

Business Plan 2023

Every year the JT Group publishes a three-year rolling business plan, reflecting the changing operating environment, including economic trends, geopolitical risks and the competitive landscape.

Business Plan 2023 covers the three years from 2023 to 2025.

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

Operating environment outlook 2023-2025

Tobacco business

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

RRP (Reduced-Risk Products)

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

Combustibles

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

Pharmaceutical business

- We project continuing drug price reductions in both domestic and overseas markets due to the worldwide trend toward price optimization.

- The Group projects a gradual decrease in royalty income related to anti-HIV drugs.

Processed food business

- Markets are expected to expand, due to diversified needs, including easier cooking that takes less time, along with changes in lifestyles.

- These factors on the context of international commodity prices and exchange rates on costs for materials, as well as the effects of surging personnel and distribution costs due to labor shortages.

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

Group profit target

Mid- to long-term target

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

Prospects during the business plan period

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

Roles and targets of each business

Tobacco business

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

Strategy of tobacco business

- Higher return on investment in combustibles
- Enhanced investment in RRP
- Pursuit of higher operational efficiency
- Evolving global business capabilities

▶ Please see [Tobacco business \(P. 56\)](#) for details.

Pharmaceutical business/ Processed food business

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

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

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

Resource allocation policy

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

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

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

Shareholder return policy

- ^{*1} Grow adjusted operating profit at constant currency by placing top priority on growth-oriented investment in the tobacco business, while realizing high-quality top-line growth through continuing provision of new value and satisfaction to consumers and society
- ^{*2} The Group will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities
- ^{*3} To be in the range of approximately $\pm 5\%$
- ^{*4} We monitor the shareholder return trends of Fast-Moving Consumer Goods companies which have a stakeholder model similar to our 4S model and have realized strong business growth

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