

## 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.

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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

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

<b>Resource allocation policy based on the 4S model</b>	<ul style="list-style-type: none"> <li>• Prioritize business investments<sup>*1</sup> for sustainable profit growth in the mid to long term</li> <li>• Strike a balance between profit growth through business investments and shareholder return <ul style="list-style-type: none"> <li>– Aim to enhance shareholder returns by realizing the Group's mid- to long-term profit growth, while maintaining a strong financial base<sup>*2</sup></li> <li>– Target a dividend payout ratio of about 75%,<sup>*3</sup> a competitive level<sup>*4</sup> in the capital markets</li> <li>– 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</li> </ul> </li> </ul>
<b>Shareholder return policy</b>	<p><sup>*1</sup> 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><sup>*2</sup> 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><sup>*3</sup> To be in the range of approximately ±5%</p> <p><sup>*4</sup> 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

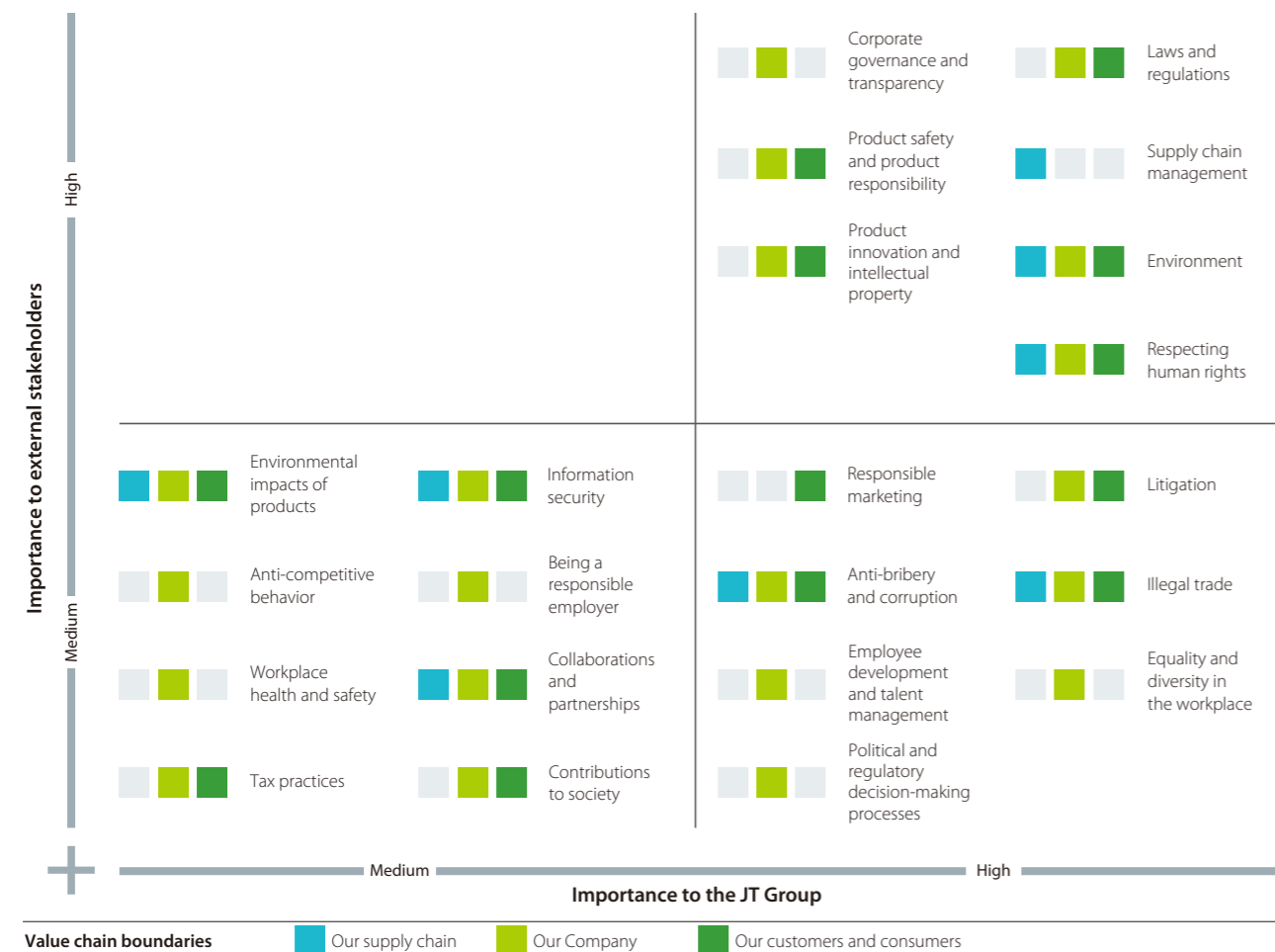
To help the JT Group to grow, and to build a sustainable future as a member of the society in which we operate, we have identified a list of high-priority material issues. Our materiality is based on the JT Group's management principle, the 4S model. In 2015, we performed a materiality assessment covering 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. <span style="float: right;">▶ P. 50</span>
People	We will be the employer of choice by investing in people. <span style="float: right;">▶ P. 68</span>
Supply chain	We will reduce environmental and social risks, and enable transparent and responsible practices across our supply chain. <span style="float: right;">▶ P. 54</span>
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. <span style="float: right;">▶ P. 57</span>

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.

## 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.

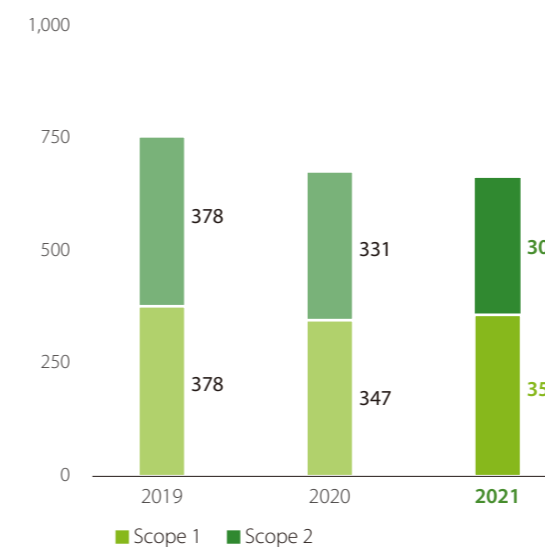
▶ Read more on P. 68.

## JT Group environmental performance data

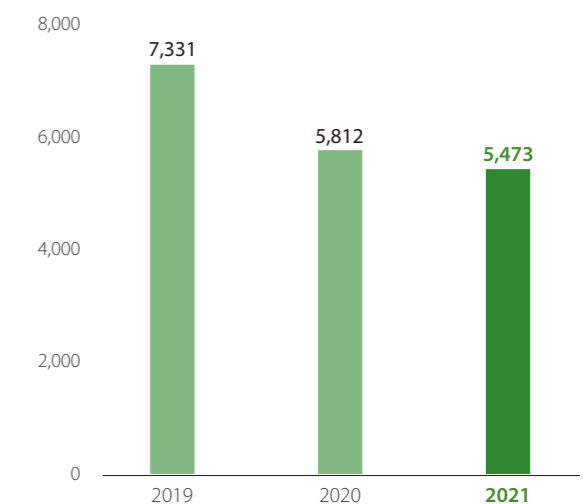
As a global organization, we recognize that we have a key role to play in reducing our environmental impact – not only in our own business operations, but across our value

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

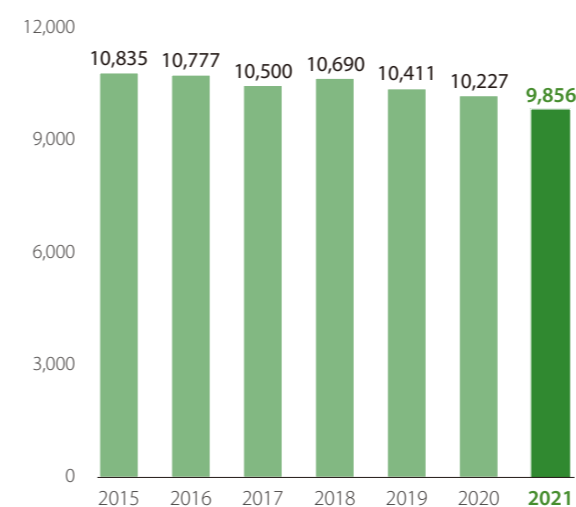
**GHG emissions Scope 1 and 2**  
(CO<sub>2</sub>e thousand tons)



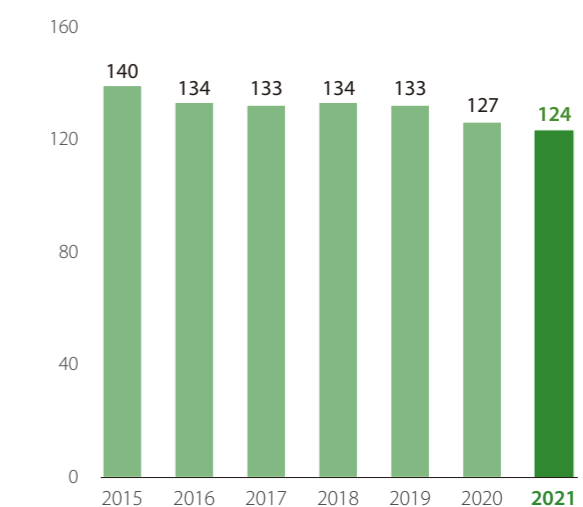
**GHG emissions Scope 3**  
(CO<sub>2</sub>e thousand tons)



**Water withdrawal**  
(Thousand m<sup>3</sup>)



**Waste generated**  
(Thousand tons)



## 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

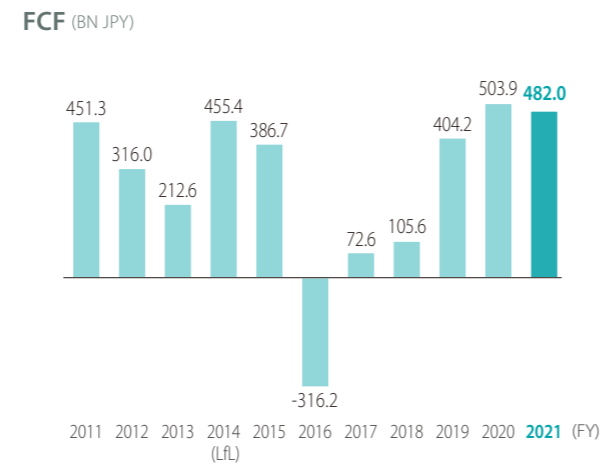
extreme pricing that could harm our brand equity or impair profit growth in the long run. Consequently, we consider it essential to understand the consumers\* trends, competition, and regulations in each market before implementing any price revision.

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.

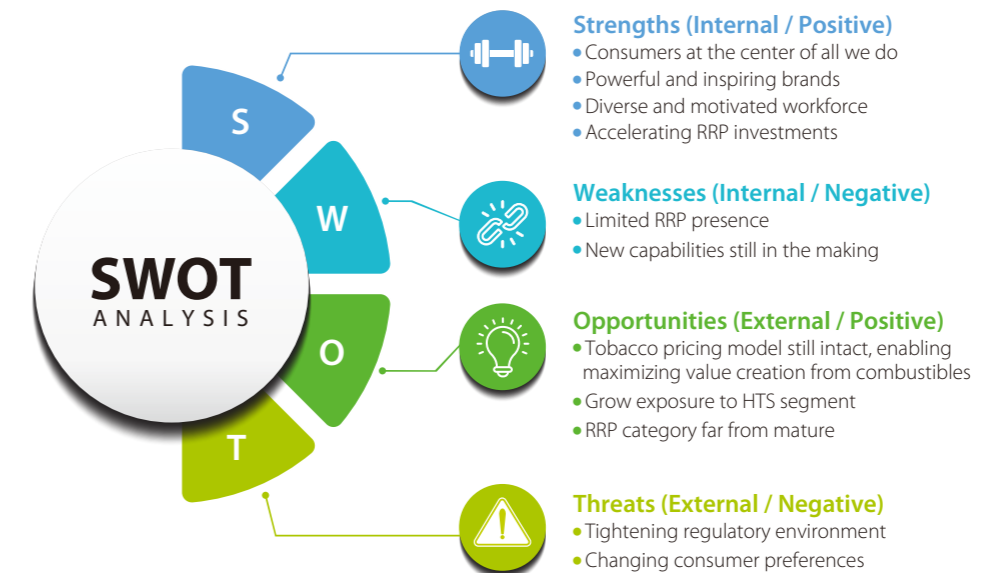
The JT Group also considers corporate initiatives like the simplification of internal structures and the implementation of Global Business Service centers to better support markets, the purpose of these moves being to continuously improve margins, while maintaining quality, and to enhance cash flow generation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

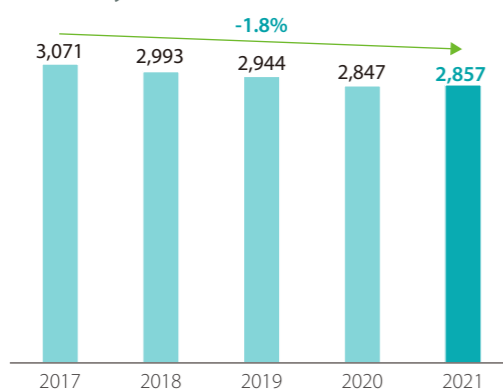
All these initiatives built a solid foundation to meet Business Plan 2021 targets and generate sustainable profit growth in the mid to long term.

## Overview of tobacco business and its sustainability initiatives

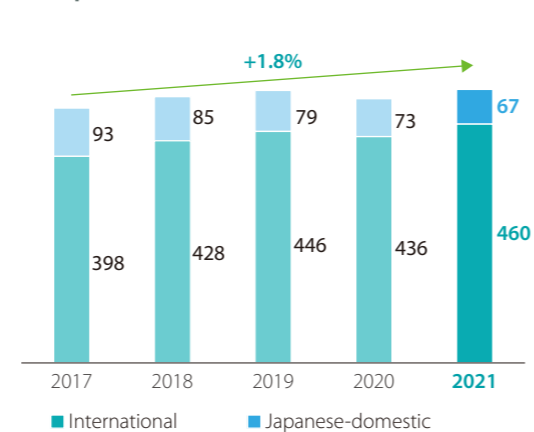
### Performance over last five years

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.

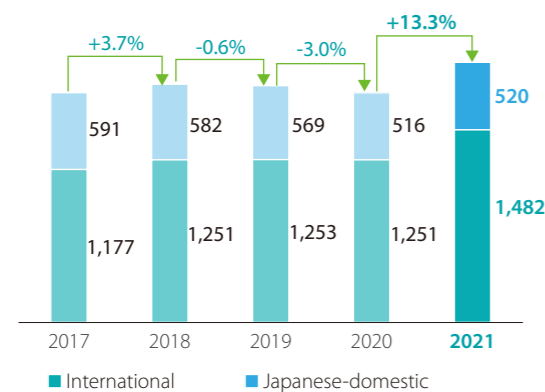
Total industry volume (BnU) \*1



Total shipment volume (BnU) \*2

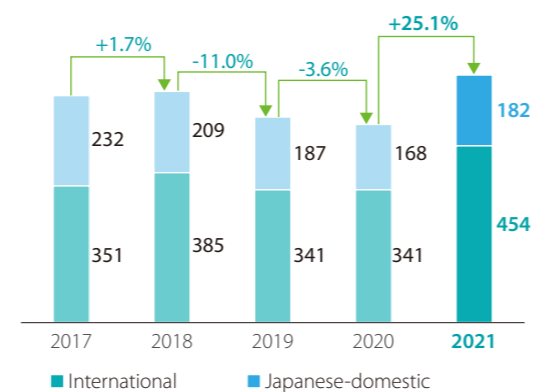


Core revenue (JPY BN) \*2



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%



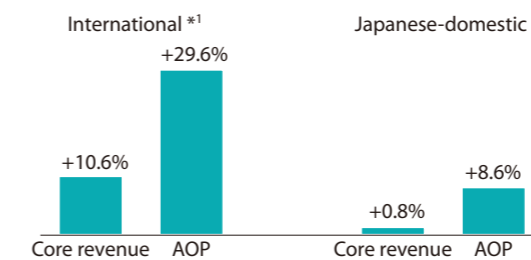
\*1 Based on internal estimates and excluding China

\*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

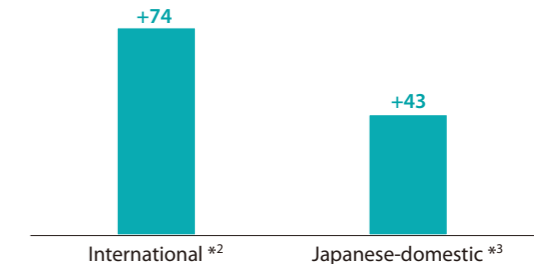
\*2 Contribution to core revenue growth at constant FX

\*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)



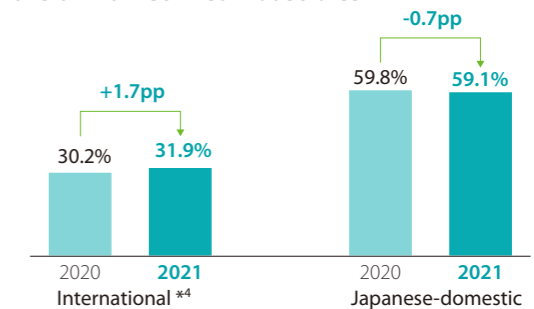
In the international tobacco business, we generated approximately 74 billion yen in favorable price/mix variance to core revenue, an amount in line with the average of the previous five years, with all clusters delivering positive contributions.

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.

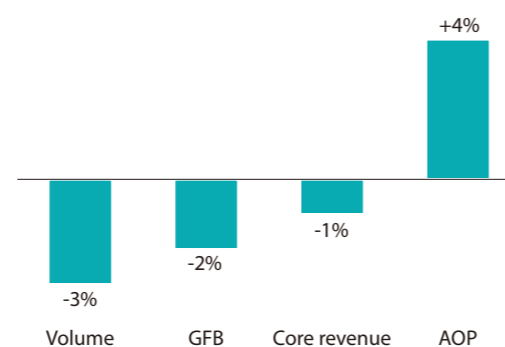
Continued combustibles market share gains, amidst a declining industry volume and the expected, unfavorable comparison in the first half resulting from the gradual easing of COVID-19 restrictions, are expected to result in a total volume contracting by approximately 3%, partially offset by RRP volume 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
<b>Asia</b>		
Japan	59.1%	-0.7pp
Taiwan	48.1%	+0.3pp
Philippines	36.7%	+5.1pp
<b>EMA*</b>		
Romania	29.8%	+0.7pp
Russia	39.8%	+1.5pp
Turkey	27.7%	+1.1pp
<b>Western Europe</b>		
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.

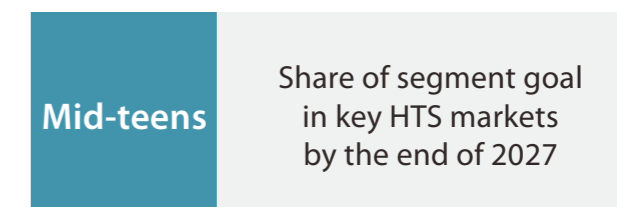
To increase our consumer base in HTS, we will invest approximately 300 billion yen between 2022 and 2024, in R&D, commercial expenses, and capital expenditures, among other matters. This is approximately 100 billion yen more

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).

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### 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 [JTI.com](https://www.jti.com).

*Building a sustainable supply chain  
Regulatory environment and illegal trade*



## 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

#### Strengths

- R&D specialization in small-molecule drug discovery
- Intensive allocation of resources to three focus areas: Cardiovascular, Renal and Metabolism (CVRM); immunology; and neuroscience
- Investment in latest technologies and development of platform of JT's unique proprietary drug discovery technologies
- Maximal leveraging of intra-Group synergies through functional specialization between JT (R&D) and consolidated subsidiary Torii Pharmaceutical (domestic manufacturing and sales)

#### Weaknesses/Challenges

- Expediting drug discovery process and developing proprietary drug discovery technologies

#### Opportunities

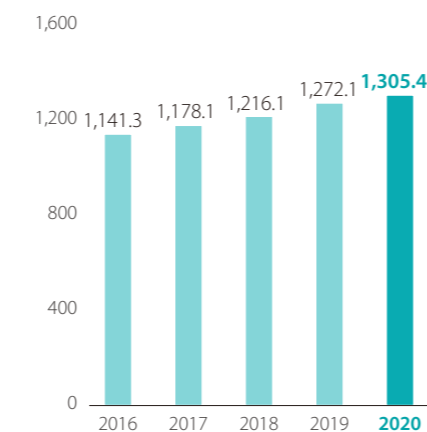
- Growth in pharmaceutical demand driven by societal aging in developed countries as well as economic growth in developing countries

#### Threats

- Possibility of continual drug price reductions in domestic and overseas markets amid global trend toward rationalization of drug costs
- Increase in difficulty of new drug development and intensification of its competition
- Growth in generics and Rx-to-OTC switched drugs\* global market share

\*Drugs previously available only by prescription that have been converted to OTC status

### Worldwide pharmaceutical market\* (USD BN)



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Calculated based on IQVIA World Review  
(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

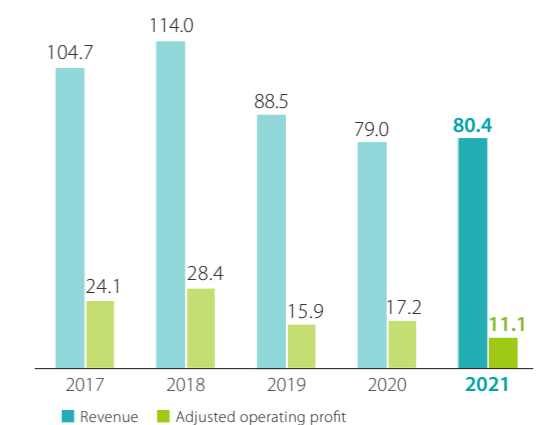
Strategy in Business Plan 2021	Achievements in 2021
<b>Focus on drug discovery capabilities</b>	<ul style="list-style-type: none"> <li>• Focused on R&amp;D areas where accumulated knowledge can be effectively utilized</li> <li>• Searched for drug targets with high therapeutic effects based on a deep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

## 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

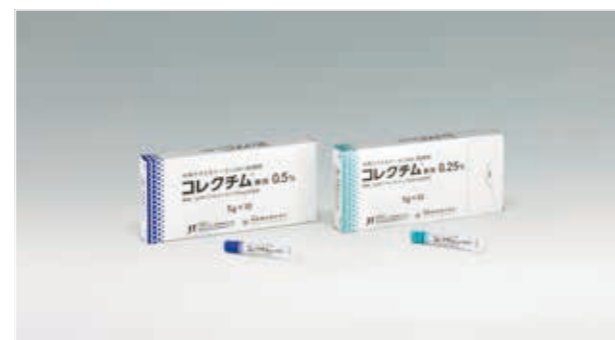
#### Case study: Developing original drugs to save people from disease

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
<b>Build highly-profitable product portfolio</b>	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
<b>Optimize production operations</b> • 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

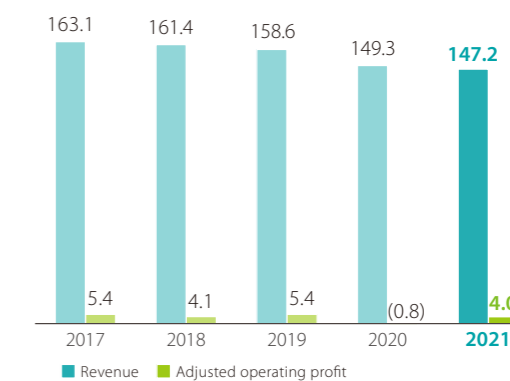
### Processed food business 2021 performance

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 Gottu-umai okonomiyaki packaging, reducing annual plastic usage by 34t and CO<sub>2</sub> 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\*<sup>1</sup> 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 CO<sub>2</sub> emissions by roughly 160t\*<sup>2</sup> 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.

#### Efforts to reduce the risk of traffic accidents

In some countries with poor infrastructure and traffic management, our people are more at risk of being involved in road traffic accidents. With this in mind, in 2019, we rolled out a new driver safety policy and implementation

guidelines across our international tobacco business.

Considering the growing number of female employees, the policy also includes maternity protection for female drivers. 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.



### 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](#).

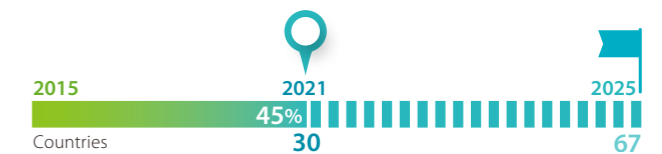


## Making our ambitions a reality

### 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.

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
<b>Energy</b>	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.
<b>Emissions</b>	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.	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. We commit to reduce absolute Scope 3 GHG emissions associated with purchased goods and services by 28% by 2030 from a 2019 base year.

## Environmental management system and reporting

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

disclosures and ratings agencies, such as [CDP](#), to review our approach and performance. We have been conducting climate scenario 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.

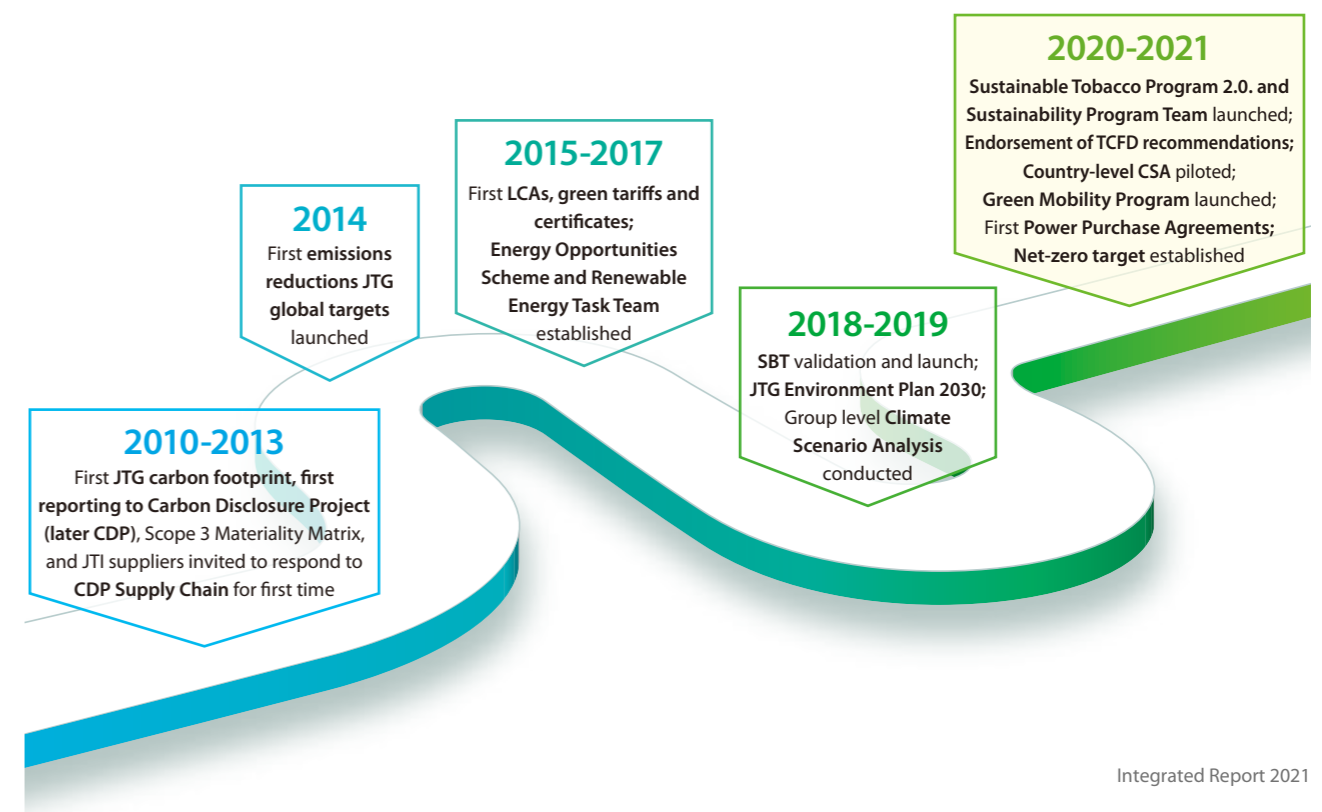
We are using a remote-sensing, high-resolution satellite imagery monitoring platform to help us monitor the effectiveness of woodlots, to estimate wood production on small-scale farms, and to verify progress of forestry targets both for ourselves and our growers. Data are captured at field level by our 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
<b>Governance</b>	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. <a href="#">▶ Governance report</a>
<b>Strategy</b>	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. <a href="#">▶ Risk factors (P. 80)</a>
<b>Risk management</b>	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.
<b>Metrics and targets</b>	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. <a href="#">▶ Read more about JT Group Environment Plan 2030 and Environmental data/External verification on JT.com.</a>

## Scenario analysis

### Physical risk: leaf sourcing

Changes in environmental conditions for leaf growing include the CO<sub>2</sub> 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.

<b>Impact</b>	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.
<b>Mitigation plan</b>	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.

<b>Impact</b>	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.
<b>Mitigation plan</b>	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.