	
Current assets	1,331,050	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	
PP&E & intangible assets	925,984	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	
Other non-current assets	1,409,973	1,618,292	1,961,965	1,886,793	1,745,675	2,033,579	2,288,935	2,390,076	2,383,724	2,254,570	2,389,925	
Total assets	3,667,007	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	
Current liabilities	1,157,474	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	
Non-current liabilities	794,906	847,168	764,842	722,106	770,790	859,759	900,833	1,330,770	1,307,702	1,458,095	1,387,803	
Total liabilities	1,952,380	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	
Total equity	1,714,626	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	
Per-share data												
Dividends (yen)	10,000 ^{*5}	68	96	100	118	130	140	150	154	154	140	
EPS (yen)	168.50	181.07	235.48	199.67	270.54	235.47	219.10	215.31	195.97	174.88	190.76	
Equity (yen)	858.09	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	
Cash flow data												
Net cash flows from operating activities	551,573	466,608	396,496	543,696	468,432	376,549	419,212	461,389	540,410	519,833	598,909	
Net cash flows from investing activities	(103,805)	(147,928)	(163,473)	(49,110)	(63,271)	(687,509)	(352,632)	(383,307)	(123,571)	5,354	(97,499)	
Net cash flows from financing activities	(279,064)	(569,473)	(145,189)	(388,859)	(254,852)	91,318	(77,032)	(62,360)	(333,832)	(297,404)	(353,138)	
Cash & cash equivalents at FY-end	404,740	142,713	253,219	385,820	526,765	294,157	285,486	282,063	357,158	538,844	721,731	
Financial metrics												
ROE (%)	20.3	20.0	19.9	14.4	19.5	17.2	15.0	14.3	13.2	12.0	12.7	
Debt equity ratio (Times)	0.31	0.18	0.15	0.09	0.10	0.23	0.27	0.38	0.37	0.38	0.33	
Dividend payout ratio (%)	29.7	37.6	40.8	50.1	53.2 ^{*6}	55.2	63.9	69.7	78.6	88.1	73.4	
Ratio of equity attributable to owners of the parent company to total asset (%)	44.56	46.89	54.27	53.92	53.78	51.77	52.89	48.17	47.95	46.88	48.65	

*1 Data predating adoption of IFRS were converted to IFRS-basis.

*2 FY2014 was nine months long (Jan.-Sep. 2014) because of a change in fiscal year-end from March to December.

*3 Above figures for FY2011 and FY2012 are adjusted EBITDA.

*4 In FY2015, 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 expense for FY2014 and FY2015 shown on this page are based on values for continuing operations.

*5 Since a 200-for-one share split was done, effective as of July 1, 2012 and the dividend per share calculated on the assumption that the share split was conducted at the beginning of FY2011 (April 1, 2011) is 50 yen.

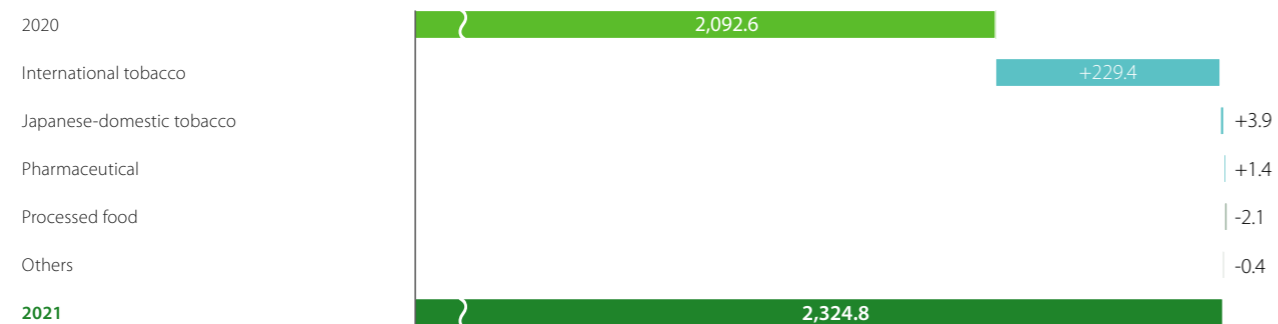
*6 In FY2015, the Beverage Business was classed as a discontinued operation, due to the Company transferring its shares and other securities in its beverage vending machine operator subsidiary, as well as terminating the manufacturing and sale of beverages. The consolidated dividend payout ratio, including the discontinued operation, was 43.6%.

Financial review

Analysis of results for the year ended December 31, 2021

Revenue*¹

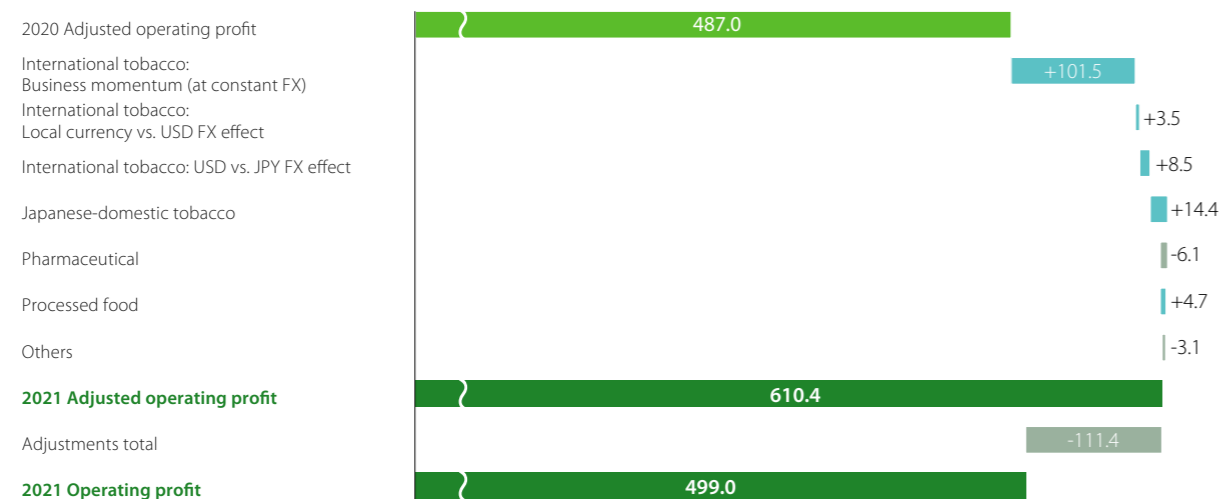
(JPY BN)



Revenue grew 11.1% year on year to 2,324.8 billion yen, with revenue growth in the international tobacco, Japanese-domestic tobacco and pharmaceutical businesses offsetting a revenue decline in the processed food business.

Adjusted operating profit*²/Operating profit

(JPY BN)



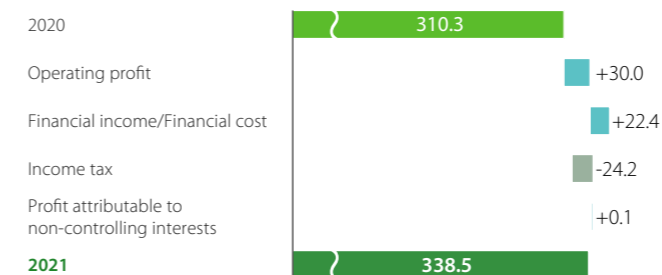
Adjusted operating profit (AOP) at constant FX increased 22.9% year on year, with profit growth in the international tobacco, Japanese-domestic tobacco and processed food businesses offsetting a decline in the pharmaceutical business.

Including foreign-exchange effects, AOP increased 25.4% year on year to 610.4 billion yen, boosted by exchange rate movements that benefited the international tobacco business.

Operating profit grew 6.4% year on year to 499.0 billion yen as a net result of AOP growth offset by expenses related to initiatives to strengthen the tobacco businesses' competitiveness and non-recurrence of a year-earlier gain on the sale of real estate mainly attributable to the former JT Building's sale in conjunction with head-office relocation.

Profit*³

(JPY BN)



Profit grew 9.1% year on year to 338.5 billion yen, driven largely by operating profit growth and a reduction in financial costs net of financial income.

Revenue by business segment

(JPY BN)

	2020	2021
Revenue	2,092.6	2,324.8
Japanese-domestic tobacco	555.6	559.4
Core revenue* ⁴	515.7	519.8
International tobacco	1,306.2	1,535.7
Core revenue* ⁵	1,250.8	1,482.1
Pharmaceutical	79.0	80.4
Processed food	149.3	147.2
Others	2.5	2.1

Average exchange rate

	2020	2021
USD/JPY	106.76	109.90
USD/RUB	72.07	73.66
USD/GBP	0.78	0.73
USD/EUR	0.88	0.85

Adjusted operating profit and operating profit by business segment

(JPY BN)

	2020	2021
Consolidated: operating profit	469.1	499.0
Japanese-domestic tobacco	151.8	125.5
International tobacco	296.4	394.5
Pharmaceutical	16.5	11.3
Processed food	(0.8)	2.9
Others/Elimination	5.1	(35.2)
Adjustments, total*⁶	(17.9)	(111.4)
Japanese-domestic tobacco	(16.2)	(56.9)
International tobacco	(44.4)	(59.9)
Pharmaceutical	(0.7)	0.2
Processed food	(0.0)	(1.0)
Others/Elimination	43.5	6.2
Consolidated: adjusted operating profit	487.0	610.4
Japanese-domestic tobacco	168.1	182.4
International tobacco	340.9	454.4
Pharmaceutical	17.2	11.1
Processed food	(0.8)	4.0
Others/Elimination	(38.4)	(41.4)

* Please see Business and its sustainability initiatives for an analysis of revenue, core revenue and adjusted operating profit by business segment.

*¹ Excludes excise and other tobacco taxes and transactions in which the JT Group acts as an agent.

² Adjusted operating profit = operating profit + amortization of intangible assets recognized in conjunction with business acquisitions ± adjustments (income and expenses).

*³ Profit attributable to owners of the parent company

*⁴ Includes revenue from the domestic duty-free business, the China business, cigarillos and RRP but excludes the Japanese-domestic tobacco business's revenue from distribution of imported tobacco and certain other revenue.

*⁵ Includes waterpipe tobacco and RRP (Reduced-Risk Products) but excludes revenue from distribution, contract manufacturing and other peripheral businesses.

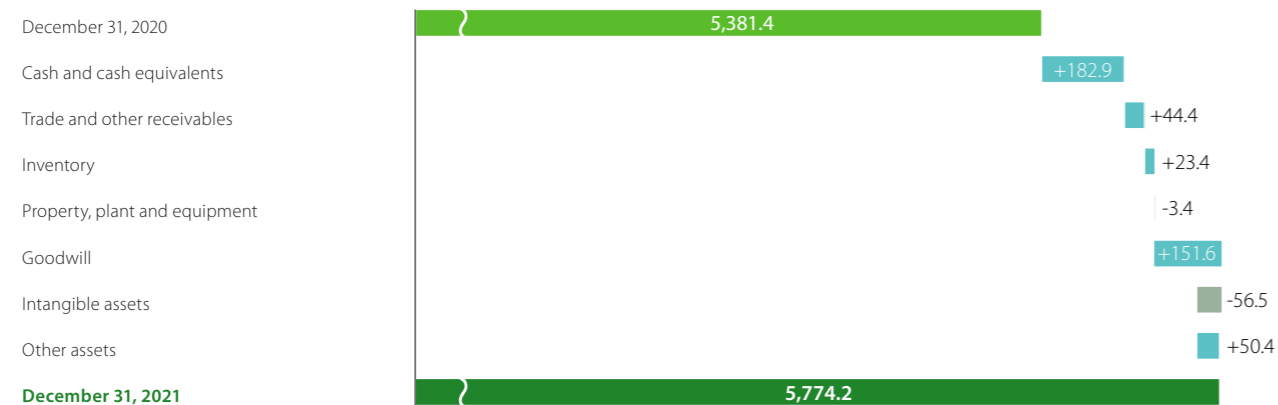
⁶ Amortization of intangible assets recognized in conjunction with business acquisitions ± adjustments (income and expenses).

*Adjustments (income and expenses) = goodwill impairment losses ± restructuring income/expenses, etc.

Financial review

Consolidated statement of financial position (Assets)

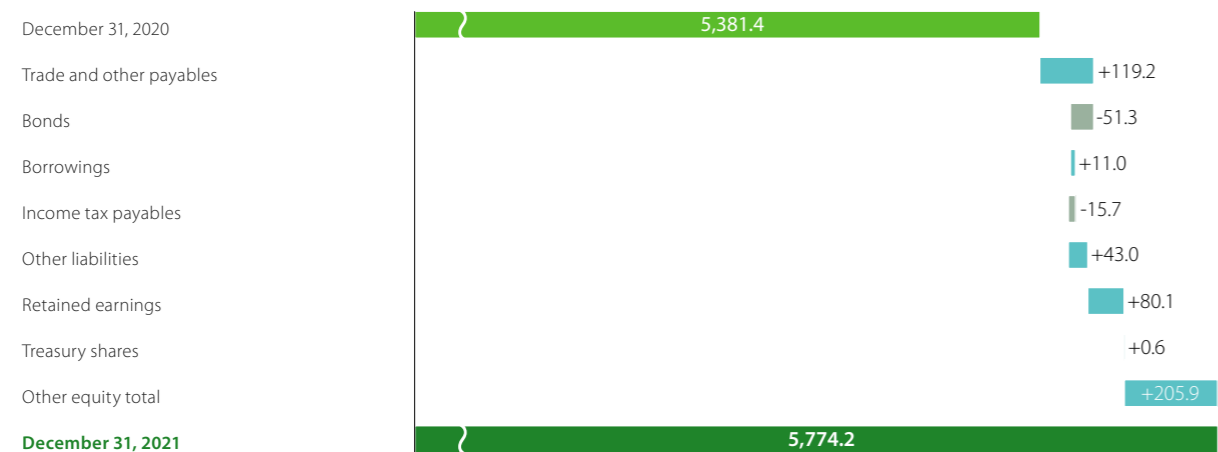
(JPY BN)



Total assets ended 2021 at 5,774.2 billion yen, a year-on-year increase of 392.8 billion yen largely attributable to an increase in cash and cash equivalents and an increase in goodwill's yen-equivalent value due to favorable exchange rate movements.

Consolidated statement of financial position (Liabilities and Equity)

(JPY BN)



Total liabilities ended 2021 at 2,888.1 billion yen, a year-on-year increase of 106.2 billion yen largely attributable to an increase in trade payables stemming from growth in the international tobacco business's unit sales.

Total equity ended 2021 at 2,886.1 billion yen, a year-on-year increase of 286.6 billion yen. This increase resulted largely from an increase in exchange differences on translation of foreign operations and growth in retained earnings due to recognition of profit attributable to owners of the parent company, partially offset by dividends paid.

1. Significant accounting policies

Having acquired RJR Nabisco Inc.'s non-U.S. tobacco business in 1999 and Gallaher Group Plc in the U.K. in 2007, the JT Group has been growing steadily as a global company with operations in more than 70 markets and product sales in more than 130 markets. Against such a backdrop, the JT Group adopted IFRS from the fiscal year ended March 31, 2012, to improve the international comparability of its financial information in capital markets and to diversify its financing sources in international markets.

For further details of significant accounting policies, please refer to 1.(1).F. Notes to Consolidated Financial Statements in Financial Statements and Independent Auditor's Report.

2. Non-GAAP financial measures

The JT Group discloses certain financial measures not defined under IFRS (non-GAAP financial measures) in addition to the data reported in its consolidated financial statements. In managing its operations, it uses these measures to better ascertain its businesses' performance in pursuit of sustained mid- to long-term growth. It also considers these to be useful information for financial statement users to assess the Group's performance.

The JT Group internally monitors its international tobacco business's performance on a U.S. dollar basis, the currency in which the international tobacco business's consolidated financial statements are presented. It therefore supplementally discloses the international tobacco business's revenue and adjusted operating profit in U.S. dollars. These non-GAAP financial measures should be treated as supplementary information, not as a substitute for the corresponding financial data reported in accord with IFRS.

Core revenue

For the tobacco businesses, the JT Group additionally discloses core revenue as a revenue subtotal. Specifically, the international tobacco business's core revenue excludes revenue from distribution, contract manufacturing and other peripheral businesses but includes revenue from waterpipe tobacco and RRP (Reduced-Risk Products). The Group additionally discloses core revenue's growth rate at constant FX on a U.S. dollar-basis. The Japanese-domestic tobacco business's core revenue includes revenue from the domestic duty-free business, the China business, RRP and cigarillos but excludes revenue from domestic distribution of imported tobacco and certain other

sources.

The JT Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies in accord with the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies." However, the adjustments mandated by IAS 29 are not included in core revenue at constant FX.

Adjusted operating profit

As useful comparative information on its operating performance, the JT Group discloses adjusted operating profit (AOP), calculated as operating profit plus amortization of intangible assets recognized in conjunction with business acquisitions, plus or minus certain other adjustments (income and expenses). These other adjustments are mainly goodwill impairment losses and restructuring income/expenses.

The JT Group additionally discloses AOP at constant FX for the international tobacco business and the Group as a whole. AOP at constant FX is calculated using year-earlier exchange rates to exclude foreign exchange effects.

The JT Group makes accounting adjustments to the financial statements of subsidiaries that operate in hyperinflationary economies in accord with the requirements of IAS 29. However, the adjustments mandated by IAS 29 are not included in AOP at constant FX.

3. 2021 consolidated financial results

Please refer to P. 116-117 for analysis of revenue, adjusted operating profit, operating profit and profit attributable to owners of the parent company.

Please refer to P. 118 for analysis of assets, liabilities and equity.

Please refer to Business and its sustainability initiatives for analysis of financial results by business segment.

Capital expenditures

Capital expenditures are investments in assets needed to upgrade productivity of factories or other facilities, strengthen competitiveness and/or operate in various business domains. Such assets include property, plant and equipment such as land, buildings and structures, machinery and vehicles in addition to intangible assets such as goodwill, trademarks and software, excluding assets acquired through business combinations and right-of-use assets.

Financial review

In 2021, the JT Group's capital expenditures totaled 100.9 billion yen.

Capital expenditure

	(JPY BN)	
	2020	2021
Total	112.9	100.9
Japanese-domestic tobacco	21.1	20.0
International tobacco	66.6	62.5
Pharmaceutical	9.1	6.0
Processed food	8.0	10.7
Others	8.2	1.7

Of this total, the Group invested 62.5 billion yen in the international tobacco business, mainly to expand, maintain and replace production capacity, increase RRP production and develop new products. In the Japanese-domestic tobacco business, it invested 20.0 billion yen, mainly to maintain and upgrade production processes, increase their productivity, accommodate new products and improve product specifications. In the pharmaceutical business, it invested 6.0 billion yen, mainly to build out and strengthen R&D programs. In the processed food business, it invested 10.7 billion yen, mainly to expand, maintain and replace production capacity.

These capital expenditures were funded with cash on hand and borrowings.

Capital expenditure plans

In allocating management resources on a mid- to long-term basis, the JT Group prioritizes business investments conducive to sustained mid- to long-term profit growth in accord with its management principle. It has designated the tobacco business

Capital expenditure plan

	2022 (JPY BN)	Main purpose of investment	Funding
Tobacco	106.0	Invest in RRP and maintain/renovate/replace production facilities	Internally funded
Pharmaceutical	3.0	Build out and strengthen R&D programs	Internally funded
Processed food	12.5	Expand/maintain/replace production capacity, upgrade productivity	Internally funded

in particular as its core profit growth driver and will place top priority on investing in the tobacco business's sustained profit growth.

The pharmaceutical and processed food businesses are committed to rebuilding their operational foundations to augment the Group's profit growth and will make whatever investments are required to do so.

Based on such a policy, the JT Group has budgeted 131 billion yen for capital expenditures in 2022.

The JT Group discloses capital expenditure plans disaggregated by business because the plans encompass a wide range of projects being pursued by Group companies individually. The Group's actual capital expenditures may differ greatly from the estimates in the table below as a result of numerous factors, including those disclosed in the Risk factors section above.

4. Dividends

The 2021 year-end dividend was 75 yen per share. For 2021 as a whole, annual dividends inclusive of the 65 yen per share interim dividend totaled 140 yen per share.

The 2021 year-end dividend will be recognized in the Company's accounting records in 2022. Dividends reported in the 2021 financial statements are accordingly the sum of the 2020 year-end dividend (record date: December 31, 2020) and 2021 interim dividend (record date: June 30, 2021). For more details, please refer to [1.\(1\).F. Notes to Consolidated Financial Statements in Financial Statements and Independent Auditor's Report](#).

5. Capital management

The JT Group's management principle is the pursuit of its 4S model: we strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can. The JT Group believes that sustained mid- to long-term profit growth based on this principle will drive continuous growth in the JT Group's corporate value over the mid to long term to the common benefit of all stakeholders. The JT Group's financial policy is to maintain a solid financial base that is both robust against exogenous changes such as economic crises and affords sufficient flexibility to nimbly capitalize on attractive investment opportunities. The JT Group monitors financial metrics to maintain a capital structure that balances financial robustness, financial flexibility and return on capital. It monitors its credit ratings as a proxy for financial robustness/flexibility and ROE as a proxy for return on capital while keeping a close eye on changes in both the internal and external environments. It also monitors net interest-bearing debt (interest-bearing debt minus cash and cash equivalents) and equity (attributable to owners of the parent company), the balances of which as of the last two reporting dates were as follows.

Capital management

	(JPY BN)	
	As of Dec. 31, 2020	As of Dec. 31, 2021
Interest-bearing debt	958.9	918.6
Cash and cash equivalents	(538.8)	(721.7)
Net interest-bearing debt	420.0	196.9
Capital (equity attributable to owners of the parent company)	2,522.8	2,809.3

Share buybacks

The Company holds 225,475,301 of its own shares (11.27% of total shares issued) as treasury stock as of December 31, 2021.

Share repurchases require cash outlays. To enable opportunistic share repurchases, JT amended its Articles of Incorporation at its June 24, 2004, Ordinary General Meeting of Shareholders to allow its Board of Directors to authorize share buybacks. JT may hold repurchased shares as treasury stock or use them for other purposes. Share repurchases give JT's

management greater optionality to conduct capital management as fast and flexibly as needed in a rapidly changing operating environment.

6. Financial activities

The Group Treasury Division formulates financial strategies based on optimal financial risk management and provides stable and efficient financial support on a Group-wide basis. The Group is exposed to various financial risks (credit risk, liquidity risk, currency risk, interest rate risk, market risk) in the course of its operations. To avert or mitigate these risks, the Group manages risk pursuant to a set of policies. The Company's CEO and Board of Directors are updated regularly on how major financial risks are being managed. For more details on financial risk management, please refer to [1.\(1\).F. Notes to Consolidated Financial Statements in Financial Statements and Independent Auditor's Report](#).

Intra-group cash management

To maximize its overall cash efficiency, the JT Group places priority on intra-Group financing, mainly via a cash management system, to the extent legally permissible and economically rational.

External funding

The JT Group's basic policy is to fund its short-term working capital needs through short-term borrowings from financial institutions, commercial paper or a combination of both. The Group funds mid- to long-term investments through borrowings from financial institutions, bond issuance, equity or a combination thereof. It maintains diversification across funding instruments and lenders, including by prearranging multiple committed credit lines, to ensure stable and efficient access to funding. The Company's CEO and Board of Directors are updated regularly on funding status.

External investment of spare funds

In investing spare funds, the JT Group's policy is to seek appropriate returns while ensuring safety and liquidity and to not engage in speculative transactions. The Company's CEO and Board of Directors are updated regularly on the status of investments of spare funds.

Financial review

7. Cash flows

Cash and cash equivalents at year-end 2021 vs. 2020

Cash and cash equivalents as of December 31, 2021 totaled 721.7 billion yen, a 182.9 billion yen increase from their year-earlier total of 538.8 billion yen.

Cash flows from operating activities

Operating activities in 2021 provided net cash of 598.9 billion yen (vs. 519.8 billion yen provided in 2020), mainly by virtue of stable cash flow generated by the tobacco businesses. Major uses of operating cash flow included payments of Japanese and foreign tobacco excise taxes and income taxes.

Cash flows from investing activities

Investing activities in 2021 used net cash of 97.5 billion yen (vs. 5.4 billion yen provided in 2020), largely to purchase property, plant and equipment and intangible assets.

Cash flows from financing activities

Financing activities in 2021 used net cash of 353.1 billion yen (vs. 297.4 billion yen used in 2020), largely to redeem bonds and pay dividends. Major sources of financing cash flow included proceeds from bond issuance.

8. Liquidity

The JT Group is reaping substantial cash flow from its legacy operating activities and expects to continue to do so. It assumes that cash flows from operating activities will remain stable and be sufficient to meet its normal business activities' funding requirements.

As of December 31, 2021, the JT Group had committed credit lines from major Japanese and foreign financial institutions totaling 478.0 billion yen, 100% of which was undrawn. Other available sources of liquidity include a commercial paper program, uncommitted credit lines, a domestic bond shelf registration and an EMTN program.

Long-term debt

The JT Group had 651.0 billion yen of bonds outstanding (including current portion) as of December 31, 2021, vs. 702.3 billion yen as of December 31, 2020. Its long-term borrowings from financial institutions (including the current portion) as of December 31, 2021, totaled 197.0 billion yen vs. 205.0 billion yen a year earlier. Long-term lease liabilities as of December 31, 2021, totaled 43.3 billion yen vs. 49.4 billion yen at December 31, 2020.

As of December 31, 2021, JT's long-term debt was rated A2 with a negative outlook by Moody's Japan K.K., A+ with a negative outlook by S&P Global Ratings Japan Inc., and AA with a stable outlook by Rating and Investment Information Inc.

Credit ratings are affected by numerous factors, including developments in the JT Group's major markets and the success of its business strategies as well as factors beyond its control such as macroeconomic developments. Ratings are subject to retraction or revision at any time. They should be evaluated individually, in isolation from other ratings. Under the Japan Tobacco Inc. Act, the Company's bondholders are granted a statutory lien against the Company's assets in general. This lien gives bondholders priority over unsecured creditors' claims, with the exception of national and local taxes and other statutory obligations, in seeking repayment.

Short-term debt

Short-term borrowings from financial institutions as of December 31, 2021, totaled 70.6 billion yen vs. 51.6 billion yen as of December 31, 2020. No commercial paper was outstanding in either 2021 or 2020. Short-term lease liabilities as of December 31, 2021, totaled 17.2 billion yen vs. 17.1 billion yen as of December 31, 2020.

Liquidity

Year ended December 31, 2021	Book Value							(JPY BN)
		Due within 1 year	Due after 1 through 2 years	Due after 2 through 3 years	Due after 3 through 4 years	Due after 4 through 5 years	Due after 5 years	
Short-term borrowings as loans	70.6	70.6	—	—	—	—	—	
Long-term borrowings as loans (current portion)	42.3	42.3	—	—	—	—	—	
Bonds (current portion)	30.0	30.0	—	—	—	—	—	
Long-term borrowings as loans	154.7	—	11.9	23.3	0.1	0.1	120.1	
Bonds	621.0	—	60.0	—	96.8	—	473.3	
Total	918.6	142.9	71.9	23.3	96.9	0.1	593.4	

* Lease obligations are excluded.

Glossary of terms

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

Financials	
Adjusted operating profit	Operating profit + Amortization cost of acquired intangibles arising from business acquisitions + Adjusted items (income and costs).* * Adjusted items (income and costs) = Impairment losses on goodwill ± restructuring income and costs ± others
Adjusted operating profit at constant FX	The same foreign exchange rates between local currencies vs USD as well as the exchange rates between JPY and USD are applied as in the equivalent period in the previous fiscal year for the international tobacco business. Results on a constant FX are provided additionally and are not an alternative to finance reporting under International Financial Reporting Standards (IFRS).
Core revenue/Adjusted operating profit at constant FX (International tobacco business)	The same foreign exchange rates between local currencies vs USD are applied as in the equivalent period in the previous fiscal year for the international tobacco business. Results on a constant FX are provided additionally and are not an alternative to finance reporting under International Financial Reporting Standards (IFRS).
Core revenue at constant FX (tobacco business)	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 FX are provided additionally and are not an alternative to financial reporting under International Financial Reporting Standards (IFRS).
Clusters	From FY2022, 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.
FCF (Free cash flow)	FCF is sum of cash flows from operating activities and investing activities, but excludes 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	Excludes tobacco excise taxes and revenue from agent transactions <ul style="list-style-type: none"> • Core revenue (International tobacco business): Includes revenue from waterpipe tobacco and RRP (Reduced-Risk Products), but excludes revenue from distribution, contract manufacturing and other peripheral businesses. • Core revenue (Japanese-domestic tobacco business): Excludes revenue from distribution of imported tobacco in the Japanese-domestic tobacco business, among others, but includes revenue from domestic duty-free, the China business, cigarillos and RRP such as Ploom devices, capsules and sticks. • Core revenue (tobacco business): Core revenue includes all revenue excluding those from distribution, contract manufacturing and other peripheral businesses.
RRP-related revenue (tobacco business)	RRP-related revenue, as a part of core revenue, represents all the sale of RRP, principally consumables, devices and the related accessories.
Volume, JT cigarette sales (Japanese-domestic tobacco business)	Excludes sales volume of domestic duty-free, the China business and RRP while including cigarillos.
Volume, total shipment (International tobacco business)	The shipment volume of tobacco-based products which includes FCT (fine cut tobacco), cigars, pipe, oral (snus, nicotine pouch), kretek and T-Vapor but excludes contract-manufactured products, waterpipe tobacco and E-Vapor.
Volume, total (tobacco business)	The volume of tobacco-based products which excludes contract-manufactured products, waterpipe, RRP devices and related accessories.

Products	
Combustibles	Includes cigarettes and FCT. From FY2022, combustibles include all tobacco products excluding contract-manufactured products, waterpipe, heated tobacco products, oral and E-Vapor.
FCT (fine cut tobacco)	FCT represents tobacco products which are packed in a loose, fine-cut form in pouches and are also known as rolling tobacco, used for both RYO "roll-your-own" cigarettes (made using rolling papers) and MYO "make-your-own" cigarettes (made by filling a filter tube with cut tobacco).
GFB (Global Flagship Brands)	Winston, Camel, MEVIUS, LD.
RRP (Reduced-Risk Products)	Products with the potential to reduce the risks associated with smoking. <ul style="list-style-type: none"> • E-Vapor: Products which consumers use by heating its nicotine-based liquid without using tobacco leaf. • Heated tobacco products (HTP): Products that contain tobacco leaf and create a tobacco-enriched vapor by heating the tobacco without any combustion. • Heated tobacco sticks (HTS): High temperature heated tobacco products. • Infused tobacco capsules (Infused): Low temperature heated tobacco products. • Oral: RRP consumables 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 a leading international non-profit organization that accelerates action to achieve a sustainable economy, assessing disclosure and actions by companies from around the world.
Contraband	Genuine products smuggled from abroad that are diverted from the legitimate supply chain and sold in a country other than the intended retail market without payment of domestic duty in that country.
Counterfeit	Fake products appearing to be genuine brand products protected by intellectual property rights. Counterfeit products are manufactured without authorization from the rights' owners and with the intent to copy the genuine brand to deceive the consumer. They are also sold without duties being paid.
DJSI (Dow Jones Sustainability Indices)	The DJSI was created jointly by S&P Dow Jones Indices and SAM. It is a global sustainability benchmark and tracks stock performance of the world's leading companies in terms of economic, environmental and social criteria.
GHG emissions	Greenhouse gas emissions. <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.
SBT (Science Based Targets)	SBT is a joint initiative that enables businesses to take swift climate action by setting ambitious emission reduction target.
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. In Japan, smoking is not permitted for those under 20 years of age.
BnU	Billion Units
JPY BN	Billion Japanese yen
USD MM	Million U.S. dollars

Awards and recognitions

Dow Jones Sustainability Indices (DJSI)

We are a member of the DJSI Asia Pacific Index for the eighth consecutive year. Also, we have been included in the Sustainability Year Book 2022 based on 2021 Corporate Sustainability Assessment by S&P Global for the third consecutive year.

[JT Group press release](#), 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 in April 2022.



Science Based Targets (SBT)

We have set a long-term GHG emission reduction target in line with the Paris Agreement, which was approved as an SBT by the Science Based Targets initiative.

February 2019

We will also be seeking validation of our new, strengthened science-based reduction targets announced in February 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.



CDP

We continued achieving a place on CDP's "A List" for climate change and water security for the third consecutive year. We were also recognized as a global leader for engaging our supply chain in tackling climate change for the third consecutive year.

[JT Group press release](#), December 2021



Top Employer

Our international tobacco business (JTI) was certified as a Global Top Employer for the eighth consecutive year.

[JTI News & Views](#), January 2022



EY's Global Equality Standard (GES) certificate

In 2021, JTI received EY's Global Equality Standard certificate, as one of the first multinational companies in the world. EY's GES is one of the first worldwide Diversity & Inclusion (D&I) certifications measuring equal opportunities and equal pay in the workplace.

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



PRIDE Index

In the PRIDE Index, which recognizes the most LGBT+-friendly companies, our Japanese operations (JT) achieved Gold status, the highest ranking, in 2021 for the sixth consecutive year.

[JT Group press release](#), November 2021



White 500

In 2022, JT was recognized as a Certified Health and Productivity Management Outstanding Organization ("White 500") for its excellent health-conscious management since the launch of this recognition in 2017.

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



Swiss LGBTI Label

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

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



Semi-Nadeshiko Brand 2022

JT was recognized as a "Semi-Nadeshiko Brand" for its efforts to empower female employees in the workplace.

March 2022



Platinum Kurumin Certification

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

November 2018



Shareholder information

As of December 31, 2021

Common Stock

Authorized: 8,000,000,000
 Issued: 2,000,000,000
 Number of shareholders: 691,779

Share Registrar

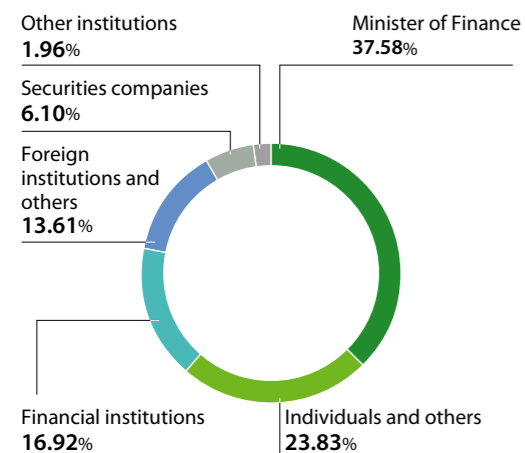
Mitsubishi UFJ Trust and Banking Corporation
 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

Listing

Tokyo Stock Exchange: First Section

Composition of Shareholders

(excluding treasury stock)



Principal Shareholders

Name	Shares held
Minister of Finance	666,925,200
Master Trust Bank of Japan, Ltd. (Trust Account)	161,020,700
SMBC Nikko Securities Inc.	42,916,800
Custody Bank of Japan, Ltd. (Trust Account)	41,665,100
State Street Bank West Client – Treaty 505234	21,441,841
Barclays Securities Japan Limited	18,443,300
JAPAN SECURITIES FINANCE CO., LTD.	17,641,100
Custody Bank of Japan, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	17,428,100
JPMorgan Chase Bank 385771	12,397,794
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	12,056,526

Total Shareholder Return

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
JT	130.9%	145.3%	153.4%	207.5%	186.2%	183.0%	145.9%	144.7%	137.1%	152.6%
TOPIX	123.8%	146.8%	173.6%	194.5%	195.1%	238.5%	200.4%	236.7%	254.2%	286.6%
TOPIX: Foods	131.5%	147.3%	178.4%	229.3%	224.6%	266.4%	228.5%	229.4%	226.9%	236.6%

* Baselines for all percentages are a share price and actual performance as of the end of March 31, 2012. 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

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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

	2nd Offering	3rd Offering	4th Offering
Method	Offering by book-building formula	Offering by book-building formula	Offering by book-building formula
Offer price (Pricing date)	815,000 yen (June 17, 1996)	843,000 yen (June 7, 2004)	2,949 yen (March 11, 2013)
Number of shares offered	Japan: 237,390 shares International: 35,000 shares (Total: 272,390 shares)	Japan: 198,334 shares International: 91,000 shares (Total: 289,334 shares)	Japan: 145,625,500 shares International: 107,636,300 shares (Total: 253,261,800 shares)
Offer term	From June 18 to 19, 1996	From June 8 to 10, 2004	From March 12 to 13, 2013

Editorial policy

Period covered

In principle, this report covers the period from January 1, 2021 to December 31, 2021, but also includes some information related to activities before and after this period.

Scope of report

Japan Tobacco Inc. and consolidated subsidiaries

Published

June 2022

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.