



FOR IMMEDIATE RELEASE

Tokyo, February 6, 2020

Introduction of Restricted Stock Remuneration Plan and Performance Share Unit Plan

Japan Tobacco Inc. (“JT”) (TSE: 2914) announces that it intends to revise the Executive remuneration plan. The Company’s Board of Directors has resolved today to propose the introduction of a Restricted Stock Remuneration Plan and Performance Share Unit Plan, (collectively, “Plan”) for Members of the Board also serving as Executive Officers (“Eligible Directors”), as a matter to be resolved in the Company’s 35th Annual General Meeting (“AGM”) scheduled on March 19th, 2020.

1. Objective of the introduction of the Plan

The Plan for the Eligible Directors will be introduced with the objective to strengthen the efforts to enhance the mid- to long-term company value and to further promote the shared value between the Eligible Directors and all the shareholders.

2. Overview of the Plan

The Plan will be applicable to the Eligible Directors who continue to serve for a stipulated period of time as the Company’s Members of the Board and any other positions that shall be determined by the Company’s Board of Directors. The Plan offers monetary remuneration claims to the Eligible Directors who work for a stipulated period, towards Company’s common stock with restrictions, such restrictions will be removed subject to certain conditions. Further, the Eligible Directors will also be granted performance share unit linked to multi-year performance related targets as monetary remuneration claims and cash.

The introduction of the Plan for the Eligible Directors is subject to obtaining the approval of shareholders at the AGM.

Moreover, specific timing of provision and allocation to each Eligible Director shall be determined by the Company’s Board of Directors. In the event that the proposal for the introduction of the Plan is approved at the AGM, the existing stock option plan, which is a mid- to long-term incentive, will be abolished and new stock acquisition rights will not be allotted as stock options in the future.

At this AGM, we will introduce the Plan for Eligible Directors and request shareholders to approve that the maximum remuneration to be paid towards the purchase of restricted stocks shall not exceed 210 million yen per year and the maximum remuneration towards performance share units, as total amount of monetary remuneration claims and cash, shall not exceed 130 million yen per year.

In conjunction with the abolition of the current stock option plan and the introduction of the Plan, the Company would like to seek shareholders' approval to revise the total amount of remuneration for all Members of the Board, which comprises base salary and executive bonuses, from 1.2 billion yen per year (including total remuneration for Outside Directors up to 80 million yen per year) to up to 1.1 billion yen per year (including total remuneration for Outside Directors up to 80 million yen per year).

However, subject to the approval of the Plan at the AGM, the total amount of remuneration (which includes base salary, executive bonus, restricted stock and performance share unit) for all Members of the Board will not exceed 1.44 billion yen. There is no change from the total amount of current remuneration for Members of the Board that also includes stock options.

Overview of Restricted Stock Remuneration Plan

The Eligible Directors will use all the monetary remuneration claims allocated by the Company under the Restricted Stock Remuneration Plan towards the purchase of Company shares in each fiscal year based on resolution of the Company's Board of Directors, and will receive Company's common shares (the allotment will be made from the treasury stock). 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 restricted stocks 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 Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors who will receive the restricted stocks.

In addition, the allocation of monetary compensation to the Eligible Directors, assumes that such director accepts the compensation as contribution in kind and enters into the restricted stocks allotment agreement.

Details of Restricted Stock Remuneration Plan are as follows. Any other matters regarding the Restricted Stock Remuneration Plan shall be determined by the Company's Board of Directors.

(1) The total amount of monetary remuneration claims and number of shares

The total amount of monetary remuneration claims for all Eligible Directors together shall not exceed 210 million yen per year or the total number of common shares allotted by the Company shall not exceed 115,200 shares per year. If there is a stock split, stock consolidation, or any other event requiring adjustment to the total number of share to be allocated after this Restricted Stock Remuneration Plan has been approved in AGM, the relevant total number shall be adjusted accordingly within a reasonable range.

(2) Transfer restriction period and details

The restriction period will be 30 years ("Restriction Period"). During this period restrictions will be applied on the allotted shares ("Allotted Shares"), so that each Eligible Director is prohibited to transfer the Allotted Shares, pledge them, mortgage them, or use any arrangement to dispose them.

(3) Removal of transfer restrictions

In case any Eligible Director retires due to expiration of the term or resigns due to reasons deemed reasonable by the Company's Board of Directors, from a position as Member of the Board or any other positions separately specified by the Company's Board of Directors during the transfer Restriction Period, the transfer restrictions will be removed on all the Allotted Shares.

(4) Revocation of Allotted Shares without any compensation

Allotted Shares will be revoked by the Company if an Eligible Director violates any laws and regulations or falls under any other event specified by the Company's Board of Directors during the Restriction Period, the Company retains the right to acquire all or part of the Allotted Shares without any compensation.

(5) Handling in the case of reorganization

During the transfer restriction period, if the Company becomes defunct due to merger or organization restructuring, the transfer restrictions for Allotted Shares will be lifted following the resolution of the Company's Board of Directors before the effective date of such reorganization.

Overview of Performance Share Unit Remuneration

Performance Share Unit Plan offers monetary remuneration claims and cash to the Eligible Directors as a performance-linked stock compensation. The performance is evaluated against the Company's three year Business Plan, the evaluation period is aligned with the duration of the business plan and the performance evaluation is conducted after the three year period and Eligible Directors are offered performance share units based on the evaluation after the completion of the period in principle ("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 stock). 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 Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's 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.

Note: 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 AGM.

Details of the Performance Share Unit Plan are as follows. Any other matters regarding Performance Share Unit Plan shall be determined by the Company's Board of Directors.

(1) The total amount of monetary remuneration claims and number of shares

The total amount of monetary remuneration claims for all Eligible Directors together shall not exceed 130 million yen per year or the total number of common shares allotted by the Company shall not exceed 76,800 shares per year. If there is stock split, stock consolidation, or any other event requiring adjustment to the total number of shares to be allocated after this Performance Share Unit Plan has been approved in AGM, the relevant total number shall be adjusted accordingly within a reasonable range.

(2) Share allotment and cash calculation methodology

The Company determines performance indicators (in the initial Performance Evaluation Period, the Company plans to use the profit as performance indicator which is one of the key indicators of Business Plan 2020) and others such as performance-linked figures for Performance Share Unit Plan which are necessary to specifically calculate the number of shares to be distributed, reviewed by the Advisory Panel on Nomination and Compensation of the Company.

In the specific calculation, the number of shares of the Company to be distributed to each Eligible Director is calculated based on the formula in (i) below (however, any fraction of less than one share shall be rounded down), and the amount of cash to be paid as funds for tax payment to each Eligible Director is calculated based on the formula in (ii) below. In the case of retirement or new appointment or alike during the Performance Evaluation Period, the number of shares of the Company or the amount of cash to be delivered to the Eligible Director, or his or her heir, may be adjusted reasonably as stipulated by the Company's Board of Directors. In case that the above total number of Company shares allotted to the Eligible Directors is exceeded by allotting the number of shares of the Company calculated based on the formula in (i) to each Eligible Director, the number of shares to be allotted to each Eligible Director shall be reduced by a reasonable method specified by the Company's Board of Directors, including a pro-rata basis, within a range not exceeding the maximum number of shares.

(i) Number of Company shares to be distributed to each Eligible Director

Basic number of share units (*1) X ratio of provision (*2) X 50%

(ii) Amount of monetary benefits to be paid to each Eligible Director

(Basic number of share units (*1) X ratio of provision (*2) – number of shares of the Company calculated in (i) above) X share price at the time of delivery (*3)

Notes:

*1 The number is determined by the Company's Board of Directors in accordance with duties of each Eligible Director and other factors.

*2 Payment ratio for the KPI is set in the range of 0-200% according to the achievement rate of each numerical target during the Performance Evaluation Period.

*3 The Share price will be set as 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 Company's Board of Directors, the closing price of the immediately preceding trading day will be used. This price of share will be decided by the Company's Board of Directors within a scope that is not particularly advantageous to the Eligible Directors.

(3) Pre-requisites for distribution

The Company shall provide the monetary remuneration claims and cash to Eligible Directors, and Eligible Directors are required to purchase the Company's common stocks with all the monetary remuneration claims received as contribution in kind, after the Performance Evaluation Period expires

and the following conditions for distribution of Company's common stocks are met.

- (i) Remaining in his or her term of office as Member of the Board or any other positions separately specified by the board of directors during the fiscal year subject to provision
- (ii) Non-existence of certain illegal acts
- (iii) Other requirements considered necessary, which are stipulated by the Board of Directors

(4) Handling in the case of reorganization

During the Performance Evaluation Period, if the Company becomes defunct due to merger or organization restructuring, the Company's Board of Directors may, prior to the effective date of the said organizational restructuring, decide to pay towards performance share units in accordance with the duration from the commencement date of the Performance Evaluation Period to the date of approval for the said organizational restructuring. However, in lieu of the aforementioned allocation of the Company's common shares, cash will reasonably calculated by the Company's Board of Directors as the amount equivalent to the said common shares, within the limit of the remuneration for the Performance Share Unit Plan.

Reference: Overview of Company’s New Executive Remuneration Outline

Details of the matter to be resolved at the Annual General Meeting (“AGM”) are described below. This proposal includes some contents that needs to be approved in the AGM.

1. Executive Remuneration Policy

In order to achieve sustainable profit growth and increase of company value over the mid- to long-term by pursuing the management principles of “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 Members of the Board and Executive Officers in response to inquiries. It also monitors whether our executive remuneration level is reasonable.

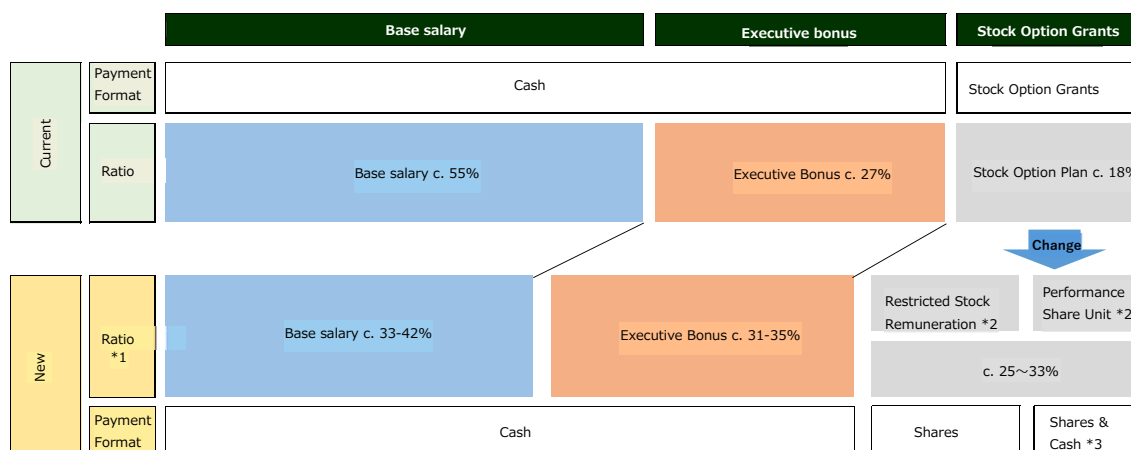
Based on the recommendation of the Advisory Panel on Nomination and Compensation, the key policy for the Company’s executive remuneration is as follows:

- (1) Set the remuneration at an adequate level to retain personnel with superior capabilities.
- (2) Link the remuneration to company performance so as to motivate executives to achieve their performance targets.
- (3) Link the remuneration to company value in the mid- to long-term.
- (4) Ensure transparency by implementing an objective and quantitative framework.

2. Executive Remuneration Structure

(1) Remuneration for the Members of the Board also serving as Executive Officers

Remuneration for the Members of the Board also serving as Executive Officers (“Eligible Directors”) comprises ‘base salary’, ‘executive bonus’, ‘restricted stock remuneration’ and ‘performance share unit remuneration’ as they are responsible for the achievement of assigned annual targets through their day-to-day management. On a 100% grant basis, the composition of executive bonus and performance share unit remuneration will be as per the following illustration.



Notes:

- 1. The composition ratios vary depending on the duties of Members of the Board and the ranges are indicated in the illustration.
- 2. The ratio of restricted stock remuneration and performance share units is about 3 to 1.
- 3. Under performance share unit 50% is paid as cash towards tax payment.
- 4. The above illustration is based on certain assumptions of the Company’s performance and the share price. The above ratios could fluctuate depending on the company performance and the share price.

(2) Remuneration for the Members of the Board who do not serve as Executive Officers (excluding Outside Directors)

Effective January 1, 2020, remuneration for the Members of the Board who don't serve as Executive Officers is composed of 'base salary' alone, as they are responsible for monitoring the execution of mid- to long-term growth strategy in addition to supervision of business and corporate activities.

(3) Remuneration for the Outside Directors

Remuneration for the Outside Directors is composed of 'base salary' alone and does not include performance linked compensation to ensure their independence.

(4) Remuneration for the Audit & Supervisory Board Members

Remuneration for the Audit & Supervisory Board Members is composed of 'base salary' alone in light of their key responsibility to conduct audits.

		Base salary	Executive bonus	Plan
Members of the Board (excluding Outside Directors)	Executive Officer	Applicable	Applicable	Applicable
	Not an executive Officer	Applicable	Not applicable	Not applicable
Outside Directors		Applicable	Not applicable	Not applicable
Audit & Supervisory Board Members		Applicable	Not applicable	Not applicable

3. Ceiling of the Total Executive Remuneration and Approval Process

The ceiling of the total amount of the annual aggregate remuneration towards all Members of the Board shall be 1.1 billion yen (including 80 million yen for Outside Directors), in addition the ceiling of the total amount remuneration towards restricted stock and performance share unit applicable for the Eligible Directors shall be 210 million yen (or 115,200 shares) and 130 million yen (or 76,800 shares) respectively.

Further, maximum amount of the annual aggregate remuneration towards all Audit & Supervisory Board Members was approved at our 34th Annual General Meeting and will not exceed 240 million yen.

The amount of remuneration for Members of the Board is benchmarked based on a survey of remuneration of directors conducted by third parties, based on 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- and long-term incentives, the amount of remuneration for each Member of the Board is decided by a resolution of the Company's Board of Directors, based on the deliberations of the Advisory Panel on Nomination and Compensation and within the maximum remuneration approved at an AGM.

The remuneration of Audit & Supervisory Board Members is also benchmarked in the same way, and is determined by deliberation among the Audit & Supervisory Board Members within the maximum remuneration approved at the Annual General Meeting.

4. Executive Remuneration Details

➤ Base salary

Executives will be remunerated with monthly base salary as per their responsibilities. From January 1, 2020, the Eligible Directors will be 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 Company's President and Chief Executive Officer 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 will not be applicable for the Company's President and Chief Executive Officer.

➤ Executive bonus

Executive bonuses for Eligible Directors will be paid as monetary remuneration reflecting the performance of a fiscal year. Adjusted operating profit at constant FX and profit results will be the performance indicators (KPI), which form the foundation of sustainable profit growth and shared value with the shareholders. Executive bonus will comprise of adjusted operating profit at constant FX and profit in the ratio of 75% and 25% respectively. Performance-linked payout will be based on the KPI achievement in the range of 0% - 200%.

➤ 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 stock). The transfer restrictions on the allotted shares will be lifted upon resignation of such Eligible Director from the Company's Board of Directors or any other position specified by the Company's Board of Directors.

➤ Performance Share Unit Plan

The 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. The Eligible Directors receive monetary compensation claims and cash after the Performance Evaluation Period, in accordance with the rate of achievement of performance and other multi-year performance targets during the Performance Evaluation Period. Advisory Panel on Nomination and Compensation deliberates and decides on the achievement rate of such targets for performance and other items during the Performance Evaluation Period. The remuneration for the performance share units will be disbursed at the end of the year as monetary remuneration claims and cash towards the acquisition of common stocks. Each of the Eligible Directors will receive the allocation of Company's common shares 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 stock). Profit will be set as a KPI for the Performance Stock Unit Plan starting in 2020, performance-linked payout will be based on the KPI achievement in the range of 0% - 200%.

Original					New				
	Remuneration amount	Members of the Board (excl. Outside Directors)		Outside Directors		Remuneration amount	Members of the Board (excl. Outside Directors)		Outside Directors
		Executive Officer	Not an Executive Officer	-			Executive Officer	Not an Executive Officer	-
Base salary	upto 1.2 billion yen (incl. 80 million yen for Outside Directors)	Applicable	Applicable	Applicable	Base salary	upto 1.1 billion yen (incl. 80 million yen for Outside Directors)	Applicable	Applicable	Applicable
Executive bonus		Applicable	Not applicable	Not applicable	Executive bonus		Applicable	Not applicable	not applicable
Stock option grants	upto 240 million yen Stock option grant upto 960 units (192,000 shares equivalent)	Applicable	Applicable	Not applicable	Restricted stock	upto 210 million yen (upto 115,200 shares)	Applicable	Not applicable	not applicable
					Performance share units	upto 130 million yen (upto 76,800 shares)	Applicable	Not applicable	not applicable
Total remuneration amount		1.44 billion yen			Total remuneration amount		1.44 billion yen		

Notes:

1. Items indicated in red are those to be approved at this AGM.
2. The total number of shares (upper limit) to be allotted under the restricted stock remuneration plan and the performance share unit plan is the same as the number of shares (192,000 shares) corresponding to the upper limit (960 units) of the stock acquisition rights set under the previous stock compensation-type stock option plan.
3. At this AGM, we also plan to introduce the Plan for the Company's Executive Officers, subject to the approval of shareholders.

###

Japan Tobacco Inc. is a leading international tobacco company with operations in more than 130 countries. With over 63,000 employees, it manufactures and sells some of the world's best-known brands including Winston, Camel, MEVIUS and LD. The JT Group is committed to investing in Reduced-Risk Products (RRP) and currently markets its tobacco vapor products under the Ploom brand and various e-cigarette products under the Logic brand. The Group is also present in the pharmaceutical and processed food businesses. For more information, visit <https://www.jt.com/>.

Contacts: Dinesh Babu Thotakura, General Manager
Keiko Nishimura, General Manager
Media and Investor Relations Division
Japan Tobacco Inc.
Tokyo: +81-3-5572-4292