

This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.

## **JT Corporate Governance Policy**

### **Chapter I. General Provisions**

#### **1. Basic Concept concerning Corporate Governance**

Corporate governance at JT shall be the system for conducting transparent, fair, timely and decisive decision-making for pursuing JT's management principle, the "4S" model which is, more specifically, "to strive to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can."

JT hereby sets forth the "JT Corporate Governance Policy" and shall strive to enhance corporate governance, based on the understanding that JT's enhancement of corporate governance will lead to JT Group's sustainable profit growth and increase of corporate value in the mid- to long-term, which will contribute to the development of our stakeholders and eventually the economic society as a whole.

#### **2. Management Principles, etc.**

##### Management Principles

JT's management principle shall be the "4S" model which is, more specifically, "to balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations."

##### Mission

JT's mission shall be "to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals" through the "4S" model.

##### Vision

JT's vision shall be "to become a company committed to global growth that provides consumers with diversified value uniquely available from JT Group."

##### Resource Allocation Policy

In order to realize our sustainable profit growth and increase of corporate value in the mid- to long-term, JT shall allocate management resources based on the "4S" model while placing priority on business investment.

### **Chapter II. Basic Policy concerning Corporate Governance**

## **1. Appropriate Cooperation with Stakeholders**

JT shall pursue the “4S” model and shall fulfill our responsibilities towards all our stakeholders, which are consumers, shareholders, employees and society, while balancing the interest of these stakeholder groups, based on the understanding that appropriate cooperation with all our stakeholders will lead to JT’s sustainable profit growth and increase of corporate value in the mid- to long-term.

## **2. Securing the Rights and Equal Treatment of Shareholders and Dialogue with Shareholders**

JT shall take appropriate measures and develops an environment for substantially securing the rights and equal treatment of all shareholders as well as engage in constructive dialogue with shareholders. Directors shall strive to take balanced appropriate measures towards all stakeholders based on such dialogue.

## **3. Ensuring Appropriate Information Disclosure and Transparency**

JT shall appropriately disclose financial and non-financial information in compliance with the relevant laws, the rules of the Financial Exchange and internal rules, as well as proactively make transparent and fair disclosure of information, over which the Board of Directors shall appropriately exercise supervision. JT keeps fairness of information disclosure to shareholders and investors, and treats material information including insider information in an appropriate manner.

## **4. Responsibilities of the Board**

The Board of Directors, based on its responsibilities towards all stakeholders, in order to promote JT’s sustainable profit growth and the increase of corporate value in the mid- to long-term as well as to construct a sound financial fundamentals, shall appropriately fulfill its roles and responsibilities, including making decisions on the company-wide management strategy, etc., establishing an environment for supporting the directors and Executive Officers’ timely and decisive decision-making and exercising highly effective supervision. The Audit & Supervisory Board, understanding its performance of a part of such roles and responsibilities, shall appropriately exercise supervision from an objective position. Members of the Board, Audit & Supervisory Board Members and Executive Officers shall behave with a high-integrity sense of ethics as professionals in order to fulfill foregoing roles and responsibilities.

## **Chapter III. Relationship with Stakeholders**

## **1. Appropriate Cooperation with Stakeholders**

### **(1) Formulation and Implementation of a Code of Conduct**

JT defines compliance as “Actions for the shared JT Group Mission, based on the values and ethics we must hold in order to become better corporate employees and citizens.” In order for such implementation, JT shall formulate a “JT Group Code of Conduct” summarizing JT Group’s shared common sense of values and ethics and shall take appropriate measures to ensure that it will be broadly disseminated and observed across the organization.

Further, the Board of Directors shall assume responsibility for revising the “JT Group Code of Conduct” and shall deliberate and approve policies and implementation plans on compliance as well as receive periodical reports on the situation of compliance implementation and hold discussions.

### **(2) Measures on Sustainability**

JT, believing that the pursuit of the “4S” model will lead to the promotion of sustainability of JT and society, shall specify the issues on sustainability through communication with stakeholders, proactively promote action towards solving such issues and timely and appropriately announce the details of such action through sustainability reports, etc.

Further, the Board of Directors, based on the understanding that measures towards domestic and foreign issues on sustainability are an essential part of risk management, shall receive reports as necessary through Members of the Board in charge of sustainability and proactively work on such issues, such as by holding discussions.

### **(3) Ensuring Diversity**

JT, in order to contribute to our sustainable profit growth and increase of corporate value in the mid- to long-term, based on the understanding that the diversity in human capital is the wellspring of competitiveness, shall respect different backgrounds and values, such as not only sex, age and nationality, but also personality, experience and expertise, discover values in differences and strive to foster an organizational culture where the abilities of diverse human capital can be maximized.

### **(4) Maintenance of Internal Reporting System**

JT shall set an internal consultation and reporting desk as well as an external consultation and reporting contact point. JT shall conduct investigations and measures for correction as necessary upon confirming the details of all reports and at the same time shall protect the privacy of all persons making reports, prohibiting disadvantageous treatment.

The Board of Directors shall organize a consultation and reporting system through the division in charge of compliance and at the same time, shall receive periodical reports from the JT Group Compliance Committee and exercise monitoring over the situation of operation of the system.

## **2. Securing the Rights and Equal Treatment of Shareholders and Dialogue with Shareholders**

### **(1) Securing the Rights of Shareholders**

JT shall take appropriate measures for substantially securing the rights and equal treatment of shareholders, including voting rights at shareholders' meetings.

- In the event that a considerable number of votes are cast against an agenda item proposed by the company at a shareholders' meeting, the Board of Directors shall appropriately analyze the reasons behind opposing votes and consider whether or not measures are necessary.
- In the event that JT is to propose, at a shareholders' meeting, the delegation of a part of matters to be resolved at the shareholders' meeting to the Board of Directors, JT shall consider whether or not the Board of Directors is organized to appropriately fulfill its roles and responsibilities concerning the said resolution.

### **(2) Exercise of Shareholders' Rights at Shareholders' Meetings**

JT, understanding that a shareholders' meeting is a place for constructive dialogue, shall prepare an appropriate environment for the shareholders to exercise their voting rights.

- JT shall timely and appropriately provide information, and in a manner convenient for the shareholders' exercise of voting rights, through JT's website, investor briefing sessions and shareholders' meetings, etc.
- JT shall strive for accurate indications and early delivery of convocation notices and shall announce the details (in Japanese and in English) on TDnet and JT's website prior to delivery.
- JT shall set the date of shareholders' meetings on a day except the days

on which many other companies hold shareholders' meetings.

- JT shall organize an environment for exercising voting rights through the Internet, including the use of electronic platforms for exercising voting rights.
- In the event that a shareholder who possesses shares in the name of a trust bank, etc., wishes to exercise, in advance, shareholders' rights at a shareholders' meeting, JT shall acknowledge such exercise upon completing the specified procedures.

### (3) Dialogue with Shareholders

JT shall take measures appropriately in reply to the shareholders' applications for dialogue, so as to contribute to JT's sustainable profit growth and increase of corporate value in the mid- to long-term.

- The Member of the Board or the Executive Officer in charge shall respond, as necessary, to shareholders' applications for dialogue, depending on the purport and intent of such dialogue.
- The Board of Directors shall formulate, as below, policies concerning the maintenance of a system and measures for contributing to the promotion of constructive dialogue with shareholders.
  - Dialogue with shareholders shall be managed by the Member of the Board in charge in consideration of the desires and interests, etc., of the shareholders, to be handled by the division in charge of IR and the division in charge of general affairs, under the supervision of the Executive Officer in charge.
  - In order to enhance dialogue with shareholders, an organic collaborative system shall be constructed, such as exchanging opinions between relevant divisions, based on specialized points of view.
  - As means of dialogue other than individual meetings, investor briefing sessions, overseas IR tours, factory tours, etc., shall be held, in which Members of the Board and Executive Officers shall actively participate.
  - The details of dialogue with shareholders shall be periodically reported to the Board of Directors through the Member of the Board or the Executive Officer in charge.
  - Material information including insider information in the course of dialogue with shareholders shall be appropriately treated in accordance with the relevant laws, the rules of the Financial Exchange and internal rules.
- JT shall strive to periodically identify its shareholder ownership

structure.

- JT shall disclose information in English within a reasonable scope, in consideration of the ratio of overseas investors, etc., among JT's shareholders.

(4) Strategic Shareholding

JT shall formulate, as follows, and shall appropriately operate a policy on strategic shareholding and standards for exercising voting rights.

- In the event that it is determined conducive to JT's sustainable profit growth and increase of corporate value in the mid- to long-term, JT shall own shares as strategic shareholding. The direction of mid- to long-term possession of major strategic shares shall be examined every year by the Board of Directors.
- JT shall exercise its voting rights concerning strategic shares, upon comprehensively judging the purpose of possession and presence or absence of detriments to the stock value of the subject company.

(5) Takeover Defense Measures

JT does not have any takeover defense measures, and in the event that JT's shares are subject to takeover bid, the opinions of the Board of Directors shall be clearly explained and no measures that may interfere with the shareholders' right to relinquish shares shall be taken.

(6) Capital Policy that May Possibly be Detrimental to the Interests of Shareholders

With respect to capital policy that may cause a change or significant dilution of control, the Board of Directors shall take appropriate measures and disclose information according to laws and regulations and rules, etc., of the relevant financial instruments exchange.

(7) Transactions between Associated Interested Parties

In order to secure the interests of JT and the common interests of its shareholders, the Board of Directors shall set forth as follows procedures in the event that JT is to conduct transactions with Members of the Board, Audit & Supervisory Board Members, Executive Officers and major shareholders.

- Competitive transactions of Members of the Board and

conflict-of-interest transactions and uncustomary transactions between JT and Members of the Board, Audit & Supervisory Board Members, Executive Officers or major shareholders shall require the approval of and report to the Board of Directors.

## **Chapter IV. Corporate Governance System**

### **1. General**

#### **(1) Organization Design**

JT shall select a company with a board of auditors and shall, in light of maintenance of effective governance system, strive to enhance corporate governance by utilizing voluntary structures, such as establishing the Compensation Advisory Panel comprised mainly of independent outside Members of the Board and independent outside Audit & Supervisory Board Members and establishing the JT Group Compliance Committee composed mainly of outsider members, etc.

#### **(2) Fiduciary Responsibilities of Members of the Board and Audit & Supervisory Board Members**

Members of the Board, Audit & Supervisory Board Members and Executive Officers, understanding their fiduciary responsibilities towards shareholders as well as responsibilities towards stakeholders, shall aim for JT's sustainable profit growth and increase of corporate value in the mid- to long-term through the pursuit of the "4S" model. Members of the Board and Audit & Supervisory Board Members, from the viewpoint of fulfilling such responsibilities, shall maintain concurrent posts of director in other listed companies to a reasonable extent, report to the Board of Directors the situation of concurrent posts and disclose the situation of concurrent posts every year.

#### **(3) Support for Members of the Board and Audit & Supervisory Board Members**

From the viewpoint of the realization of Members of the Board and Audit & Supervisory Board Members' appropriate and effective implementation of services, JT shall prepare and enhance a support system concerning provision of information and training to be the basis of the said implementation of services, and the Board of Directors and The Audit & Supervisory Board shall confirm as necessary, whether such support system is appropriately operated. Members of the Board and Audit & Supervisory Board Members, in order to appropriately fulfill their expected roles and responsibilities, shall strive to proactively collect information and study, such as

requesting the company for additional provision of information, etc.

- JT shall secure collaboration between the Operational Review and Business Assurance Division, which is an internal auditing department, and Members of the Board and Audit & Supervisory Board Members, by sharing audit plans and records and through exchange of opinions, etc.
- JT shall set forth the policies concerning training for Members of the Board and Audit & Supervisory Board Members as follows:
  - JT shall provide Members of the Board and Audit & Supervisory Board Members with training opportunities for acquiring knowledge, such as on business, financial affairs and organization, etc., necessary for understanding and fulfilling each of their roles and responsibilities, such as by holding periodical training to newly appointed Members of the Board, training concerning compliance and lectures by outside experts such as attorneys, etc., and by providing timely information.

## **2. Board of Directors and Its Members**

### **(1) Composition of the Board of Directors**

In view of the point that the Board of Directors determines company-wide management strategy and important matters and effectively assumes roles and responsibilities as the body exercising supervision over all business activities, the concept concerning the composition of the Board of Directors shall be set forth as follows.

- The number of Members of the Board in the Board of Directors shall be fifteen (15) or less, within necessary and appropriate scope, composed of diverse people with a high-integrity sense of ethics as professionals, knowledge, experience and skills.
- JT shall appoint two (2) or more independent outside Members of the Board with qualities that will contribute to its sustainable profit growth and increase of corporate value in the mid- to long-term from the viewpoint of strengthening supervisory functions and transparency of business.

### **(2) Nomination of Member of the Board Candidates**

Member of the Board candidates and Audit & Supervisory Board Member candidates shall be nominated under the appropriate supervision of the Board of

Directors, according to the following policies and procedures.

- JT shall work on expanding, in terms of quality and quantity, the group of executive candidates with qualities for assuming sustainable profit growth and increase of corporate value in the mid- to long-term by pursuing the “4S” model. In specific, JT aspires to expand a diverse group of executive candidates, while referring to opinions from outside at the Meeting for Talent Development currently established. Independent outside Members of the Board are also participating in the said meeting, to further increase objectivity.
- Member of the Board candidates shall be nominated, upon the representative Member of the Board forming a candidate proposal in consideration of discussions, etc., at the above meeting, by resolution of the Board of Directors through discussions on the candidate proposal at the Board of Directors meeting, after securing opportunities for receiving appropriate advice from independent outside Members of the Board, such as by giving explanations to independent outside Members of the Board before raising it at the Board of Directors meeting.
- With respect to Audit & Supervisory Board Member candidates, a person who is expected to perform his or her duties appropriately from a position independent of the Board of Directors shall be nominated by resolution of the Board of Directors, upon receiving the prior consent of The Audit & Supervisory Board.

Further, when bringing up the agenda item on the appointment of Member of the Board candidates and Audit & Supervisory Board Member candidates at the shareholders’ meeting, JT shall disclose the reasons for the appointment of individual candidates.

(3) Members of the Board and Executive Officers’ Compensation

The Board of Directors shall appropriately decide on compensation for Member of the Board and Executive Officers according to the following policies and procedures.

- From the viewpoint of securing objectivity and transparency concerning compensation of Members of the Board, the Board of Directors shall establish a Compensation Advisory Panel as a voluntary advisory panel of the Board of Directors. The main members of the Compensation Advisory Panel shall be independent outside Members of the Board and independent outside Audit & Supervisory Board Members, and the Compensation Advisory Panel shall respond to consultation, discuss and

recommend policies, systems, calculation methods, etc., concerning compensation for JT's Members of the Board and Executive Officers, as well as monitor the situation of compensation of Members of the Board at JT.

- The Board of Directors shall adopt a performance-based compensation system and a stock option system concerning compensation of Members of the Board, adopt compensation composition corresponding to the nature of each Member of the Board and Executive Officer's services and determine each Member of the Board and Executive Officer's compensation based on the following basic principles concerning compensation of Members of the Board in consideration of recommendations received from the Compensation Advisory Panel.
  - The compensation standard shall be suitable for securing excellent personnel.
  - The compensation system shall be performance-based which will serve as motivation for achieving performance goals.
  - Compensation shall be linked to mid- to long-term corporate value.
  - Compensation shall be transparent based on objective points of view and quantitative framework.

(4) Standards and Qualities of Independent Outside Members of the Board

The Board of Directors, from the viewpoint of securing the independence of independent outside Members of the Board, shall establish, as follows, a set of independence criteria based on the independence criteria set forth by the relevant financial instruments exchange, as well as strive to nominate as candidates for independent outside Members of the Board, human capital from whom active and constructive remarks and contribution can be expected.

- Persons who do not fall under the following:
  1. A person who belongs to or belonged to JT, JT's affiliate company or JT's sister company;
  2. A person who belongs to an organization such as company, etc., of which JT is a major shareholder;
  3. JT's major shareholder or a person who belongs to an organization such as company, etc., which is JT's major shareholder;
  4. A person who is a major supplier or customer of JT (a person who belongs to such organization in the event that it is an organization such as company, etc.);
  5. JT's major lender or other major creditor (a person who belongs to such organization in the event that it is an organization such as a company, etc.);

6. A certified public accountant who is JT's accounting auditor or JT's accounting advisor, or a person who belongs to an auditing firm which is JT's accounting auditor or JT's accounting advisor;
7. A person who provides JT with expert services or consulting services concerning legal affairs, financial affairs, tax affairs, etc., and receives a large amount of compensation (a person who belongs to such organization in the event that it is an organization such as company, etc.);
8. A person who has received a large amount of donation from JT (a person who belongs to such organization in the event that it is an organization);
9. A person to whom any one of the above 2. to 8. has recently applied; or
10. A close relative of any one of the following:
  - i. Any one of the above 2. to 8. (a person who implements important duties in such organization in the event that it is an organization such as company, etc.);
  - ii. A Member of the Board, Audit & Supervisory Board Members, accounting advisor, executive, Executive Officer or employee of JT, JT's affiliate companies or JT's subsidiaries; or
  - iii. A person to whom either i. or ii. has recently applied.

(5) Roles and Responsibilities of Independent Outside Members of the Board

JT, from the viewpoint of strengthening the supervisory functions of the Board of Directors, shall obtain advice on various agendas at the Board of Directors meetings and reflect them in management, so as to utilize the insights and high independence of independent outside Members of the Board.

Further, independent outside Members of the Board, from the viewpoint of contributing to the enhancement of discussions at the Board of Directors meetings, shall exchange information and share knowledge based on independent and objective positions at meetings composed of only independent outside Members of the Board, and JT shall arrange opportunities for exchanging opinions between independent outside Members of the Board and other Members of the Board or Audit & Supervisory Board Members.

(6) Evaluation of Effectiveness of the Board of Directors

The Board of Directors, from the viewpoint of strengthening its supervisory functions, shall evaluate the effectiveness of its operation system and contents of discussions by each Member of the Board and Audit & Supervisory Board Members, and shall conduct analysis and evaluation based on such results as well as disclose a summary of the results.

(7) Active Deliberations of the Board of Directors

The Board of Directors shall strive to foster an atmosphere in which all participants including outside Members of the Board will be able to hold unrestricted and constructive discussions and exchange opinions, and from the viewpoint of making deliberation active, shall distribute material for the Board of Directors meetings in advance and provide sufficient explanation so that the participants will be able to secure sufficient time for consideration. Further, in order to secure sufficient time for discussions at the Board of Directors meetings as well as to secure mobility concerning the convention of the Board of Directors meetings, the Board of Directors shall adjust, as necessary, the subjects of discussions and frequency of conventions, upon determining in advance the annual schedule and subjects of discussion, etc., for the Board of Directors meetings.

(8) Formulation of Business Plan

The Board of Directors, from the viewpoint of efficiently fulfilling its roles and responsibilities as a body for supervision over all business activities, shall determine company-wide management strategy and important matters. The Board of Directors shall formulate a business plan incorporating business investments and capital policies, etc., supervision for realizing such business plan, periodically determine and analyze the situation of progress and results and reflect them in business plans for the next term onwards.

Further, JT, when announcing the business plan, shall provide explanations using specific and simple expressions, on JT's website, at investor briefing sessions and at shareholders' meetings, etc.

(9) Delegation of Authority

The Board of Directors shall set forth in the Board of Directors Regulations matters to be discussed at the Board of Directors meetings. In addition, from the viewpoint of realizing quick decision-making and high-quality implementation of business, the Board of Directors shall set forth a clear decision-making process based on Responsibility and Authority Regulations concerning essential business matters as well as delegate authority as necessary to Executive Officers based on JT-wide management strategy, under the Executive Officer system.

(10) Maintenance of Internal Control and Risk Control System

The Board of Directors shall maintain a compliance system such as by

establishing the JT Group Compliance Committee composed mainly of outsider members, as well as determine the basic policies concerning the construction of an internal control system and the maintenance of the system, and shall exercise supervision over the situation of operation of such systems.

### **3. The Audit & Supervisory Board and Its Members**

The Audit & Supervisory Board shall be composed of persons with proven experience in business, law, financial affairs and accounting, etc. Audit & Supervisory Board Members, in addition to participating in the Board of Directors meetings and other important meetings and making remarks as an independent body mandated by the shareholders, shall actively exercise his/her authority such as by proactively inspecting business bases, etc., as well as appropriately conduct an audit from an objective position corresponding to the nature of duties of independent outside Audit & Supervisory Board Members or standing Audit & Supervisory Board Members.

### **4. Accounting Audit**

#### **(1) Accounting Auditor**

JT, in order to ensure the accounting auditor's appropriate audit, shall secure sufficient time for audit enabling high-quality audit and provide the accounting auditor with opportunities to contact directors and Executive Officers, as well as provide appropriate auditing environment enabling sufficient cooperation between the accounting auditor and auditors, the internal auditing division and outside directors. Further, in the event that an accounting auditor indicates a deficiency or problem or discovers misconduct, JT shall appropriately take measures correspondingly.

#### **(2) Evaluation and Selection of Accounting Auditor**

The Audit & Supervisory Board shall establish the "Standards for Evaluating and Selecting Accounting Auditor". The evaluation and selection of Accounting Auditor shall be conducted in accordance with said standards, and shall be based on a comprehensive judgment, considering the various factors such as independence from the company, degree of expertise, adequate experience, size and overseas network which enables efficient implementation of accounting services corresponding to JT's broad range of business, well established auditing system, fair and reasonable audit plans and expenses.

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