

## Message from the CEO

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



**Masamichi Terabatake**  
Representative Director and President,  
Chief Executive Officer

*M. Terabatake*

### Ideas behind the JT Group Purpose

#### How we determined our Purpose

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

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

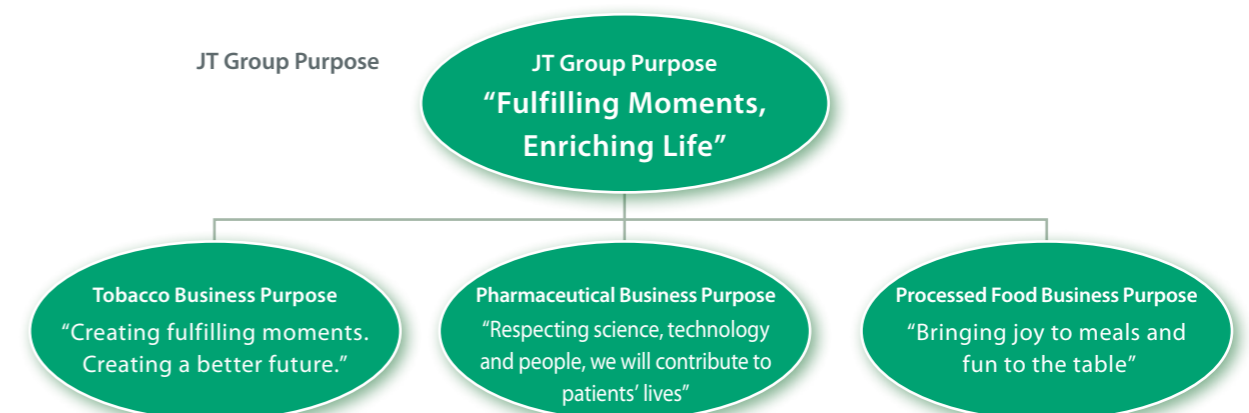
#### Our objectives in determining our Purpose

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

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

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

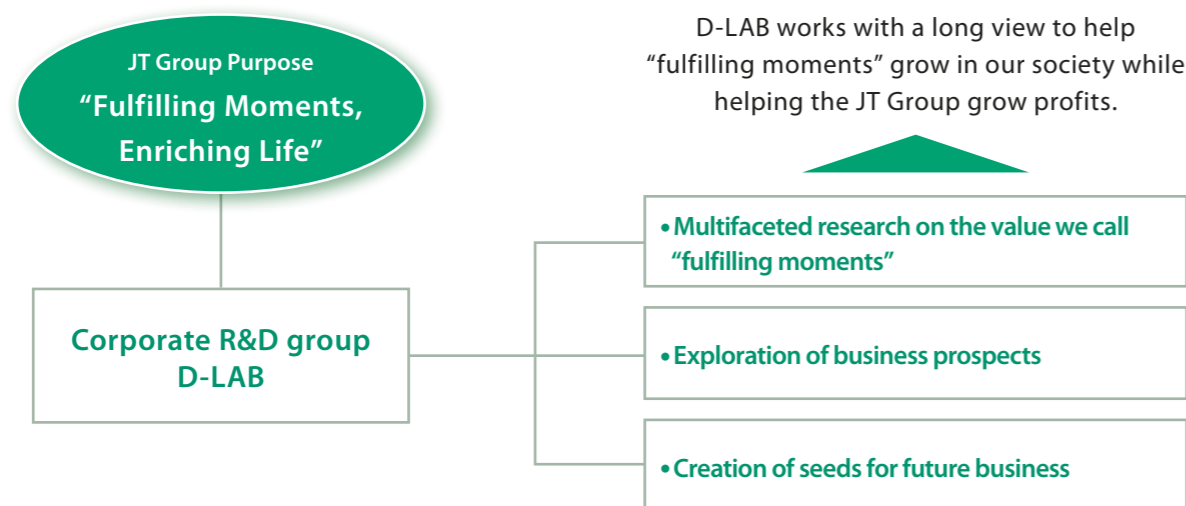
In our existing business divisions, we put our top priority on the strategies we’ve shown you so far, and with that as our premise, we are evolving our initiatives and efforts to achieve our goals. One specific example is the new Business Purposes for each division (see pages 57, 70, and 74) as shown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



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### Initiatives for growth (D-LAB)

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



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

### Updating material issues

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

### Understanding our business environment

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

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

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

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

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

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

### Business Plan 2023

#### The Group as a whole

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

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

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

especially HTS, and pursue higher efficiency throughout our businesses.

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

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

## Message from the CEO

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

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

### Tobacco business

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

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

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

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

We project growing demand for RRP, which we define as

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

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

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

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

### Pharmaceutical business/Processed food business

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

### Resource allocation policy

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

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

maintaining a target payout ratio of about 75%\*.

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

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

## To our stakeholders

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

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

