

[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.]

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**JAPAN TOBACCO INC.**

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**The current status of the Company's corporate governance is as follows.**

**I. Basic Concept on Corporate Governance and Basic Information including Capital Structure and Corporate Attributes**

**1. Basic Concept**

The Company believes that corporate governance is the system for conducting transparent, fair, timely and decisive decision-making for pursuing the Group'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."

The Company has set forth the "JT Corporate Governance Policy," and strives to enhance corporate governance, based on the understanding that it will lead to the Group's sustainable profit growth and increase of corporate value in the mid to long term, which will contribute to the development of the Group's stakeholders and eventually the economy and society as a whole.

The Company will continue improving corporate governance as one of the key priorities for its management.

"JT Corporate Governance Policy" is available on the Company's website.

URL of "JT Corporate Governance Policy":

[https://www.jt.com/about/corporate\\_governance/](https://www.jt.com/about/corporate_governance/)

**[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

The Company fully complies with the Principles of the Corporate Governance Code.

**[Disclosure Based on the Principles of the Corporate Governance Code] [updated]**

**[Principle 1-4: Policies with regard to strategic shareholdings and voting standards for strategic shareholdings]**

The Company manages its strategic shareholdings appropriately. Its ownership policies and voting standards for strategic holdings of listed equities are as described in "Chapter 3. 2. (4) Strategic Shareholding" in the JT Corporate Governance Policy.

- The Company owns equities as strategic shareholdings only when the Company determined it is beneficial to the sustainable profit growth and increase of corporate value in the mid to long term.
- The Board of Directors examines all shareholdings each year to determine whether they are appropriate in terms of their objectives, as well as whether risks and benefits are commensurate with the capital cost.
- The Company appropriately sells equities that are no longer considered beneficial to hold as a result of this examination.

- The Company exercises its voting rights upon comprehensively determining the purpose of possession and potential detriments to the subject company's value of such equities.

The number and purpose of each equity that the Company owns, etc. are as described in the Annual Securities Report for the 36<sup>th</sup> term.

**[Principle 1-7: Procedures for transactions among associated interested parties]**

The procedures for transactions among associated interested parties are as described in “Chapter 3. 2. (7) Transactions among Associated Interested Parties” in the JT Corporate Governance Policy.

**[Principle 2-6: Roles of corporate pension funds as asset owners]**

The Company operated both ‘defined benefit corporate pension plans’ and ‘defined contribution pension plans’ as corporate pension plans for currently serving employees. The Company has abolished the ‘defined benefit corporate pension plans’ as of April 1, 2018 and the Company has migrated wholly to ‘defined contribution pension plans’ for existing employees. The corporate pension subject to this principle is the defined benefit corporate pension plan assets of retired personnel only.

For managing and operating the Company's defined benefit corporate pension plan assets, the Company has established the Defined Benefit Corporate Pension Plan Asset Operation Committee, chaired by the Chief Financial Officer (CFO) and comprised of committee members including the officers in charge of the finance and human resources divisions, who have appropriate qualifications, responsibilities and authorities.

The Defined Benefit Corporate Pension Plan Asset Operation Committee deliberates mainly on basic management policies on defined benefit corporate pension plan assets and asset compositions, and reports to the President and Chief Executive Officer of the Group. The committee regularly monitors the status of asset management and revises the compositions of managing trustees as necessary.

To assist with sound and efficient management of defined benefit corporate pension plan assets, the Company allocates personnel with the appropriate qualifications to relevant organizational units and further enhances their qualifications by having them take external trainings and so forth.

**[Principle 3-1: Proactive provision of information]**

- (1) The Company's management principles, etc. are as described in “Chapter 1. 2. Management Principles, etc.” in the JT Corporate Governance Policy.

The Company's Business Plan is available on the Company's website.

“Business Plan”: [https://www.jt.com/investors/management\\_information/business\\_plan/](https://www.jt.com/investors/management_information/business_plan/)

- (2) The Company's basic views and basic policies on corporate governance are as described in “I. 1. Basic Concept” in this Report.
- (3) The Board of Directors appropriately decides on remuneration for members of the Board (hereinafter directors) and executive officers according to the following policies and procedures, as described in “Chapter 4. 2. (3) Members of the Board and Executive Officers' Remuneration” in the JT Corporate Governance Policy.
  - In order to ensure objectivity and transparency, the Board of Directors establishes the Advisory Panel on Nomination and Compensation as a voluntary advisory panel towards the Board of Directors. The main members of the Advisory Panel on Nomination and Compensation are independent outside directors, and it responds to consultation, discusses and recommends policies, systems, etc., concerning remuneration for the Company's directors and executive officers, as well as monitors the situation of remuneration of directors at the Company.
  - The Board of Directors adopts a performance-linked remuneration system and a stock remuneration system; adopts remuneration composition corresponding to the nature of each director and executive officer's service; and determines each director and executive officer's remuneration based on the following basic principles.
    - Set the remuneration at an adequate level to retain personnel with superior capabilities.
    - Link the remuneration to company performance so as to motivate executives to achieve their performance targets.
    - Link the remuneration to company value in the mid to long term.
    - Ensure transparency by implementing an objective and quantitative framework.

Details for the policies and procedures for deciding on remuneration for directors and executive officers are as described in “II. 1.[Remuneration for Directors]” in this Report.

- (4) The Company conducts the nomination of candidates for directors and Audit & supervisory Board members as well as the dismissal of executive directors and directors concurrently serving as executive officers, under the appropriate supervision of the Board of Directors, according to the following policies and procedures as described in “Chapter 4. 2. (2) Nomination of Candidates for Member of the Board” in the JT Corporate Governance Policy.
- The Company works 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. Specifically, the Company intends to enhance the development of a group of executive candidates and improve the substance of succession plans, along with the process for formulating such plans, while referring to opinions from outside at the Advisory Panel on Nomination and Compensation comprised mainly of independent outside directors.
  - Candidates for directors are nominated by resolution of the Board of Directors. The resolution is made after securing opportunities to receive appropriate advice from independent outside directors by having the Advisory Panel on Nomination and Compensation deliberate on a candidate proposal formed by the President and report the content and results of its deliberations to the Board of Directors. Candidates for the Audit & Supervisory Board members are nominated by resolution of the Board of Directors as persons who are expected to perform their duties appropriately from a position independent of the Board of Directors. The resolution is made after securing opportunities to receive appropriate advice from independent outside directors by having the Advisory Panel on Nomination and Compensation deliberate on a candidate proposal formed by the President and report the content and results of its deliberations to the Board of Directors, and receiving prior consent from the Audit & Supervisory Board.
  - Dismissal of executive directors and directors concurrently serving as executive officers in the cases where they do not meet the required qualifications or have become unable to perform their duties is made by resolution of the Board of Directors after securing opportunities to receive appropriate advice from independent outside directors by having directors who are not subject to dismissal request the Advisory Panel on Nomination and Compensation to deliberate on the proposal for dismissal and then having the panel report the content and results of its deliberations to the Board of Directors.

Further, when bringing up the agenda item on the appointment of candidates for directors and Audit & Supervisory Board members at shareholders’ meetings, and when the Board of Directors has resolved to dismiss a director concurrently serving as an executive officer, the Company discloses the reasons for the appointment of individual candidates and for the dismissal.

- (5) The individual reasons for the nomination of candidates for directors and Audit & Supervisory Board members are described in the convocation notices of ordinary general meetings of shareholders (hereinafter the annual general meeting) when this matter to be discussed.

#### **[Supplementary Principle 4-1-1: Summary of scope of matters delegated from the Board of Directors and management]**

A summary of the scope of delegation to the Company’s management is as described in “Chapter 4. 2. (9) Delegation of Authority” in the JT Corporate Governance Policy.

The Board of Directors sets forth in the Board of Directors Regulations matters to be discussed at the Board of Directors meetings. In addition, for the purpose of realizing timely decision-making and high-quality execution of business, the Board of Directors sets forth a clear decision-making process based on Responsibility and Authority Regulations concerning essential business matters as well as appropriately delegates authority as necessary to executive officers based on the Group management strategies.

#### **[Principle 4-9: Independence criteria for independent directors]**

The independence criteria for the Company’s independent executives is as described in “II. 1. [Independent Directors/Audit & Supervisory Board Members]” in this Report.

#### **[Supplementary Principle 4-11-1: Views on the appropriate balance of knowledge, experience and skills, as well as diversity and size of the Board]**

The concept concerning the composition of the Board of Directors, including the balance of knowledge, experience and skills inside the Board as well as its diversity and number of members, is set forth as described

in “Chapter 4. 2. (1) Composition of the Board of Directors” in the JT Corporate Governance Policy in order for the Board of Directors to determine the Group management strategies and important matters and to fulfill its roles and responsibilities effectively as the body exercising supervision over all business activities.

- The Board of Directors constitutes of fifteen (15) or less members, within a necessary and appropriate number, composed of diverse professionals with a high sense of ethics and integrity as well as knowledge, experience and skills.
- The Company appoints two (2) or more independent outside directors with qualities that will contribute to its sustainable profit growth and increase of corporate value in the mid to long term in order to strengthen supervisory functions and transparency of business.

**[Supplementary Principle 4-11-2: Concurrent posts assumed by directors and Audit & Supervisory Board members]**

The significant concurrent positions of directors and Audit & Supervisory Board members are as described in the Annual Securities Report for the 36<sup>th</sup> term.

**[Supplementary Principle 4-11-3: The Board’s effectiveness]**

The Company annually evaluates its Board of Directors’ effectiveness through a multi-step process. First, all directors and Audit & Supervisory Board members complete a self-assessment questionnaire with regards to factors including the Board’s operations, oversight function and dialogues with shareholders and investors. Second, the Board’s administrative staff interview the directors and Audit & Supervisory Board members individually to delve deeper into their questionnaire responses and compile the evaluation results. Lastly, the Board reviews and analyzes the self-assessment results in the aim of further improving its effectiveness. The Company takes advice from external consultants for drafting the questionnaire and analyzing the results in order to ensure objectivity and further improve the evaluation process.

The evaluation items are as follows.

The Board’s operations

Composition (ratio between inside and outside members; diversity), performance (frequency; stringency of agendas; pre-meeting briefing), support & coordination (coordination among directors, Audit & Supervisory Board members and internal auditing department; utilization of committees; information-sharing outside the Board), discussion (fair and swift decision-making in line with our management principles; unrestricted discussion), etc.

Oversight function

Reporting methods on business operations, risk management system, increase of the awareness of compliance, process of determining the executives’ remuneration, succession planning, etc.

Dialogues with shareholders and investors

Sharing opinions from shareholders and investors, optimization of dialogue methods, etc.

The Board effectiveness evaluation for 2019 yielded generally positive results across all evaluation items. It confirmed that the Board is functioning not only effectively but increasingly so. On the other hand, the evaluation identified areas where further improvement is warranted, including the Board’s operation for further increase in effectiveness and information-sharing to improve the quality of Board decision-making. In addition to these issues, we have incorporated the influence of the COVID-19 pandemic on the Company’s business and worked on making the following improvements throughout 2020.

- Increased effectiveness and efficiency regarding the operations of the Board in and thereby its overall effectiveness of the Board
  - Held detailed pre-meeting briefings on material matters and enhanced deliberations and discussions
  - Utilized online meetings and digitalized discussion materials and meeting minutes
- Carried out closer information-sharing for better quality decision-making by the Board
  - Shared enriched information on the following matters:
    - Updates on material measures concerning mid- to long-term strategies
    - Business conditions in important countries and regions

- Updates on dialogues with shareholders and investors
- Sustainability strategies of the Group and each business sector and their progresses, results of external evaluations, etc.
- The COVID-19 pandemic impact on its employees and each of its businesses, its countermeasures and updates

The 2020 Board effectiveness evaluation results similarly provided generally positive feedback and exhibited improvements in the categories mentioned above – effectiveness and efficiency of the Board as well as closer information-sharing. In 2021, we will continue to pursue improvements required for the issues listed below, in order to constantly enhance the Board's effectiveness.

#### Key issues

- Quantitative and qualitative maintenance and increase in communication among directors, (considering less face-to-face opportunities due to the pandemic)
- Further in-depth discussions on corporate governance

#### The Company's action plans going forward

Further enhance discussions, exchange of opinions, and information-sharing on material measures concerning mid- to long-term strategies; updates on each stakeholder in pursuit of the 4S model; and corporate governance

#### **[Supplementary Principle 4-14-2: Training policies for directors and Audit & Supervisory Board members]**

The Company's training policies for directors and Audit & Supervisory Board members are as described in "Chapter 4. 1. (3) Support for Members of the Board and Audit & Supervisory Board Members" in the JT Corporate Governance Policy.

#### **[Principle 5-1: Policies concerning the maintenance of a system and measures to promote constructive dialogue with shareholders]**

The Company's policies concerning the maintenance of a system and measures to promote constructive dialogue with shareholders are as described in "Chapter 3. 2. (3) Dialogue with Shareholders" in the JT Corporate Governance Policy.

## **2. Capital Structure**

<b>Foreign Shareholding ratio</b>	10% to 20%
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**[Status of Major Shareholders] [updated]**

<b>Name</b>	<b>Number of Shares Held</b>	<b>Ratio (%)</b>
Minister of Finance	666,925,200	37.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	77,183,500	4.35
SMBC Nikko Securities Inc.	58,303,600	3.29
Custody Bank of Japan, Ltd. (Trust Account)	48,009,500	2.71
Custody Bank of Japan, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.	23,660,000	1.33
State Street Bank West Client – Treaty 505234	19,974,941	1.13
Barclays Securities Japan Limited	18,432,844	1.04
Custody Bank of Japan, Ltd. (Trust Account 5)	17,079,000	0.96
Custody Bank of Japan, Ltd. (Trust Account 6)	15,416,800	0.87
JAPAN SECURITIES FINANCE CO., LTD.	14,114,400	0.80

<b>Controlling Shareholders (except for Parent Company)</b>	N/A
<b>Parent Company</b>	None

**[Supplementary Explanation] [updated]**

The Japan Tobacco Inc. Act (hereinafter JT Act) obligates the Japanese Government to hold the Company's shares. As of the end of December 2020, the government holds 33.35% of all issued shares of the Company. The ratio presented in "Status of Major Shareholders" above is 37.59% as it is calculated by deducting treasury shares (225,754,671 shares as of the end of December 2020) from the number of shares issued.

**3. Corporate Attributes**

<b>Listed Stock Exchange and Market Segment</b>	Tokyo Stock Exchange First Section
<b>Fiscal Year-End</b>	December
<b>Business Sector</b>	Foods
<b>Number of Employees (Consolidated basis) as of the End of the Previous Fiscal Year</b>	More than 1,000 employees
<b>Net Sales (Consolidated basis) for the Previous Fiscal Year</b>	More than ¥1 trillion
<b>Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year</b>	more than 100 and less than 300 companies

#### **4. Policies on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder**

N/A

#### **5. Other Factors which may have Material Impact on Corporate Governance [updated]**

- The JT Act obligates the Japanese Government to hold more than one third of the Company's issued shares.
- The Minister of Finance has the authority to supervise the Company under the JT Act and the Tobacco Business Act.
- The Company has a publicly listed subsidiary, namely Torii Pharmaceutical Co., Ltd. (hereinafter Torii.) The Company's policies on governance at listed subsidiary is as follows.

##### Policies on the Group management

The Company aims for the Group's sustainable profit growth and increase of corporate value over the mid to long term in pursuit of the 4S model, its management principle, by sharing and practicing the Group mission on a group-wide basis. Based on its belief that better corporate governance contributes to achieving aforementioned goals, the Company strives to optimize the Group structure by defining functions and regulations shared in the Group and managing the Group as a whole. In addition, the Company coordinates compliance (including internal reporting system), internal auditing, assurance of reliability of financial reporting and more with its subsidiaries and maintains these activities. The Company strives to give the best consideration to assure independence of listed subsidiary and to respect the rights of minor shareholders.

##### Purposes of having listed subsidiary

The Company has a publicly listed subsidiary, namely Torii, in light of the management benefits of owing a subsidiary, including capital market discipline. Another motivation is for Torii to acquire increased competitive advantage in its business through factors, such as credibility building and recruitment of excellent human resources, both of which are important in the pharmaceutical business.

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

##### Measures to ensure effective governance at listed subsidiary

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

The Company has instituted the Group's Responsibility and Authority Regulations as an internal decision-making regulation. Torii has opted to adopt these regulations, thereby gaining autonomy in terms of decision-making authority. Such autonomy ensures its independence as a listed subsidiary. Additionally, Torii is upgrading its governance regime's effectiveness by transiting to a majority-independent Board of Directors, which was approved at its ordinary general meeting of shareholders on March 26, 2020.

## **II. Business Management Organization and Other Corporate Governance Systems** **regarding Decision-making, Execution of Business, and Oversight in Management**

### **1. Organizational Composition and Operation**

<b>Organization Form</b>	Company with an Audit & Supervisory Board structure
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#### **[Directors]**

<b>Maximum Number of Directors Stipulated in Articles of Incorporation</b>	15 members
<b>Term of Office Stipulated in Articles of Incorporation</b>	2 years
<b>Chairperson of the Board of Directors</b>	Chairperson
<b>Number of Directors</b>	9 members
<b>Appointment of Outside Directors</b>	Appointed
<b>Number of Outside Directors</b>	3 members
<b>Number of Independent Outside Directors</b>	3 members

#### **Outside Directors' Relationship with the Company (1) [updated]**

<b>Name</b>	<b>Attribute</b>	<b>Relationship with the Company*</b>										
		<b>a</b>	<b>b</b>	<b>c</b>	<b>d</b>	<b>e</b>	<b>f</b>	<b>g</b>	<b>h</b>	<b>i</b>	<b>j</b>	<b>K</b>
Main Kohda	Originally from other company											
Yukiko Nagashima	Originally from other company								Δ			
Masato Kitera	Originally from other company								○			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"Δ" when the director fell under the category in the past.

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past.

- A person who executes business in a listed company or a subsidiary of a listed company
- A person who executes business or a non-executive director in the parent company of a listed company
- A person who executes business in a sister company of a listed company
- A supplier of which a listed company is a major customer, or, if the supplier is a corporation, a person who executes business in the corporation
- A major customer of a listed company, or, if the customer is a corporation, a person who executes business in the corporation
- A consultant, professional accountant or lawyer who receives a large amount of money and other economic benefits other than officers' compensation from a listed company
- A major shareholder of a listed company (if the major shareholder is a corporation, a person who executes business in the corporation)
- A person who executes business (limited to the principal) in a corporation that is a customer of a listed company other than customers falling in either category of d, e and f above
- A person who executes business (limited to the principal) in a corporation at which an outside officer of the company concurrently has a position of outside officer
- A person who executes business (limited to the principal) in a corporation to which a listed company offers donation
- Others

#### **Outside Directors' Relationship with the Company (2) [updated]**



Name	Independent Executive	Supplementary Explanation	Reason for Appointment
Main Kohda	○	<p>No items to report.</p> <p>She previously served as a member of the Board of Governors of Japan Broadcasting Corporation (NHK), and now concurrently serves as an outside director of Japan Exchange Group, Inc. Although the Company has business relationships with both organizations including payments, these positions of hers are not indicated in “Relationship with the Company” in the table above as she was/is a non-executive director in these positions. The payments to both organizations accounted for less than 0.001% of NHK’s ordinary business income in fiscal 2019, and for less than 0.005% of Japan Exchange Group, Inc.’s consolidated operating revenue in fiscal 2019, respectively. The payments also accounted for less than 0.001% of the Company’s consolidated revenue in fiscal 2020. Therefore, the Company considers these relationships do not affect her independence.</p> <p>The payment for NHK is not to be negotiated as this contract is stipulated under the Broadcast Act, that is to say, the Company is not in place to interfere with this contract. Thus, this payment cannot be defined as transactional relationship.</p>	<p>The Company has appointed her as independent executive as it believes she is qualified to serve as an outside director, considering her in-depth knowledge of international finance; her broad experience gained from serving on government committees and similar positions; and her deep insight and objective point of view that she has demonstrated through her activities as a novelist. Her appointment is also based on the Company’s assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

Yukiko Nagashima	○	<p>She previously served in Recruit Holdings Co., Ltd., and now, she concurrently serves as a Standing Audit and Supervisory Board member of the said company. Although the Company has business relationship with the said company including recruitment, the transaction amount accounted for less than 0.01% of the said company's consolidated revenue in fiscal 2019, and for less than 0.01% of the Company's consolidated revenue in fiscal 2020, respectively. Therefore, the Company considers the relationship does not affect her independence.</p>	<p>The Company has appointed her as independent executive as it believes she is qualified to serve as an outside director, considering her experience in corporate management and emerging business as well as experience as a member of the Audit &amp; Supervisory Boards, and her in-depth knowledge gained from the standpoints of both management and audit. Her appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>
Masato Kitera	○	<p>His relationship with the Company is as indicated in "Relationship with the Company" in the table above as he had received the compensation as the Company's part-time advisor since April 30, 2020. This advisory contract terminated along with his election at the annual general meeting held on March 24, 2021. The compensation was paid in return for his services of advisory regarding the Company's management and business based on his experience and knowledge, and the amount of the compensation was compliant with the Company's internal independence criteria (being less than 10 million yen per year). Therefore, the Company considers the relationship does not affect his independence.</p> <p>He concurrently serves as an outside director of Marubeni Corporation. Although the Company has business relationship with the said corporation including material procurement, he is a non-executive director in this position. The transaction amount accounted for less than 0.001% of the said corporation's consolidated revenue in fiscal 2019, and for less than 0.001% of the Company's consolidated revenue in fiscal 2020, respectively. Therefore, the Company considers the relationship does not affect his independence.</p>	<p>The Company has appointed him as independent executive as it believes he is qualified to serve as an outside director, considering his abundant international experience and knowledge concerning international affairs, gained through his long diplomatic career including his important positions as a government officer mostly in the Minister of Foreign Affairs. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

<b>Voluntary Committee Corresponding to Nomination Committee or Compensation Committee</b>	Present
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### Committee's Name, Composition, and Attributes of Chairperson

#### Voluntary committee corresponding to nomination committee

Name			Advisory Panel on Nomination and Compensation			
Number of committee members	Number of standing committee members	Number of inside directors	Number of outside directors	Number of external experts	Number of others	Committee Chair
4	0	1	3	0	0	Inside director

#### Voluntary committee corresponding to compensation committee

Name			Advisory Panel on Nomination and Compensation			
Number of committee members	Number of standing committee members	Number of inside directors	Number of outside directors	Number of external experts	Number of others	Committee Chair
4	0	1	3	0	0	Inside director

### Supplementary Explanation [updated]

The Advisory Panel on Nominations and Compensation was established as a voluntary advisory arm of the Board of Directors. It merges the former Meeting for Talent Development and Compensation Advisory Panel's respective functions into a single entity. Its purpose is to render the Board's decision-making more objective and transparent and upgrade the Board's oversight functions. Its specific roles include supporting the growth of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of executive directors; and reporting the results of the deliberation on remuneration of directors and executive officers. Chaired by JT's non-executive chairperson, the Panel has four members, three of whom are independent outside directors, and meets at least once a year. In 2020, it met 4 times with the 100% attendance rate to review proposed resolutions on executive remuneration to be voted on at the annual general meeting, to review remuneration levels, to review executive candidates and to deliberate on candidates for Board of Directors nominations.

### [Audit & Supervisory Board Members]

<b>Presence or Absence of the Audit &amp; Supervisory Board</b>	The Audit & Supervisory Board is in place
<b>Maximum Number of Audit &amp; Supervisory Board Members Stipulated in Articles of Incorporation</b>	5 members
<b>Number of Audit &amp; Supervisory Board Members</b>	5 members

## Cooperation among Audit & Supervisory Board Members, Independent Auditors and Internal Audit Divisions

Audit & Supervisory Board members, the Operational Review and Business Assurance Division (the Company's internal audit division), and the independent auditor (Deloitte Touche Tohmatsu LLC) conduct audits individually and appropriately. They endeavor to enhance their cooperation for ensuring appropriate audits and exchange information and opinions as necessary, largely by sharing information on the results of their respective audits.

<b>Appointment of Outside Audit &amp; Supervisory Board Members</b>	Appointed
<b>Number of Outside Audit &amp; Supervisory Board Members</b>	3 members
<b>Number of Independent Audit &amp; Supervisory Board Members [updated]</b>	3 members

## Outside Audit & Supervisory Board Members' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Toru Mimura	Originally from other company									△				
Hiroshi Obayashi	Originally from other company													
Koji Yoshikuni	Originally from other company										△			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a closer relative of the director presently falls or has fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. A person who executes business in a listed company or a subsidiary of a listed company

b. A non-executive director or an accounting advisor in a listed company or a subsidiary of a listed company

c. A person who executes business or a non-executive director in the parent company of a listed company

d. A company auditor of a parent company of a listed company

e. A person who executes business in a sister company of a listed company

f. A supplier of which a listed company is a major customer, or, if the supplier is a corporation, a person who executes business in the corporation

g. A major customer of a listed company, or, if the customer is a corporation, a person who executes business in the corporation

h. A consultant, professional accountant or lawyer who receives a large amount of money and other economic benefits other than officers' compensation from a listed company

i. A major shareholder of a listed company (if the major shareholder is a corporation, a person who executes business in the corporation)

j. A person who executes business (limited to the principal) in a corporation that is a customer of a listed company other than customers falling in either category of f, g and h above

k. A person who executes business (limited to the principal) in a corporation at which an outside officer of the company concurrently has a position of outside officer

l. A person who executes business (limited to the principal) in a corporation to which a listed company offers donation

m. Others

**Outside Audit & Supervisory Board Members' Relationship with the Company (2)**  
**[updated]**

Name	Independent Executive	Supplementary Explanation	Reason for Appointment
Toru Mimura	○	<p>He previously served in the Ministry of Finance, which is one of the Company's major shareholders. The Company believes that he is qualified to serve as an outside Audit &amp; Supervisory Board member as described in Reason for Appointment on the right, and he meets all requirements for being appointed as independent director prescribed by the financial instruments exchange. The Company has newly appointed him as outside director as a result of revising the Company's internal independence criteria at the Board of Directors meeting held on November 24, 2020. It has been more than 9 years since he resigned from an important position in the Ministry of Finance, which complies with the internal criteria that stipulates it has to be more than 5 years to be appointed as outside directors after leaving the relevant positions.</p> <p>He also previously served as a director of Eltes Co., Ltd. Although the Company has business relationship with the said company including web surveys, the position of his is not indicated in "Relationship with the Company" in the table above as he was a non-executive director. The transaction amount with the said company accounted for less than 1.2% of the said company's consolidated net sales in fiscal 2019, and for less than 0.002% of the Company's consolidated revenue in fiscal 2020, respectively. Therefore, the Company considers the relationship does not affect his independence.</p>	<p>The Company has appointed him as independent executive as it believes he is qualified to serve as an outside Audit &amp; Supervisory Board member, considering his deep knowledge of such fields as finance, global risk management, geopolitics and corporate law through his extensive experience over many years of serving in a wide range of important positions in ministries and bureaus, in addition to his role as research institute chairperson. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

Hiroshi Obayashi	○	<p>No items to report.</p> <p>He concurrently serves as an outside director of Mitsubishi Electric Corporation and as an outside Audit &amp; Supervisory Board member of Daiwa Securities Co. Ltd. The latter company owns the Company's issued shares, which accounts for 0.01% of the total Company's shares. Although the Company has business relationships with both organizations mentioned above, these positions of his are not indicated in "Relationship with the Company" in the table above as he is a non-executive director in these positions. The transaction amount with both organizations accounted for less than 0.001% of Mitsubishi Electric Corporation's consolidated net sales in fiscal 2019, and for less than 0.001% of Daiwa Securities Co. Ltd.'s consolidated operating revenue in fiscal 2019, respectively. The amount also accounted for less than 0.001% of the Company's consolidated revenue in fiscal 2020. Therefore, the Company considers these relationships do not affect his independence.</p>	<p>The Company has appointed him as independent executive as it believes he is qualified to serve as an outside Audit &amp; Supervisory Board member, considering his extensive experience in the legal circles as well as significant experience and in-depth knowledge as an outside director and outside Audit &amp; Supervisory Board member across a wide range of industries. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>
Koji Yoshikuni	○	<p>He previously served in Japan Broadcasting Corporation ("NHK"). Although the Company pays a certain amount of the subscription fee to NHK, the payment for NHK is not to be negotiated as this contract is stipulated under the Broadcast Act, that is to say, the Company is not in place to interfere with this contract. Thus, this payment cannot be defined as transactional relationship. The amount of this subscription fee accounted for less than 0.001% of NHK's ordinary business income in fiscal 2019, and for less than 0.001% of the Company's consolidated revenue in fiscal 2020, respectively. Therefore, the Company considers the relationship does not affect his independence.</p>	<p>The Company has appointed him as independent executive as it believes he is qualified to serve as an outside Audit &amp; Supervisory Board member, considering his knowledge of politics and economics cultivated over long years in his journalist career as well as management experience and broad knowledge that make him well-versed with all business operations and internal departments. His appointment is also based on the Company's assessment that there is no risk of conflict of interests with ordinary shareholders.</p>

**[Independent Directors/Audit & Supervisory Board Members] [updated]**

<b>Number of Independent Directors/Audit &amp; Supervisory Board Members [updated]</b>	6 members
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**Other Items Related to Independent Directors/Audit & Supervisory Board Members [updated]**

[The Criteria for Evaluating the Independence of Outside Directors/Audit & Supervisory Board Members]

The Board of Directors establishes a set of independence criteria, based on those set forth by the relevant Financial Instruments Exchange.

- Independent outside directors/Audit & Supervisory Board members are persons who are not:
  1. A person who belongs or belonged to the Company, the Company's affiliate company or the Company's sister company;
  2. A person who belongs to an organization such as company, of which the Company is a major shareholder;
  3. The Company's major shareholder or a person who belongs to an organization such as company, which is the Company's major shareholder;
  4. An individual or a person associated to an organization such as a company, which is a major supplier/customer of the Company, or the Company is a major supplier/customer;
  5. An individual or a person associated to an organization such as a company, which is the Company's major lender or other major creditor;
  6. The Company's auditor or a certified public accountant who is the Company's accounting advisor, or a person who belongs to an auditing firm which is the Company's accounting advisor;
  7. An individual or a person associated to an organization such as a company, which provides the Company with expert services or consulting services concerning legal affairs, financial affairs, tax affairs, etc., and receives a large amount of compensation for the services;
  8. An individual or a person associated to an organization such as a company, which receives a large amount of donation from the Company;
  9. A person who has recently met any of the criteria 2 to 8 above;
  10. A close relative of any one of the following:
    - (i) An individual who meets any of the criteria 2 to 8 above. (a person who implements important duties in an organization such as a company which meets any of the criteria 2 to 8 above);
    - (ii) A director, Audit & Supervisory Board member, accounting advisor, executive, executive officer or employee of the Company, the Company's affiliate companies or the Company's sister companies; or
    - (iii) A person who has recently been either (i) or (ii)

**NOTES:**

- "An organization such as company of which the Company is a major shareholder" means an organization such as a company, more than 10% of whose issued shares is owned by the Company.
- "The Company's major shareholder" means an individual or an organization such as a company, which owns more than 10% of the Company's issued shares.
- "A major supplier/customer to the Company, or the Company is a major supplier/customer" means an individual or an organization such as a company, which has business transaction with the Company accounting for more than 2% of the Company's consolidated revenue or of the their

consolidated revenue in a fiscal year.

- “The Company’s major lender or other major creditor” means a financial institution mentioned as a major lender in Business Report, which is reference documents for General Meeting of Shareholders attached in Notice of Convocation, or a financial institution mentioned as a lender or a financial advisor, etc., on documents released on the occasions such as major M&A in the past.
- “An individual who provides the Company with expert services or consulting services concerning legal affairs, financial affairs, tax affairs, etc., and receives a large amount of compensation for the services” means one who receives compensation of more than 10 million yen in return for said services in a fiscal year. “An organization such as a company, which provides the Company with expert services or consulting services concerning legal affairs, financial affairs, tax affairs, etc., and receives a large amount of compensation for the services” means one which receives compensation accounting for more than 2% of annual gross revenue of that organization in a fiscal year. However, in cases where an organization receives compensation accounting for less than 2% of its annual gross revenue and an expert belonging to that organization receives more than 10 million yen in return for their services for the Company, said expert is regarded as one mentioned above.
- “An individual who receives a large amount of donation from the Company” means one who receives donation of more than 10 million yen in a fiscal year. In cases where the recipient of donation from the Company is an organization such as a company, which receives donation amount exceeding the higher of 10 million yen or donation accounting for more than 2% of annual gross revenue or consolidated revenue of that organization in a fiscal year, a person belonging to such organization is regarded as one mentioned above.
- “A close relative” means spouse or a relative within the second degree of relationship.
- “A person who implements important duties” means one who is a member of the Board, executive officer or division head.
- “Recently”, which is mentioned in 9 and 10 above, means within the last 5 years.

Regardless of the notes above, in cases where a person is regarded as independent of the Company substantially as a result of examination of that person’s past career and current titles, the Company may appoint said person as independent outside director/Audit & Supervisory Board member. In which case, the Company explains reasons of its assessment externally.



## [Incentives]

<b>Incentive Policies for Directors [updated]</b>	Introduced performance-linked remuneration and others
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### Supplementary Explanation [updated]

Executive remuneration comprises (1) monthly “base salary”, (2) “executive bonus” linked to the Company’s business performance in a fiscal year, as well as (3) “restricted stock remuneration plan” and (4) “performance share unit plan”, both of which are linked to the corporate value in the mid to long term. The Company introduced restricted stock remuneration plan and performance share unit (PSU) plan in 2020 for the purpose of strengthening initiatives conducive to the increase of corporate value over the mid to long term and sharing more value with shareholders. The composition and component of executive remuneration are as follows.

#### (1) Composition of executive remuneration

- Directors who also serve as executive officers

For the directors who also serve as executive officers, remuneration consists of “base salary,” “executive bonus,” restricted stock remuneration plan” and “performance share unit plan”. This composition reflects that their role is to achieve performance targets through day-to-day operational execution.

- Directors who do not serve as executive officers (excluding outside directors)

Directors who do not serve as executive officers (excluding outside directors) receive remuneration that consists of the “base salary” alone and excludes performance-linked remuneration, as they are responsible for monitoring the execution of mid- to long-term growth strategy in addition to supervision of business and corporate activities.

- Outside directors

Remuneration for the outside directors is composed of “base salary” alone and does not include performance-linked compensation to ensure their independence.

- Audit & Supervisory Board members

Remuneration for the Audit & Supervisory Board members is composed of “base salary” alone in light of their key responsibility for conducting audits.

#### (2) Components of executive remuneration

- Base salary

Executives are remunerated with monthly base salary as per their responsibilities. They are individually evaluated for achievement of their performance targets through execution of their duties that will lead to the Company’s sustainable profit growth. Performance targets are set through interviews with the Group CEO at the beginning of the fiscal year and evaluated at the end of year. The base salary for the following fiscal year will be set within certain range reflecting the individual performance evaluations. However, an individual performance evaluation is not applicable for the Group CEO.

- Executive bonus

Executive bonus for the directors who also serve as executive officers (hereinafter eligible directors) will be paid as monetary remuneration reflecting the performance of the fiscal year. Adjusted operating profit at constant FX and profit for the year will be the key performance indicators (KPI), respectively weighted at 75% and 25% in calculating the amounts of executive bonuses. Both KPIs form the foundation of the sustainable profit growth and shared value with the shareholders. Performance-linked payout will be based on the KPI achievement in the range of 0% - 200%. In case the Company acknowledges that an act of certain wrongful behavior has been done by a director who is a recipient of the bonuses, a part of the received bonuses is subject to return to the Company.

- Restricted stock remuneration plan

Restricted stock remuneration plan is designed to further enhance the shared value in mid to long term between the eligible directors and the shareholders. Eligible directors receive monetary compensation claims every fiscal year towards restricted shares and the eligible directors will receive the allocation of Company's common share by paying all of the monetary compensation claims in kind in accordance with the resolution of the Board of Directors (the allotment will be made from the treasury shares).

The monetary compensation towards the purchase of the Company's restricted stock will be decided based on the closing price of the Company's share at the Tokyo Stock Exchange as of the previous business day of the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Board of Directors within a scope that is not particularly advantageous to the eligible directors who will receive the restricted stock.

In addition, the Company will enter into an agreement with the eligible directors with regards to the allotment of the shares.

Although the restriction period is 30 years, in cases where any eligible director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Board of Directors, from a position as director or any other positions separately specified by the Board of Directors during the restriction period, the transfer restrictions will be removed on the allotted shares.

In case the Company acknowledges certain wrongful behavior that the Board of Directors sets and any other illegal acts have been done by a director who was allotted restricted stock remuneration during the restriction period, all or a part of the allotted shares are acquired by the Company without any compensation.

- Performance share unit plan

Performance share unit plan is a performance-linked stock compensation system that aims to strengthen the shared value with shareholders, to enhance the company value over the mid to long term and to commit to achieving business results over the mid-term. Performance share unit plan offers monetary remuneration claims and cash to the eligible directors, who serve in their positions during the first year of the performance evaluation period\*, as a performance-linked stock compensation. The amount of such remuneration is determined largely by performance target attainment rates during rolling three-year performance evaluation periods, coinciding with the Company's rolling three-year management planning horizon. Attainment rates for each performance evaluation period are determined following a review by the Advisory Panel on Nomination and Compensation. As a general rule, eligible directors receive the cash and monetary claims after the end of each performance evaluation period. Eligible directors will receive monetary remuneration claims towards the purchase of Company shares and will receive the Company's common shares (the allotment will be made from the treasury shares).

The Company will enter into an agreement with the eligible directors with regards to the allotment of the shares. The monetary compensation towards the purchase of the Company's shares will be decided based on the closing price of the Company's share at the Tokyo Stock Exchange as of the previous day of the resolution by the Board of Directors. However, if the Company share does not trade at the Tokyo Stock Exchange on the day prior to the resolution of the Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Board of Directors within a scope that is not particularly advantageous to the eligible directors who will receive the performance share units. The allocation of the monetary remuneration claims and cash will be done after the evaluation period however at the starting point the evaluation period neither the allotment nor the amounts are decided.

Profit for the year has been set as a KPI for the performance share unit plans starting in 2020 and 2021, performance-linked payout will be based on the KPI achievement in the range of 0% - 200%.

In case the Company acknowledges certain wrongful behavior that the Board of Directors sets and any other illegal acts have been done by a director during the performance evaluation period, the director is disqualified from receiving all or a part of the cash and monetary claims that are planned to be paid.

\* The first performance share unit plan will be effective from the fiscal year of 2020 ending in 2022, with a three-year evaluation period. This performance share unit plan will be effective beyond 2021 and new evaluation period will start every year, further the remuneration will be decided with the limits approved in the annual general meeting.

The Company abolished the stock option grants plan in 2020 except for the stocks already granted and will not issue new stock option grants hereafter. The Company has instead introduced the restricted stock remuneration plan and PSU plan as mid- to long-term incentives.

More details on executive remuneration are as described in the Annual Securities Report for the 36<sup>th</sup> term.

<b>Recipients of Stock Options [updated]</b>	N/A
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#### **Supplementary Explanation[updated]**

#### **[Remuneration for Directors]**

<b>Disclosure of Individual Director's Remuneration</b>	Selected Directors
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#### **Supplementary Explanation [updated]**

Total amount of remuneration for the directors (excluding outside directors) in the fiscal year ended December 31, 2020 is ¥1,193 million, including base salary of ¥504 million, executive bonuses of ¥438 million, stock option grants of ¥30 million, restricted stock remuneration of ¥188 million and performance share units of ¥33 million.

Total amount of remuneration for Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members) is ¥88 million.

Total amount of remuneration for outside directors and outside Audit & Supervisory Board members is ¥135 million.

The amounts of stock option grants and performance share units are the amounts booked as expenses for 2020.

The directors whose consolidated remunerations are no less than ¥100 million are disclosed individually in the Annual Securities Report for the 36<sup>th</sup> term.

<b>Policies on Determining Remuneration Amounts and Calculation Methods</b>	Established
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## **Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods**

In order to achieve sustainable profit growth and increase of company value over the mid to long term by pursuing the management principle, the 4S model, the Advisory Panel on Nomination and Compensation reviews and provides advice on the policy, framework and calculation method for remuneration of the Company's directors and executive officers in response to inquiries of the Board. The Panel also monitors whether the executive remuneration level is reasonable.

Based on the recommendation of the Advisory Panel on Nomination and Compensation, the key policy for the Company's executive remuneration is as follows:

- Set remuneration at an adequate level to retain personnel with superior capabilities.
- Link remuneration to the Company's performance so as to motivate executives to achieve performance targets.
- Link remuneration to the Company's value in the mid to long term.
- Ensure transparency by implementing objective and quantitative frameworks.

The amount of remuneration for the directors is benchmarked based on a survey of remuneration of directors conducted by third parties, taking into account the remuneration levels of major domestic manufacturers that are expanding overseas with the similar size and profits. Specifically, after benchmarking the level of base salary of the directors of peer companies and the percentage of variable remuneration for annual bonuses and mid- to long-term incentives, the amount of remuneration for each director is decided by a resolution of the Board of Directors, based on the deliberations of the Advisory Panel on Nomination and Compensation and within the maximum remuneration approved at the annual general meeting. The remuneration of Audit & Supervisory Board members is also benchmarked in the same way, and is determined by the deliberation among the Audit & Supervisory Board members within the maximum remuneration approved at the annual general meeting.

### **[Support for Outside Directors/Audit & Supervisory Board Members]**

The Company provides the outside directors with pre-meeting briefings on the agendas to be discussed at the Board and information-sharing on relevant information as well as materials through cooperation with the Corporate Strategy Division and the Secretary's Office for the enhancement of discussions at the Board of Directors.

The Company has established a supporting system for the Audit & Supervisory Board members in order to enable them to thoroughly oversee the business execution by the directors and executive officers as an independent body entrusted by shareholders, aiming for the Company's sound and sustainable growth and gaining social credibility. Specifically, the Company has installed communications networks and allocated sufficient human resources at the Audit & Supervisory Board Members' Office.

**[Status of Those Who Have Resigned from Positions such as President and Representative Director]**

**Names, etc. of Counselor/Advisor who are Former President and Representative Directors, etc.**

<b>Name</b>	<b>Title</b>	<b>Description of Duties</b>	<b>Working Form/Conditions (Full-time/Part-time, Paid/Unpaid, etc.)</b>	<b>Resignation Date from President, etc.</b>	<b>Term of Office</b>
Katsuhiko Honda	Company Fellow	Activities in other company/association and CSR activities. (Not involved in the Company management)	Working form: N/A Compensation: N/A	June 23, 2006	N/A
Hiroshi Kimura	Company Fellow	Activities in other company/association and CSR activities. (Not involved in the Company management)	Working form: N/A Compensation: N/A	June 22, 2012	N/A
Mitsuomi Koizumi	Special Advisor	Activities in external relations with various organizations (Not involved in the Company management)	Working form: Part-time Compensation: Paid	March 27, 2018	1 year

<b>Total Number of Counselors/Advisors who are Former President and Representative Directors, etc.</b>	3 members
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**Other Matters**

The Company abolished provisions with regard to the Company's counselors and advisors from the Articles of Incorporation in March 2018, as there was no longer a need for appointment of counselors and advisors, whose expected duties were to respond to inquiries from the President.

The Company believes that it fits the Group's management principle, the 4S model, and enhances its reputation that talents nurtured by the Company fulfill certain roles at the social end by, for instance, assuming positions in other companies and associations. Based on this belief, the Company occasionally provides them with the minimum services that are needed for them to accomplish their roles. Company Fellow is one of the titles that the Company provides corresponding their external activities.

In cases where the Company assigns persons to external activities with high social significance, such as responsible positions in various organizations, the Company appoints them as Special Advisors and provides necessary services as well as compensations, in order for them to carry out those duties.

**2. Functions of Business Execution, Auditing, Oversight, Nomination and Determining Remuneration (Overview of Current Corporate Governance System) [updated]**

The Company chooses to have a fair and independent Audit & Supervisory Board. The Company is striving to enhance its corporate governance through utilizing voluntarily established structures such as

the Advisory Panel on Nomination and Compensation, which is predominantly comprised of the independent outside directors, and the JT Group Compliance Committee whose key members are outside experts, in order to build an effective corporate governance regime.

The Board of Directors meets once monthly as a general rule and meets promptly whenever necessary. The Board makes decisions on matters requiring Board approval under the relevant laws and regulations and other material matters; oversees the business operations; and receives reports on the updates on operations from the directors. The Chairperson of the Board concentrates on oversight of management as a non-executive director. From the standpoint of effective oversight and management transparency, the Board includes at least two independent outside directors with qualifications conducive to the Company's sustainable profit growth and corporate value. The Board of Directors has set forth matters to be discussed at the Board under the Board of Directors Regulations. In addition, for the purpose of realizing swift decision-making and high-quality business execution, the Board of Directors has set forth a clear decision-making process based on Company internal rules on the allocation of responsibilities and authorities (hereinafter the Responsibility and Authority Regulations) concerning material business matters. The Company also delegates authority as necessary to each executive officer based on the Group management strategies. In 2020, the Board met 13 times with the 100% attendance rate.

The Advisory Panel on Nominations and Compensation was established as a voluntary advisory arm of the Board of Directors. It merges the former Meeting for Talent Development and Compensation Advisory Panel's respective functions into a single entity. Its purpose is to render the Board's decision-making more objective and transparent and upgrade the Board's oversight functions. Its specific roles include supporting the growth of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of executive directors; and reporting the results of the deliberation on remuneration of directors and executive officers. Chaired by JT's non-executive chairperson, the Panel has four members, three of whom are independent outside directors, and meets at least once annually. In 2020, it met 4 times with the 100% attendance rate.

As an organization that reports directly to the Board of Directors, the JT Group Compliance Committee deliberates on the status of the annual Compliance Action Plan's implementation; the establishment/revisions of compliance-related rules and the code of conduct; and matters relating to compliance of the entire JT Group in order to foster awareness and to ensure thorough compliance among employees. Chaired by the Chairperson of the Board, the committee consists mainly of outside members. The Company appoints an executive officer in charge of compliance who oversees the Compliance Office and strives to establish/promote a crossover system on a group-wide basis as well as to grasp the issues. The compliance promotion departments of the Company and of its subsidiaries (namely, the Compliance Office in the Company, and corresponding departments in subsidiaries) distribute materials including the "JT Group Code of Conduct," which explains the code of conduct to directors and employees of the Company as well as directors, employees and others of subsidiaries (directors, employees and others of the Company and subsidiaries hereinafter collectively called directors and employees). The compliance promotion departments also work on enhance the effectiveness of the compliance system by enlightening directors and employees about compliance through training and other programs. In 2020, the JT Group Compliance Committee met 3 times with the 100% attendance rate.

The Company has adopted the Audit & Supervisory Board system. The Audit & Supervisory Board members (Audit & Supervisory Board, Audit & Supervisory Board Member's Office, and the manager of the Audit & Supervisory Board Member's hereinafter collectively called Audit & Supervisory Board members) assertively exercise its authority as an independent body entrusted by shareholders, including attending and speaking at the Board of Directors meetings and other important meetings as well as actively inspecting business sites. In addition, they also conduct audits appropriately from an objective viewpoint in accordance with the characteristics of the duties of the outside/standing Audit & Supervisory Board members. The Audit & Supervisory Board members strives to ensure sound and sustainable growth of the Company and to maintain/enhance the public's trust by overseeing the performance of duties by the directors and executive officers.

The Audit & Supervisory Board, which meets as necessary, is composed of members with abundant experiences in the fields of management, law, finance, accounting and others. The standing Audit & Supervisory Board member, Ms. Ryoko Nagata, is eligible as an Audit & Supervisory Board member as

she has served as Senior Vice President, Beverage Business Division and in charge of CSR etc., and has broad experience and in-depth insights with regard to the Group's business operations from the perspective both of the business operations and the internal department. Another standing Audit & Supervisory Board member, Mr. Hiroshi Yamamoto has knowledge of finance and accounting as well as insight into corporate governance in the Group's business operations having served as the Company's Vice President of the Operational Review and Business Assurance. In 2020, the Audit & Supervisory Board convened 13 times with the 100% attendance rate.

For internal auditing, the Company's Operational Review and Business Assurance Division (21 members as of the end of December 2020) conducts internal audits from an objective standpoint independent of organizational units involved in operational execution and reports directly to the CEO. This division maintains company property and strives to enhance the efficiency of management through its examination and assessment of controlling/operating systems which relate to all business activities as well as the status of business execution from the perspectives of legality and rationality. To fulfill its responsibilities, it has unrestricted authority to observe all activities, inspect all records and question all personnel on a group-wide basis. The Operational Review and Business Assurance Division formulates/implements the Group's internal auditing and policies as well as complements subsidiaries' internal auditing functions in coordination with their internal auditing organizations. Its head mandatorily reports internal audit results to the CEO, and reports annually to the Board of Directors.

The Company, in order to ensure the independent auditor's appropriate audit, secures sufficient time for enabling high-quality audit; provides the independent auditor with opportunities to contact directors and executive officers; and provides appropriate auditing environment enabling sufficient cooperation among the independent auditor, the Audit & Supervisory Board members, the internal auditing divisions and outside directors. Further, in the event that the independent auditor indicates a deficiency or problem or discovers misconduct, the Company appropriately takes measures correspondingly. While the Audit & Supervisory Board members, internal audit divisions including the Operational Review and Business Assurance Division, and the independent auditor conduct audits individually, they endeavor to enhance their cooperation in order to ensure appropriate audits, for example by sharing information on the results of their respective audits. Also, the Audit & Supervisory Board members, internal audit divisions including the Operational Review and Business Assurance Division, and the independent auditor cooperate with the Company's Internal Control Division to ensure appropriate implementation of business by exchanging information when necessary.

The Company's independent auditor (Deloitte Touche Tohmatsu LLC) has conducted audits in accordance with the Companies Act and the Financial Instruments and Exchange Act. The certified public accountants who audited the Company's financial statements for fiscal year ended December 31, 2020 and the persons who assisted the accounting audit work are as follows.

Certified public accountants

Yukitaka Maruchi, Yasuhiko Haga, Yoichi Matsushita

Assistants for the accounting audit work

Certified public accountants: 9 persons, Persons who have passed the Certified Public Accountants Examination: 7 persons, Others: 16 persons

### **3. The Reason for the Adoption of the Current Corporate Governance Structure**

The Company strengthens objective and impartial management oversight functions by positioning an independent and fair Audit & Supervisory Board that appropriately oversees the job performance of directors and executive officers. The Company has built an effective corporate governance regime under the Audit & Supervisory Board's oversight. It includes the JT Group Compliance Committee and an Advisory Panel on Nomination and Compensation, both established voluntarily. The former has outside experts serving in key roles; the latter is predominantly comprised of independent outside directors. The Company has also streamlined the Board of Directors and expedited operational execution by delegating authority to executive officers. The Company continuously seeks to improve corporate governance and to increase management transparency and objectivity through, for instance, appointment of an additional outside director and outside Audit & Supervisory Board member in 2019.

Through such measures, the Company settled upon its current corporate governance regime as the Company believes it functions effectively with respect to operational execution and oversight.



### **III. Implementation of Measures for Shareholders and Other Stakeholders**

#### **1. Measures to Vitalize the Annual General Meetings and to Smooth Exercise of Voting Rights [updated]**

	<b>Supplementary Explanation</b>
<b>Early Notification of the Annual General Meetings</b>	The Company sent the convocation notices on February 28, 2020, and on March 2, 2021, respectively. The notices were also published on the Company's website prior to the dispatch of printed copies.
<b>Scheduling AGMs Avoiding the Peak Days</b>	The Company held the annual general meetings on March 19, 2020 and on March 24, 2021, respectively. Neither of them was on days when meetings were the most concentrated.
<b>Allowing Electronic Exercise of Voting Rights</b>	The Company allows the electronic exercise of voting rights via the website designated by the Company (E-voting).
<b>Participation in Electronic Voting Platform</b>	The Company participates in an electronic platform for the exercise of voting right for institutional investors that is operated by ICJ, Inc.
<b>Providing Convocation Notice in English</b>	The convocation notice and its English translation are published on the Company's website and on electronic platform for institutional investors.

## 2. IR Activities [updated]

	<b>Supplementary Explanation</b>	<b>Briefing by the Representative Directors</b>
<b>Regular Investor Briefings for Individual Investors</b>	The Company holds online investor briefings and facilities tours for its shareholders. Additionally, it discloses business performances and other matters on the web pages exclusively for individual investors. The Company shelved a tour for its shareholders in 2020 considering the COVID-19 pandemic.	No
<b>Regular Investor Briefings for Analysts and Institutional Investors</b>	The Company holds briefing sessions mainly by means of telephone conference after the announcement of earnings. One-on-one meetings are also held regarding both performance and ESG related matters. Telephone and web conference tool are used as meeting methods considering the COVID-19 pandemic.	Yes
<b>Regular Investor Briefings for Overseas Investors</b>	The Company situationally holds briefing sessions for overseas institutional investors and one-on-one meetings by telephone or web conference regarding both performance and ESG related matters.	Yes
<b>Publication of IR Materials on the Website</b>	The Company publishes earnings reports, other timely disclosure materials, materials used at earnings briefings, as well as annual securities reports or quarterly securities reports, and convocation notices for the annual general meetings.	N/A
<b>Establishment of Division and/or Manager in charge of IR</b>	The Company has appointed an IR contact personnel at the Media & Investor Relations Division who reports to the Senior Vice President in charge of Communications.	N/A
<b>Other</b>	Although the Company already has been practicing fair information disclosure to all investors including shareholders, it has established necessary regulations and others as well as informed relevant officers and employees of these regulations since the introduction of the rules of Article 27-36 of the Financial Instruments and Exchange Act (so-called Fair Disclosure Rules.)	N/A

### 3. Measures to Ensure Due Respect for Stakeholders [updated]

	Supplementary Explanation
<b>Establishment of Internal Rules for Due Respect for Stakeholders</b>	<p>The Group management principle pursues the 4S model. Under the 4S model, the Group strives to fulfill its responsibilities to its valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups and exceeding their expectations wherever the Group can. Based on the 4S model, the Group's vision is "to be a growing global company that provides consumers with diverse value, unique to the Group". The Group's mission is "to create, develop and nurture its unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals".</p> <p>The Group has also established "The JT Group Way" as a code of conduct and values which all members of the Group should follow. The JT Group Way consists of three statements, which are "Act with integrity, always putting the consumer first", "Continue to evolve while remaining committed to quality in all its aspects" and "Harness the power of diversity across the JT Group".</p>
<b>Environmental Activities, CSR Activities and Other</b>	<p>The Group has set sustainability initiatives at the core of its management based on its recognition that it is essential for the Company to contribute to the sustainable development of society through its business for its own sustainable growth. The Group identified materialities -our priority issues- that the Group must address in order to grow sustainably along with society and formulated sustainability strategies. Specifically, the Group sets strategic focus areas and targets based on the Group's three absolute requirements that are essential for its business continuity on a group basis, namely (1)respect for human rights, (2)an improved social and environmental impact, (3)good governance and business standards. Each business also has the strategic focus areas and goals based on its feature.</p>
<b>Policies for Providing Information for Stakeholders</b>	<p>The Company strives to disclose information in a timely and appropriate manner and stipulates the regulations concerning information disclosure in order to clarify the authorities and responsibilities regarding the handling of various corporate information.</p>
<b>Other</b>	<p><u>Diversity in workplace</u></p> <p>The Group recognizes establishing a diverse and inclusive workplace is a top priority for achieving sustainable profit growth and increase in corporate value in the mid to long term. The Group respects different backgrounds and values, such as age, gender, self-identification, sexual orientation, disability, ethnicity, religion, and nationality, as well as experience and expertise. The Group works on enriching various trainings and seminars and other initiatives to create an environment where diverse employees can perform to the best of their abilities.</p> <p><u>Gender equality – women in leadership</u></p> <p>One of the Group's commitments is to promote gender equality in the workplace. To further empower women, the Group holds workshops for top management and line managers, as well as training and seminars for female employees. The Group has been also expanding its support system to help employees balance work and family life. The new group-wide target, specifically representation of women in</p>

	<p>leadership, is to reach 25% by 2030. The Group finds it desirable that this should be more than 40% over time.</p> <p>The proportion of female managers in the Group is 14.9% (510 women) as of the end of December 2020. (the proportion in the Company alone is 6.8% (69 women)). And three out of 14 members of the Board &amp; Supervisory Board are women.</p> <p><u>LGBT+ Inclusion</u></p> <p>Supporting the Group's LGBT+ employees is vital for it to create a more equal JT Group, in which everyone is empowered to be themselves. All job vacancies in its international tobacco business are now published on myGwork, a global networking hub for LGBT+ professionals and graduates. The Company has made positive progress in its Japanese operations too, achieving the highest-ranking Gold status in the PRIDE Index 2020 for the fifth consecutive year.</p>
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## **IV. Matters regarding the Internal Control System**

### **1. Basic Concept on Internal Control System and Progress of the System [updated]**

The Company, in terms of its organizational structure, has always strived to run an internal control system of the Company and the Group through initiatives in such areas as compliance, internal audits, and risk management. Moreover, the Company has created the systems required under the Companies Act and the Ordinance for the Enforcement of the Companies Act by implementing measures aimed at ensuring the effectiveness of audits by Audit & Supervisory Board members. The Company will work to maintain and enhance the existing organization structures by periodically reviewing and revising them in order to ensure appropriate execution of business. For the foreign subsidiaries, the Company has built and operated the necessary system in conformity with the following provisions, in principle, while complying with the laws and regulations of each country where the subsidiary is located.

- Systems to ensure that execution duties by directors and employees of the Company and its subsidiaries conforms to laws, regulations, and the Articles of Incorporation

Under the internal reporting system (whistle-blower system), the Company and each of its subsidiaries has a desk through which employees and others may consult or report, in case they detect any conduct that may violate laws and regulations. Each division responsible for the promotion of compliance of the Company and its subsidiaries that have received a consultation request or whistle-blowing report shall investigate the reported cases and implement company-wide measures to prevent the recurrence of misconduct after holding consultations with the departments and divisions concerned. The Company will bring matters of particular importance involving the JT Group to the JT Group Compliance Committee, and will request for deliberation or will report on the issue.

In order to ensure the reliability of financial reporting of the Group, the Company has operated a relevant internal control system that has been established in accordance with the Financial Instruments and Exchange Act. By allocating a sufficient level of employees to evaluate and report financial results, the Company strives to maintain and improve the reliability of its financial reporting.

For details about the system for excluding antisocial forces, please refer to the section below, IV. 2. Basic Policies on Excluding Antisocial Forces and its Maintenance.

- Procedures and arrangements for storage and management of information concerning the execution duties by the directors

The Company makes sure to properly store and manage the minutes of the annual general meetings and meetings of the Board of Directors in line with laws and regulations. The Company also makes sure that the information relating to important business execution and decision-making including the conclusion of corporate contracts are stored and managed by the relevant departments and divisions as specified in the Responsibility and Authority Regulations, in accordance with rules on the oversight of the processes of decision-making, procurement and accounting.

- System for reporting matters concerning execution duties by directors and others of subsidiaries to the Company

The Company makes subsidiaries periodically report important information to the Company's department or section in charge of the subsidiary.

- Rules and other systems pertaining to managing risks of loss of the Company and its subsidiaries

The Company has instituted internal guidelines, rules and manuals on financial risk management. The CFO reports once a quarter on financial risks to the CEO and the Board of Directors. For other risks, every organizational unit appropriately monitors and reports on risks as a secretariat division by establishing various types of committees in accordance with the Responsibility and Authority Regulations, which stipulates each division's responsibilities and authorities.

The Company comprehensively grasps and monitors all risks that might have an influence on the Group. The person in charge of risk management for the monitored risks determines the material risks and reports them to the CEO. Each executive officer takes the initiative to formulate countermeasures against material risks and promote/execute these measures after reporting measures and their progress to the person in charge of risk management and the CEO.

The Company's Operational Review & Business Assurance Division examines and assesses the internal management structures within the Group taking account of significance and risks from an objective standpoint independent of the business execution units, in coordination with internal audit functions in each subsidiary.

The Company has prepared crisis/disaster response manuals for such occurrences. It creates a task force and swiftly takes appropriate action in close coordination with relevant organizational units and its subsidiaries under the direction of the top management. Cases handled and other matters, as well as the corresponding measures taken, are reported to the Board of Directors in a timely and appropriate matter.

- System to ensure that the Company's directors and its subsidiaries' directors and others execute their duties efficiently

The Board of Directors meeting of the Company takes place once a month in principle and on more occasions as necessary, in order to make a decision with regard to the important matters, including those specified by laws and regulations, and to supervise business execution. The Company's Board of Directors also receives reports from its directors once per three months and on more occasions on the status of business execution. With regard to important management issues, particularly the management policy and basic plans regarding overall business operations of the Company, in addition to matters to be referred to the Company's Board of Directors, the Responsibility and Authority Regulations clearly prescribes the decision-making process in order to secure a system that enables to realize swift decision-making and high-quality business execution. The Company has adopted the Executive Officer System, under which executive officers appointed by the Board of Directors execute business properly in their respective areas with delegated authorities, based on the JT Group management strategy determined by the Board of Directors. The Company specifies the Company's organization and allocation of duties to officers and employees in the Organization/Office Rules, and clarifies the roles of individual divisions by the Guidance on Allocation of Duties in ways that management of business operations contribute to enhance efficiency and flexibility of business execution.

The Company has built an efficient structure for business execution within the Group through the rules and policies that apply to the Group.

- Systems necessary to ensure the appropriateness of operations in the Company and the Group

The Group has set its mission, which is “to create, develop and nurture its unique brands to win consumer trust, while understanding and respecting the environment, and the diversity of societies and individuals through the 4S model,” with a group-wide consensus on it. The Company has specified the common functions and rules necessary for group management, in order to optimize the operations of the entire Group. Moreover, the Company has been putting in place systems for compliance (including the internal reporting system), internal audits, financial affairs management, etc. in cooperation with its subsidiaries.

- Matters for employees assisting Audit & Supervisory Board members in their duties upon the request of Audit & Supervisory Board members

The Company has allocated sufficient employees (five employees as of December 31, 2020) to the Audit & Supervisory Board Member’s Office as an office, supporting Audit & Supervisory Board members in executing their duties. In addition, the Company makes sure to review and reform the employees’ allocation structure as necessary, based on consultations with the Audit & Supervisory Board.

- Matters relating to the independence of employees belonging to the Audit & Supervisory Board Member’s Office from the Company’s directors, and matters relating to ensuring effectiveness of instruction by Audit & Supervisory Board members to those employees

The evaluation of the manager of the Audit & Supervisory Board Member’s Office is made by the Audit & Supervisory Board, while the evaluation of the other employees assigned to the Audit & Supervisory Board Member’s Office is made by the manager of the Audit & Supervisory Board Member’s Office based on the advice of the Audit & Supervisory Board. The personnel change and discipline of employees assigned to the Audit & Supervisory Board Member’s Office is to be deliberated in advance with the Audit & Supervisory Board.

The Company makes the employees belonging to the Audit & Supervisory Board Member’s Office follow the direction and orders of Audit & Supervisory Board members in assisting the duties of Audit & Supervisory Board, and not be assigned to other concurrent positions relating to the business execution of the Company.

- The mechanism to ensure that persons receiving information from the Company and subsidiaries’ directors and employees report to the Audit & Supervisory Board or its members

In the event that directors and employees of the Company and its subsidiaries detect any evidence of misconduct in financial documents or material breaches against laws, regulations or the Company’s Articles of Incorporation, they are due to report them to the Audit & Supervisory Board, along with other relevant matters that could affect the Company’s management. In addition, in the event that directors and employees of the Company and its subsidiaries are requested by the Audit & Supervisory Board members to compile important documents for their perusal, accept field audits and submit reports, they are due to respond to the request in a prompt and appropriate manner.

The Compliance Office makes reports regularly, to the Audit & Supervisory Board members, on the status of whistleblowing involving the Group, and makes non-regular reports as necessary.

- System to ensure that persons reporting to the Audit & Supervisory Board members are not subject to disadvantageous treatments due to having reported

The Company thoroughly communicates within the Group that persons engaging in consultation or whistleblowing are not to be subject to any disadvantageous treatments for reason of those actions.

- Matters concerning policies for the prepayment of expenses involving the execution duties, procedures for reimbursement, and the handling of other expenses or debts involving the execution those duties by Audit & Supervisory Board members

When an Audit & Supervisory Board member has made claim to the Company for a prepayment of expenses, etc. in accordance with Article 388 of the Companies Act, the Company promptly handles the relevant expenses or debt, except in cases in which the Company deems the claimed expenses or debt to be unnecessary for the Audit & Supervisory Board members to execute their duties.

The Company sets a budget covering audit-related expenses so as to secure effectiveness of audits by the Audit & Supervisory Board members. The Company also bears the portion of miscellaneous expenses for audits by Audit & Supervisory Board members that are in excess of budget, except in cases in which the Company deems the expenses to be unnecessary to the execution duties.

- Other systems to ensure effectiveness of auditing by Audit & Supervisory Board members

Audit & Supervisory Board members are allowed to attend not only the Board of Directors meetings but also other important meetings of the Company. The Operational Review and Business Assurance Division and the Compliance Office maintain cooperation with Audit & Supervisory Board members by exchanging information.

## **2. Basic Policies on Excluding Antisocial Forces and its Refinement**

The Company and its subsidiaries are resolved to fight against, not to comply with an unreasonable demand and not to have any relations with antisocial forces. Designating the General Administration Division of the Company as the department assuming the responsibility for overseeing efforts to exclude antisocial forces at the Group level, the officers cooperate with police, lawyers and other relevant organizations and parties to gather and share information in order to deal with such forces in an organized way. The Company also continuously conducts awareness-raising activities to exclude antisocial forces by thoroughly having the Company and subsidiaries' directors and employees informed about the rules of avoiding any relations with antisocial forces and by educating the directors and employees through relevant training as necessary.



## V. Others

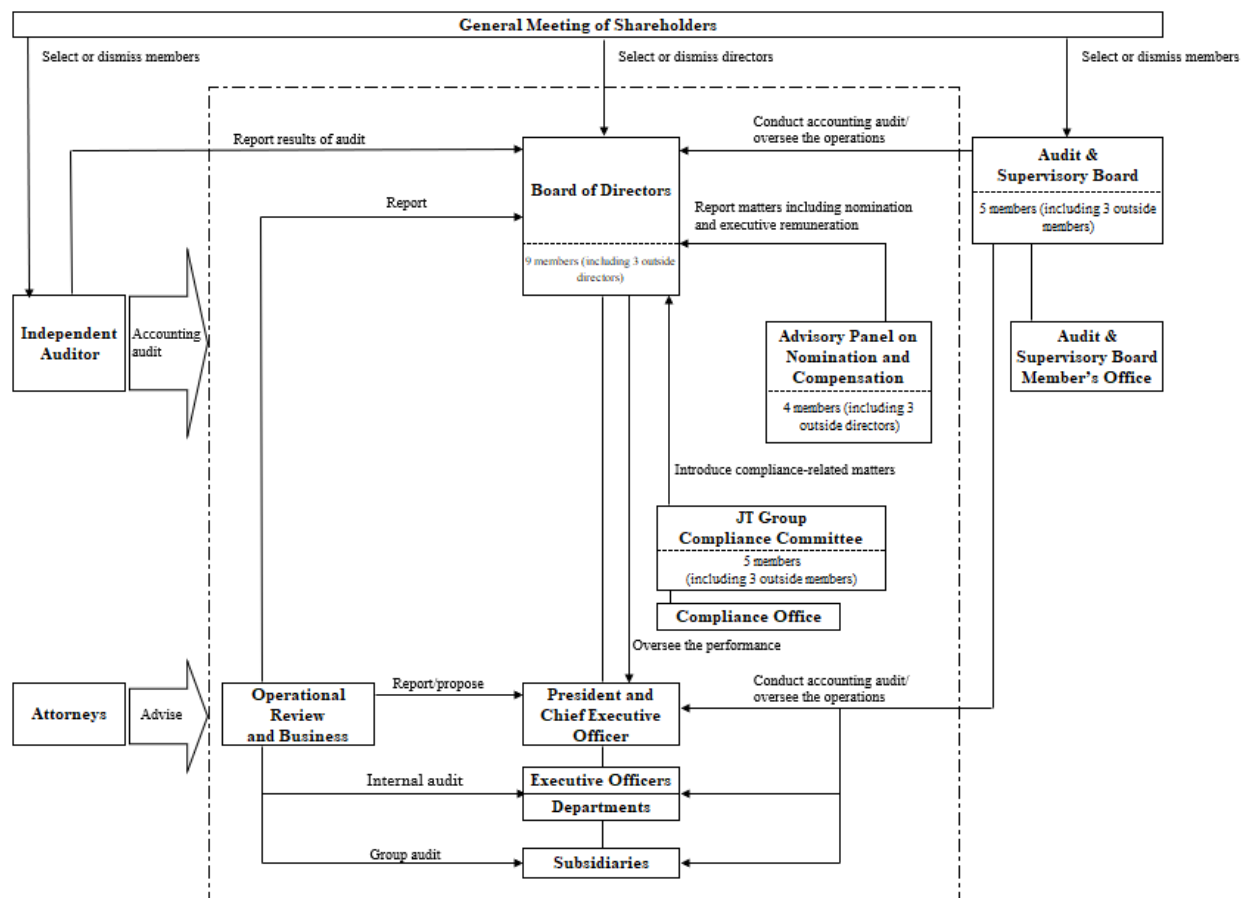
### 1. Takeover Defense Measure

Nothing to report

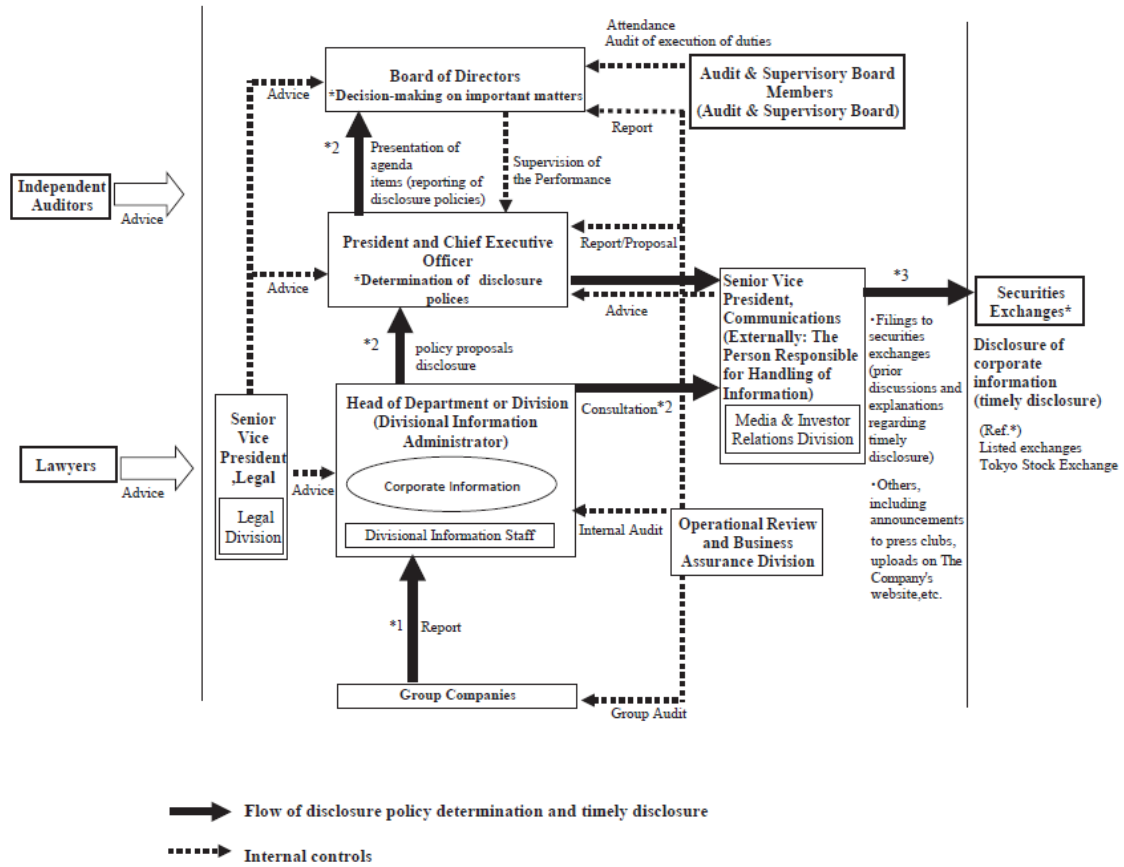
### 2. Other Matters Related to the Corporate Governance System

The following is the schematic depiction of the Company's corporate governance system and timely disclosure system.

**Schematic Depiction of the Company's Corporate Governance System**



## Overview of Timely Disclosure System



## 1. The Person Responsible for Handling of Information and Other Matters

- (1) The Company has in place regulations regarding information disclosure in an effort to clarify its authority and responsibilities with respect to all its corporate information and works to disclose information in a timely and appropriate manner.
- (2) The Company appoints a Senior Vice President in charge of Communications, who is responsible for information disclosure and also for handling of information towards stock exchange.
- (3) The head of each division is responsible for managing information and appoints a member in charge of information disclosure in each division in order to centrally collect and manage departmental information, including the information on the Group companies under the control of that division.
- (4) The Media & Investor Relations Division, which is directly under the control of the Senior Vice President in charge of Communications, plans, proposes and conducts information disclosure and shares information with those who are assigned with information disclosure in each division.
- (5) The Senior Vice President in charge of Communications sets forth the timely disclosure criteria to the head of each division, notifying them of any changes to timely disclosure rules whenever necessary, and receives reports from the head on corporate information.

## 2. Determination of disclosure policies and timely disclosure

- (1) The head of each division centrally collects and manages departmental information as material information. And they obtain necessary information from the Group companies under its control jurisdiction. \*1
- (2) When a decision is to be made on important matters based on the Responsibility and Authority Regulations, the head of each division deliberates on the way of external handling of information including timely disclosure with the Senior Vice President in charge of Communications and receives permission from the President and Chief Executive Officer about disclosure policy on such facts. \*2
- (3) The Senior Vice President in charge of Communications discloses information in a timely and appropriate manner subsequent to any decision on an important matter based on determined disclosure policies. When disclosing the corporate information, the Company provides preliminary explanations to the Tokyo Stock Exchange according to their timely disclosure rules and, whenever necessary, makes prior consultations with Tokyo Stock Exchange.\*3

## 3. Internal controls

- (1) The Board of Directors decides on items prescribed by laws and regulations as well as important matters; receives reports on the status of the execution duties (including disclosure policies); and monitors the same.
- (2) Audit & Supervisory Board members conduct audits on the directors' execution duties as an independent body of the Company whose duty differs from one of directors. Audit & Supervisory Board members attend the Board of Directors meetings and provide opinions whenever necessary.
- (3) The Operational Review and Business Assurance Division examines and evaluates (audits) the internal control systems of the Company and the Group companies considering the importance of internal control mechanisms and the risks involved from an objective perspective independent of other business execution bodies. The Division also reports its findings and proposes to the President and Chief Executive Officer, and provides reports to the Board of Directors.
- (4) The Senior Vice President in charge of Legal provides opinions to the Board of Directors whenever necessary. The Legal Division provides support to each division with respect to timely disclosure with specialized knowledge.

## 4. Participation of the independent auditor and attorneys

- (1) The Company is audited by the auditor according to the Financial Instruments and Exchange Act and the Companies Act. Regarding the timely disclosure of information on financial results, the Company has a system in place for obtaining necessary advice and guidance from such independent auditor.
- (2) The Company has in place a system to obtain advice and guidance from multiple law firms regarding timely disclosure whenever needed.