GOVERNANCE

Enhancement of corporate governance is a key management priority for the JT Group as it continually works to improve.

This chapter provides an overview and outlines our initiatives to enhance Group governance, which supports all our business activities, setting out a framework for transparent, fair, timely and bold decision-making in pursuit of the 4S model.

Here, our Chairperson of the Board and Outside Directors explain details of board discussions and their work to enhance governance.

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Message from the Chairperson

Doing all we can to create a better future for the JT Group and our society as a whole

> Mutsuo Iwai Chairperson

I was elected to chair the Board of Directors of Japan Tobacco Inc. effective from the beginning of fiscal 2022. To keep building our corporate value, especially in an environment of constant, drastic change, it is vital that now, more than ever, we take our decisions and actions to the next level. Just as all our directors make the most of their respective skills and expert knowledge, I too will tap into my experience as deputy chair up to fiscal 2021 and as a leader in the Group's tobacco and processed food businesses for years before, and do my utmost to help cultivate our

corporate value over the mid to long term.

In meetings of the Board in fiscal 2021, we discussed an ideal operating model for sustainable profit growth, business strategies to that end, and corporate governance practices to help sustain them. We also considered ways to help make our society more sustainable, an essential condition for our own sustainable growth. Please let me now share some of what came out of those discussions.

A stronger operating model for the tobacco business

As of January 2022, the Company has introduced a new operating model that unifies our former Japanese-domestic tobacco business and international tobacco business. The Board of Directors approved this reorganization as a necessity for the Company's mid- and long-term growth. Further, our Outside Directors expressed strong support for it as well, emphasizing that this will facilitate the evolution of the initiatives we have been taking as a global company along more forward-looking lines.

At the same time, we made decisions on measures to

reinforce our competitiveness in the domestic market, including an early voluntary retirement program. The Board of Directors instructed Executive Officers to communicate the new measures to everyone in the Company in ways that will fuel motivation, assuring that employees affected by the new measures, especially those retiring early, are fully provided with care, and emphasizing that the success or failure of the new operating model depends on the awareness and actions of not just the management team but of each and every employee going forward.

2027 goals for RRP and HTS

While the Company will work to ensure sustainable growth on the strength of a unified tobacco business, it is important to clearly show our road map for success. In February 2022, we publicly announced the goals we aim to achieve by 2027. Ahead of this announcement, the Board had received reports

from executive officers on the status of RRP-related markets, product development, customer response to our products, and business risks. I understand that the tobacco business is steadily implementing global initiatives, and I hope to see yet further progress as we enhance investment under Business Plan 2022.

Revision of Shareholder Return Policy

VALUE CREATION

For sustainable profit growth over the mid to long term, Company policy balances profit growth with shareholder returns, with highest investment priority placed on growth of the tobacco business. In order to fully embody this established principle and moreover demonstrate our resolve to build shareholder returns through profit growth, we on the

Stronger corporate governance

I believe that ensuring the Company can achieve sustainable mid- and long-term profit growth – while assuring stakeholder interests and contributing, ultimately, to the development of our economy and society - necessitates further reinforcing corporate governance. In this context, the effectiveness of the Board of Directors, which is responsible for supervising all the Company's businesses, is especially important. For that reason, we assess the effectiveness of the Board every year, and proactively work to address any challenges revealed from the assessment results, so as to make our corporate governance practices even better. An Outside Director commented that the Company's Board is already far more effective than those of many companies, and yet we will commit ourselves to facing the challenges identified by our assessments and continue working to improve.

Building sustainability for our businesses and our society

Our businesses are rooted in interaction with the society in which we operate. This is why, for our sustainable growth, it is essential to contribute to social development through our business operations. Based on this understanding, the Company has made it a standard practice to involve the Board of Directors in the processes of setting sustainability goals, discussing specific measures to achieve them, and managing their progress. I believe this has borne impressive fruit, such as new targets for greenhouse-gas emissions, environmental goals concerning our products and packaging, and our target ratio for women in management, as well as the JT Group's recent first report on human rights, which summarizes our initiatives in this area, especially regarding our tobacco business. The Group's progressive initiatives have met with resounding support from our Outside



We also place high value on our discussions with stakeholders, including those representing the capital markets, as well as a range of monitoring results, and continually create opportunities to hear shareholder opinions through dialogue about our ESG responsibilities. The suggestions we receive through these initiatives lead to discussion by the Board on how to improve. For example, in fiscal 2021 we decided to revise our KPI related to executive remuneration so as to encourage sharing with investors at a deeper level, and strengthen our commitment to growth over the medium and longer terms.

- > For details about assessments of Board effectiveness and our initiatives for improvement, see P. 96
- ▶ For details about executive remuneration, see P. 98.

Directors, and I myself feel confident about them as well.

- At the same time, I recognize the strong interest the capital markets are demonstrating in what the Company is working to achieve over the long term and our strategies for success. The Board maintains close contact with our Executive Officers to ensure that any insights are applied to our operations.
- In light of our changing environment, popular interest in the sustainability of our businesses as well as the society wherein they operate will only grow. The JT Board of Directors will continue our utmost effort, through dialogue with our stakeholders, to help build a better society in which the Group can sustainably grow.

VALUE CREATION

Messages from Outside Directors



Main Kohda Independent Outside Director

I will do my utmost to help JT win better understanding among our stakeholders.

I have long held a very positive evaluation of the JT Group as an organization that is highly aware of its own need for self-transformation. I particularly value its commitment to carefully and comprehensively designing initiatives to enhance its operating model and optimizing its workforce with further growth in mind, constantly challenging itself and never being satisfied with the status quo. Under pandemic conditions these initiatives have required decisions that are far more consequential than is normally the case, but I believe that they have been the right decisions for cultivating the mid- to longterm growth of the Group.

In terms of sustainability, the JT Group maintains an ambitious approach relative to the industry as a whole, and I expect it will follow through on those initiatives to steadily achieve the goals set out in its sustainability strategy. As market interest in corporate ESG responsibilities rises, it is essential for us to maintain good communication with investors to foster their positive evaluation of the Group's efforts, based on the understanding that we see sustainability as an investment rather than a cost. I will do my best to facilitate these endeavors.



Masato Kitera Independent Outside Director

prise the JT Group.

I vividly remember the days during my stay in Geneva, 20 years ago, when I learned about JT's global businesses and ambitious M&A strategies. The environment surrounding JT today is very different. The global environment has changed substantially just in the past few years, with the pandemic and emerging geopolitical risks. To win the understanding of investors and other stakeholders under these circumstances, we must effectively articulate our management team's directions for the Company, as well as our determination to pursue them, in the most supportive ways.



Yukiko Nagashima Independent Outside Director

I am committed to supporting the JT Group to embrace the kind of organizational evolution demanded by frequent and unanticipated change.

Currently, the JT Group is conducting in-depth discussions regarding its purpose and what it wants to become in the future. Above and beyond the specific attributes of our vision, what I think is important in these kinds of discussions is how its ethos is reflected in the wavs we conduct our business, and whether all employees have a sense of ownership in that. Only with that accomplished, I think, will we truly become what we want to be. While I understand that the Executive Officers are already attending to this carefully, as a director, I want to help chart our vision of the future as set out in the midterm Business Plan, incorporating each business and in sync with the purposes of the Group.

It is also important for the Board of Directors to pursue further discussion, from a long-term perspective, on such key topics as what the Company aims to become. Concerning the assessment of the effectiveness of the Board, I can confirm that the necessary processes have been well executed, and the results are being fed back to the Board. Improving our discussions from a long-term perspective has been identified as a challenge for 2022 and beyond. I will endeavor to help enhance initiatives to support the Board in carrying forward, and improving, its work for sustainable growth of the JT Group.



Tetsuya Shoji Independent Outside Director

If everything seems under control, you're not going fast enough.

I have only recently been selected as an Outside Director of the JT Group, but I understand that today's capital market expects JT to demonstrate how it will achieve and maintain sustainable growth in a rapidly and radically changing business environment. Originally a public corporation, JT has evolved through many changes, not least of which was privatization, to become what it is today – but I believe that bolstering the confidence of the capital market necessitates that it continues to evolve and transform.

While working for Nippon Telegraph and Telephone, another formerly public corporation, I experienced major transformation as well. The mindset I adopted to handle that process is encapsulated by the quote



JT has adjusted its performance indicators for executive remuneration to better integrate its initiatives for mid- to longterm growth and to more thoroughly share our values with shareholders. This is nothing less than a strong commitment from management. The recent inclusion of non-financial indicators is especially positive, and we will ensure that our assessment framework functions as intended and remains easy for stakeholders to understand.

from racing driver Mario Andretti above, describing what I believe is an ideal mindset for facing change. Based on personal experience, I believe that it is essential for a company not to settle for the status quo, but rather to constantly challenge it, or, as I like to phrase it, "to advance, lead and maintain an international perspective."

It is vital to make a habit of continually evolving and updating both ourselves and our work. As a member of the Board, I will work with the management team to rise to the challenge of breaking free of complacence, and fostering sustainable growth and development for the Group as it continues to hone the high-quality technology and innovative expertise it has been cultivating for all these years.

Corporate governance

Corporate governance structure

Our corporate governance system



Basic policy

The JT Group believes that corporate governance is a framework for transparent, fair, timely and decisive decision-making in pursuit of the 4S model, our management principle. Pursuing the 4S model means striving to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these key stakeholder groups, and exceeding their expectations wherever we can.

We have established the JT Corporate Governance Policy in recognition that improvement in corporate governance is conducive to sustainable profit growth and corporate value over the mid to long term, benefits our stakeholders and, in turn, helps to move the economy and society forward. We believe that the Corporate Governance Code has high affinity with the 4S model, and fully comply with the principles of the Corporate Governance Code, which has been revised in June 2021 to include the principles of the Prime Market. We will endeavor to continuously enhance our corporate governance as a key management priority.

Please visit our website for more on the JT Corporate Governance Policy.

Rationale behind current governance regime

We are strengthening objective and impartial management oversight functions by positioning an independent and fair Audit & Supervisory Board that appropriately oversees the job performance of Executive Officers and Members of the

Board (hereinafter Directors).

We have built an effective corporate governance regime under the Audit & Supervisory Board's oversight. It includes the JT Group Compliance Committee and the Advisory Panel on Nomination and Compensation, both established voluntarily. The former has outside experts serving in key roles; the latter is comprised entirely of Directors who do not serve as Executive Officers, and more than half of its members are independent Outside Directors. We have also streamlined our Board of Directors and expedited operational execution by delegating authority to Executive Officers.

VALUE CREATION

Board of Directors (met 13 times with 100% attendance rate in fiscal 2021)

Our Board of Directors is responsible for setting JT Group management strategies, making decisions on important matters and overseeing all operations. The Board meets once monthly as a general rule, and meets promptly whenever 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. It also receives reports on the state of operational execution from the Directors. It includes at least one-third of independent Outside Directors with gualifications conducive to sustainable profit growth and the increase of corporate value in the mid to long term in order to strengthen the supervisory

Advisory Panel on Nomination and Compensation (met 5 times with 100% attendance rate in fiscal 2021)

The Advisory Panel on Nomination and Compensation's purpose is to render the Board's decision-making more objective and transparent, and to upgrade the Board's oversight functions by having the Board deliberate on executive appointment and remuneration in accordance with results of deliberation in the Panel. Its specific roles include supporting the growth, including succession plans, of executive candidates; deliberating on selection of nominees for seats on the Board of Directors and Audit & Supervisory Board and dismissal of designated Directors and Directors also serving as Executive Officers; and reporting the results of deliberation on remuneration of Directors and Executive Officers. In order to ensure its independence and objectivity,

Audit & Supervisory Board (met 15 times with 100% attendance rate)

The Audit & Supervisory Board conducts operational and accounting audits as an independent body serving the interests of shareholders. It has five members, three of whom are outsiders, all of whom have experience in such fields as corporate management, law, finance, and accounting. The Audit & Supervisory Board members proactively exercise their authority, including attending and speaking at Board of Directors



We continuously seek to improve corporate governance and increase management transparency and objectivity through, for instance, the appointment of an additional Outside Director and outside Audit & Supervisory Board member in 2019 and further appointment of an additional Outside Director in March 2022. Through such measures, we settled upon our current corporate governance regime as we believe it functions effectively with respect to operational execution and oversight.

functions and make management transparent.

In March 2022, we amended the term of the Board of Directors to one year from the previous two-year term in order to build a management foundation to address the changes in the business environment in a timely manner and to strengthen our corporate governance by clearly defining the responsibilities of the Directors and enhancing trust with shareholders. The Board discussed important matters including the Business Plan and nomination of Executive Officers in 2021.

the Panel is comprised entirely of Directors who do not serve as Executive Officers, in which more than half of its members are independent Outside Directors. The Panel determined to elect a member from the independent Outside Directors as its Chairperson starting March 2022. Ms. Main Kohda was elected as the Chairperson for FY2022 term. In 2021, it met to specify the skills required of the Board of Directors; discuss the development of a skills matrix; review remuneration levels; review executive candidates; deliberate on candidates for the Board of Directors nominations; and review the key performance indicators (KPIs) for the executive bonus and performance share units for FY2022.

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 independent outside/ standing Audit & Supervisory Board members. In 2021, the Audit & Supervisory Board discussed issues including auditing policies and preparation of Audit Report.

Evaluation of effectiveness of the Board of Directors

We annually evaluate the effectiveness of our Board of Directors 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 as necessary to delve deeper into their questionnaire responses and compile the evaluation results. Lastly, the Board reviews and analyzes the self-assessment results with the aim of further improving its effectiveness. We take advice from external consultants in drafting the questionnaire and analyzing the results in order to ensure objectivity and further improve the evaluation process.

The evaluation items are as follows.

Board operations	Composition (ratio between inside and outside members; diversity), Performance (frequency; strin- gency of agendas; pre-meeting briefing), Support & Coordination (coordination among Directors, Audit & Supervisory Board members and internal auditing department; utilization of committees; information-sharing outside Board), Discussion (fair and swift decision-making in line with man- agement principle; unrestricted discussion), etc.
Oversight function	Reporting methods on business operations, Risk management system, Increase in awareness of compliance, Process of determining executives' remuneration, Succession planning, etc.
Dialogues with sharehold- ers and investors	Sharing opinions from shareholders and investors, Optimization of dialogue methods, etc.

The Board effectiveness evaluation for 2020 yielded generally positive results across all evaluation items as continuing from 2019. 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. The areas of improvement include ones related to the Board's operations to further enhance discussions, and ones to further increase information-sharing that could contribute to in-depth discussions on corporate governance and further enhancements of the quality of the Board's decision-making. In addition, the Board has incorporated the ongoing impact of the COVID-19 pandemic on the Company's business and worked on making the following improvements throughout 2021.

- Effective and efficient operations of the Board of Directors aimed to further enhance discussions
- Continued to hold detailed pre-meeting briefings regarding material matters
- Secured sufficient deliberation time by allocating appropriate time for each agenda

- Continued online Board meetings and improved the meeting operations
- Further enhancement in discussions and information sharing for better-quality decision-making by the Board
- Shared enriched information on the following matters:
- Updates on material measures concerning mid- to longterm strategies
- Updates on material measures and verification of their effectiveness
- Updates on corporate governance and its future policies
- Updates on dialogues with shareholders and investors
- COVID-19 pandemic's impact, countermeasures, and updates on Group employees and each business

As with the previous year, the results of the Board's evaluation on its effectiveness in 2021 provided generally positive feedback and exhibited improvements in the categories mentioned above. Even 2022 onwards, the Board will continue to pursue improvements required for the issues listed below, in order to continuously enhance its effectiveness.

Our action plans going forward

• Enhancement of discussions from longterm perspective

Key issues

Continued improvements in Board of Directors operations Further expansion of opportunities to discuss mid- to long-term strategies, etc. Further expansion of progress reporting and information sharing on key measures, etc.

Succession planning

We place priority on fostering successive generations of executives who will manage our future operations, expanding our pool of executive candidates and improving its quality.

To develop a steady stream of highly skilled, highly qualified leaders capable of excelling in the global arena, we select future executive candidates from each hierarchy through Group-wide open recruitment and nomination by top management. Our CEO, along with other senior management, are deeply involved in these selections. Our CEO participates in meetings held to support the next generation executives. In these meetings, participants discuss which candidates receive support to become the next generation executives based on several factors. The first factor is based on close examination of whether they have an excellent mind of ownership, corresponding to a high sense of ethics, integrity and a broad perspective. The second factor is based on their qualifications in terms of their abilities to accomplish achievements through our Group's growth strategies as an executive or executive officer. Other factors include the consideration of objective, external evaluation and competitiveness in markets. We also formulate development programs, which provide a variety of challenging business experiences; review statuses of development based on the

Our policy pertaining to listed subsidiary's governance

We have a publicly-listed subsidiary, namely Torii Pharmaceutical Co., Ltd. (hereinafter Torii), in light of the management benefits of owning 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, we have built an integrated value chain to collaborate efficiently with each other. Specifically, we conduct R&D while Torii handles manufacturing, sales and promotional activities. From a Group-wide perspective, we continue to optimize our pharmaceutical business model and deepen collaboration between JT and Torii by, for instance, having consolidated all R&D and clinical development functions into JT. $\langle \langle \hat{h} \rangle \rangle$



Especially for those who are regarded highly qualified as our directors or Audit & Supervisory Board members, we review their development status and deliberate to enhance a succession plan and its planning process with input from both external consultants and the independent Outside Directors on our Advisory Panel on Nomination and Compensation.

As one example, our JT-Next Leaders Program, launched in 2013, aims to continuously cultivate young executives who will spearhead the JT Group globally. It is open to employees in their 30s or younger, including new recruits not yet officially onboarded. Applicants are screened objectively based on an integrated assessment with internal/external evaluation, such as human assessment, 360-degree surveys, and interviews with Executive Officers. We preferentially support the successful applicants' personal growth on a Group-wide basis over multiple years. Through such programs, we are expanding our talent pool from the bottom up age-wise as we continue to pursue reinforcement of our human resources.

In regard to owning a listed subsidiary, we believe 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, we are striving to build an appropriate governance regime for Torii as a listed subsidiary.

We have 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 Annual General Meeting of Shareholders on March 26, 2020.

Executive remuneration

Executive remuneration policy

The Board determines the policies on executive remuneration including the methodology on determination of each Director's remuneration. These policies are determined after being deliberated and reported by the Advisory Panel on Nomination and Compensation comprised entirely of Directors who do not serve as Executive Officers, in which more than half of whose members being independent Outside Directors, in order to ensure independence and objectivity. Based on these policies, our basic concept on executive remuneration is as follows:

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

Executive remuneration setting process

We benchmark the amount of remuneration for each Director based on a survey on remuneration for directors conducted by third parties, taking into account the remuneration levels of major Japanese manufacturers with similar sizes and profits that are expanding overseas. Specifically, after benchmarking the level of base salaries for directors of peer companies, and the percentage of variable remuneration including annual bonuses and mid- to long-term incentives, the amount of remuneration for each Director is determined following various calculation methods stipulated in internal regulations, based on deliberations at the Advisory Panel on Nomination and Compensation, within the maximum amount approved at the Annual General Meeting. Currently, the Board considers that the Representative Director and President is most qualified to determine the amount of remuneration for each Director with having an overview of the Company's management and performance as well as taking into account the evaluation on each Director's execution of duties. Based on this concept, the

Board delegates its determination to the Representative Director and President. The Representative Director and President determines the amount of remuneration for each Director including base salary, executive bonus, monetary compensation claims for the allotment of restricted stock remuneration and of performance share unit, based on various calculation methods stipulated in internal regulations, in accordance with deliberation at the Advisory Panel on Nomination and Compensation. The Board concludes the Representative Director and President's determination is aligned with the policies. In 2021, Masamichi Terabatake, the Representative Director and President, determined the amount of remuneration.

The remuneration for 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 amount approved at the Annual General Meeting.

Composition of executive remuneration

Executive remuneration comprises of (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 composition of executive remuneration is as follows.

Directors who also serve as Executive Officers

The remuneration is composed of base salary, executive bonus, restricted stock remuneration plan and performance share unit plan (PSU), as shown by percentage terms in the diagram below, assuming baseline amounts for executive bonuses and PSU. This composition reflects that their role is to achieve performance targets through day-to-day operational execution.

	Base salary	Short-term incentive	Mid- to long-t	erm incentive
Respective shares*1	Base salary Approx. 33~42%	Executive bonus	Restricted stock remuneration* ²	PSU*2
	Appiox. 55~42%	Approx. 31~35%	Approx. 25~33%	
Payment method	Cash		Shares	Shares & cash* ³

*1 Respective shares of total remuneration vary depending on each director's duty, as shown by the range in the diagram. *2 The ratio of restricted stock remuneration to PSU is 3:1

*3 50% of the total amount of PSU is paid in cash for tax payment budget

*4 The diagram above is based on the Company's assumptive performance and share price. Respective shares fluctuate in accordance with the fluctuations of the performance and share price.

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 determining group-wide management strategies to enhance corporate value and for fulfilling their supervisory function: for example, monitoring the execution of mid- to long-term growth strategies, and others.

Components of executive remuneration

Base salary

Executives are remunerated with a monthly base salary as per their responsibilities. They are individually evaluated on 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 the year. The base salary for the following fiscal year will be set within a certain range reflecting the individual performance evaluations. However, an individual performance evaluation is not applicable for the Group CEO.

Executive bonus

An executive bonus for Directors who also serve as Executive Officers is paid as monetary remuneration reflecting the performance in the fiscal year. Adjusted operating profit at constant FX and profit (attributable to the owners of the parent company) are the key performance indicators (KPI), respectively weighted at 75% and 25% in calculating the amounts of executive bonuses. Performance-linked payout is based on the KPI achievement in the range of 0% to 200%. In the event that we acknowledge that a Director who is a recipient of a bonus has conducted wrongful

Outside Directors

Remuneration for Outside Directors is composed of "base salary" alone and does not include performance-linked compensation to ensure their independence. An Outside Director who serves as the Chairperson of the Advisory Panel on Nominations and Compensation receives remuneration at a level of the amount corresponding to the duty, in addition to the remuneration level of other Outside Directors.

FINANCIAL INFORMATION / OTHERS

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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.

behavior, a part of the received bonus is subject to return to the Company.

Starting from FY2022, we have decided to introduce core revenue at constant FX, adjusted operating profit on a reported basis and an RRP (Reduced-Risk Products)-related index as new KPIs on top of its existing KPI. Core revenue at constant FX, adjusted operating profit at constant FX, adjusted operating profit on a reported basis, and profit are the KPI, weighted at 15%, 35%, 25% and 25%, respectively. Performance-linked payout is based on the KPI achievement and is in the range of 0% to 190% with either -10%, 0% or +10% added/deducted to results depending on evaluations of the RRP-related index.

Restricted Stock Remuneration Plan

The Restricted Stock Remuneration Plan is designed to further enhance shared value in the mid to long term between the Directors who also serve as Executive Officers (hereinafter eligible directors) and the shareholders. Eligible directors receive monetary compensation claims every fiscal year towards restricted shares and allocation of the Company's common share by paying all of the monetary compensation claims in kind in accordance with the resolution of the

Corporate governance

Board of Directors (the allotment being made from treasury shares). The Company enters into an agreement with the eligible directors with regards to the allotment of the shares. Although the restriction period is thirty 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 are removed on all of the allotted shares that the eligible director owns.

In the event that we acknowledge wrongful behavior as determined by the Board or any other wrongful act 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 (PSU)

PSU is a performance-linked stock compensation system that aims to strengthen shared value with shareholders, to enhance company value over the mid to long term and to commit to achieving business results over the mid-term. PSU offers monetary remuneration claims and cash to the Directors who also serve as Executive Officers during the first year of the performance evaluation period, as performance-linked stock compensation. After a three-year performance evaluation period ends, attainment rates of numeric targets including earnings 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 receive monetary remuneration claims towards the purchase of Company shares and receive the Company's common shares (the allotment is made from the treasury shares).

We determine necessary indices to calculate the number of shares given to eligible directors including each numeric target used in this compensation system and performance-linked factors following a review by the Advisory Panel on Nomination and Compensation. Profit (attributable to the owners of the parent company) has been set as a performance share unit plan KPI for the evaluation periods starting in 2020 and 2021. For the evaluation period starting in 2022, we have decided to introduce an ESG-related index on top of profit. Performance-linked payout is set to be in the range of 0% to 200% based on the KPI (i.e., profit) achievement in both 2020 and 2021. In 2022, performance-linked payout is set to be in the range of 0% to 190% based on the KPI (i.e., profit) achievement and either -10%, 0% or +10% is added/deducted to results depending on evaluations of the ESG-related index.

In the event that we acknowledge wrongful behavior as determined by the Board or any other wrongful act 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 were planned to be paid.

KPIs for executive remuneration

From 2022 onwards, we have introduced new indices such as one on a reported basis and non-financial to design a more multifaceted system for assessing our performance. We aim to evaluate our initiatives conducive to mid- to longterm growth and further strengthen the shared value with

shareholders. With this revision, the ratio that performance on a reported basis accounts for in the KPIs used to determine executive bonuses, our short-term incentive, has increased to 50%.

Executive	bonus		
	KPI	Purpose/Details	Ratio
Existing	Adjusted operating profit at constant FX	Assess performance of business itself which is foundation of sustainable profit growth	35%
	Profit	Introduced to share attainment rate of profit growth with shareholders	25%
Newly- added	Core revenue at constant FX	Assess growth rate of top line. This KPI is introduced given significance of assessment of top- line growth to realize mid- to long-term sustainable profit growth	15%
audeu	Adjusted operating profit on reported basis	Assess business performance including FX impact. This KPI is introduced to assess current performance from multifaceted perspective considering balance between constant FX basis and reported basis	25%
	RRP-related index	Assess qualitatively implementation of strategies and attainment rate regarding RRP (Reduced-Risk Products), our focus area	±10%

PSU		
	KPI	
Existing	Profit	Introduced to share attainment rat
Newly- added	ESG-related index	Introduced in order for us (evaluat what is conducive to corporate val In 2022, we adopted our progress specifically target attainment rates

Total amount of remuneration in 2021

	Total amount (JPY MM)	Total amount by component (JPY MM)				– Numbers
Category		Base salary	Executive bonus	Restricted stock remuneration	PSU	(persons)
Directors (excluding Outside	1.405	102	5.40	101	102	
Directors)	1,405	482	549	191	183	6
Audit & Supervisory Board						·
Members (excluding outside	83	83	_	_	_	2
members)						
Outside Executives	133	133	_		_	7
Total	1,621	698	549	191	183	15

Notes: 1. The amount of PSU in the diagram is the amount booked as expenses for 2021. 2. Executive bonus and PSU are categorized as performance-linked remuneration. 3. Restricted stock remuneration and PSU are categorized as non-monetary compensation. 4. The diagram above includes a Director who resigned on March 24, 2021.

Maximum amount of executive remuneration

The maximum total amount of executive remuneration for all Directors is 1,100 million yen per year (of which 100 million yen is set for Outside Directors). This amount comprises base salary and executive bonus. The maximum total amounts of restricted stock remuneration and PSU for the Directors who also serve as Executive Officers are 210 million

	37th Annual General Meeting on March 23, 2022			
		Internal E		
	Total amount	Who also serve as Executive Officers	Who do not serve as Executive Officers	Outside Executives
Base salary	Within 1,100 million yen	0	0	0
Executive bonus	(100 million yen for Outside Directors)	0	—	—
Restricted stock remuneration	Within 210 million yen Within 115,200 shares	0	_	_
PSU	Within 130 million yen Within 76,800 shares	0	_	_
Total	Within 1,440 million yen			



yen per year (115,200 shares) and 130 million yen per year (76,800 shares), respectively. The maximum total amount of remuneration for the Audit & Supervisory members is 240 million yen per year for all of the members. These maximum amounts are all approved at the Annual General Meetings.

BUSINESS and

Management structure

Directors and Members of the Audit & Supervisory Board

Ten Directors (including four Outside Directors) The Directors marked with * also serve as Group Executive Officers



Mutsuo Iwai	A
Chairperson of the Board	Ju
Date of birth: October 29, 1960 Number of shares held: 36,000	Ju
	Ju

April 1983	Joined the Company (Previously, Japan Tobacco and Salt Public Corporation)	January 2016	Senior Vice President; and President, Tobacco Business
June 2003	Vice President, Corporate Planning Division	March 2016	Representative Director and Executive Vice President; and President, Tobacco
July 2004	Vice President, Corporate Strategy Division	January 2020	Business Member of the Board
June 2005	Senior Vice President; and President, Food Business	March 2020 June 2020	Deputy Chairperson of the Board Outside Director, Benesse Holdings, Inc.
June 2006	Member of the Board; Senior Vice President: and President. Food Business	June 2021	(Current Position) Outside Director, TDK Corporation
June 2008	Senior Vice President; and Chief Strategy Officer	March 2022	(Current Position) Chairperson of the Board (Current
June 2010	Member of the Board; Senior Vice		Position)
	President; Chief Strategy Officer; and President, Food Business	5	ncurrent Positions Outside the Company tor, Benesse Holdings, Inc.
June 2011	Member of the Board, Japan Tobacco Inc. Executive Vice President, JT Internation- al S.A.	Outside Direc	tor, TDK Corporation
June 2013	Senior Vice President; and Chief Strategy Officer		
April 1983	Entered the Ministry of Finance (herein- after the Ministry)	July 2018	Administrative Vice Minister, the Minis- try (Retired from the office in July 2020)
July 2001	Head of Management Office, General Coordination Division, Planning and Coor-	June 2021	Outside Audit & Supervisory Board Member, Yomiuri Land Co., Ltd. (Current



2	Shigeaki
	Deputy Chai Board
	Date of birth: Fe
	Number of shar

aki Okamoto	April 1983
Chairperson of the	July 2001
irth: February 20, 1961 of shares held: 0	July 2002

July 2004

July 2006

April 1989

July 2005

July 2008

June 2011

June 2012

June 2013

Entered the Ministry of Finance (herein-
after the Ministry)
Head of Management Office, General
Coordination Division, Planning and Coor-
dination Bureau, Financial Services Agency
Director for Supervisory and Financial
Risk Stabilization Management, General
Coordination Division, Supervisory
Bureau, Financial Services Agency
Director of Research Division, Budget
Bureau, the Ministry
Director for the Budget Bureau, Planning
LATER REPORT OF THE COLOR

	and Authinistration Division of budget
	Bureau, the Ministry
July 2009	Head of Secretariat Division, Minister's
	Secretariat, the Ministry
August 2012	Deputy Director-General of the Budget

Bureau, the Ministry July 2015 Deputy Vice Minister, the Ministry July 2017 Director-General of the Budget Bureau, the Ministry

Joined the Company

Division

Officer

Inc.

Vice President, Secretary's Office

Vice President, Corporate Strategy

Senior Vice President; Chief Strategy

Member of the Board, Japan Tobacco

Officer; and President, Food Business

Senior Vice President; and Chief Strategy

Yomiuri Shimbun Osaka Head Office Outside Audit & Supervisory Board Member, The Yomiuri Shimbun Seibu Head Office

Member, The Yomiuri Shimbun Osaka Head Office (Current Position) Outside Audit & Supervisory Board

Member, The Yomiuri Shimbun Seibu Head Office (Current Position)

al S.A. January 2018 President and Chief Executive Officer March 2018 Representative Director and President,

Position) December 2021 Outside Audit & Supervisory Board

March 2022 Deputy Chairperson of the Board

Significant Concurrent Positions Outside the Company

Outside Audit & Supervisory Board Member, Yomiuri

Outside Audit & Supervisory Board Member, The

(Current Position)

Land Co., Ltd.

tion) Significant Concurrent Positions Outside the Company



(As of March 23, 2022)

Chief Executive Officer (Current Posi-

Chairman and Managing Director, JT International Group Holding B.V.



sidenty effert manelar officer
nmunications
ntative Director and Executive
sident: Finance and Cornorate

Communications (Current Position) Significant Concurrent Positions Outside the Company

Supervisory Board Member, JT International Holding B.V.



Kiyohide Hirowatari Representative Director and **Executive Vice President** Date of hirth: November 11, 1965 Number of shares held: 47,700

VALUE CREATION



Kazuhito Yamashita Director Date of birth: February 4, 1963 Number of shares held: 33,100

Main Kohda

Director (Independent Out-Date of birth: April 25, 1951 Number of shares held: 0



Yukiko Nagashima Director (Independent Out-Number of shares held: 0

r i*	April 1989 July 2010 June 2012	Joined the Company Vice President, Legal Division Senior Vice President; Chief Legal Offi-	March 2018	Representative Director and Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT,
d		cer; and Vice President, Legal Division		CSR, Human Resources and Operation
	July 2014 January 2015	Senior Vice President; and Chief Legal Officer Senior Vice President; Head of Tobacco Business Planning Division, Tobacco	January 2019	Review & Business Assurance Representative Director and Executive Vice President, Corporate, Pharmaceuti- cal and Processed Food Businesses
	,	Business Senior Vice President, Human Resources Executive Vice President, Compliance, General Affairs, Legal, Corporate Strategy, IT, CSR, Human Resources and Operation Review & Business Assurance	January 2022	Cal and Processed Food Businesses Representative Director and Executive Vice President, Corporate, Sustainability Management, Pharmaceutical and Processed Food Businesses (Current Position)
a*	April 1986 May 2007	Joined the Company Vice President, Corporate, Scientific & Req-	January 2019	Senior Vice President, Compliance, Sustain- ability Management and General Affairs
	July 2009	ulatory Affairs Division, Tobacco Business Vice President, Corporate Affairs Divi-	March 2019	Member of the Board and Senior Vice President, Compliance, Sustainability
	June 2010	sion, Tobacco Business Senior Vice President; and Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	January 2022	Management and General Affairs Member of the Board and Senior Vice President, Corporate Governance and Compliance (Current Position)
	January 2015	Senior Vice President; and Head of China Division, Tobacco Business		Compliance (Current Position)
	September 1995	Started independently as novelist (Current Position)	June 2012	Outside Director of the Company (Current Position)
	January 2003	Member of Financial System Council, the Ministry of Finance	June 2013	Outside Director, LIXIL Group Corpora- tion
	April 2004	Visiting Professor, Faculty of Economics, Shiga University	June 2016	Outside Director, Japan Exchange Group, Inc. (Current Position)
	March 2005	Member of the Council for Transport Policy, the Ministry of Land, Infrastruc-	June 2018	Outside Director, Mitsubishi Motors Corporation (Current Position)
	November 2006	ture, Transport and Tourism Member of the Tax Commission, Cabinet Office, Government of Japan	Novelist	ncurrent Positions Outside the Company tor, Japan Exchange Group, Inc.
	June 2010	Member of the Board of Governors, Japan Broadcasting Corporation		tor, Mitsubishi Motors Corporation
1	April 1985	Joined Recruit Co., Ltd. (Current Recruit Holdings Co., Ltd.)	March 2019	Outside Director of the Company (Current Position)
	April 2006 January 2008	Corporate Executive Officer, Recruit Co., Ltd. President and Representative Director, Recruit Staffing Co., Ltd.	June 2021	Outside Audit & Supervisory Board Member, Sumitomo Corporation (Cur- rent Position)
	October 2012 June 2016	Corporate Executive Officer, Recruit Holdings Co., Ltd. Standing Audit & Supervisory Board	Standing Audi	ncurrent Positions Outside the Company t & Supervisory Board Member, Recruit
	Julie 2010	Member, Recruit Holdings Co., Ltd. (Current Position)	Holdings Co., I Standing Audi Co., Ltd.	t & Supervisory Board Member, Recruit
	April 2018	Standing Audit & Supervisory Board Mem- ber, Recruit Co., Ltd. (Current Position)		& Supervisory Board Member, Sumitomo
	April 1976	Entered the Ministry of Foreign Affairs (hereinafter the Ministry)	April 2016	Ambassador Extraordinary and Plenipo- tentiary of Japan to the French Republic
	January 2008	Director-General for Sub-Saharan Afri- can Affairs, Middle Eastern and African Affairs Bureau, the Ministry	June 2016	Ambassador Extraordinary and Plenipoten- tiary of Japan to the French Republic, Princi- pality of Andorra and Principality of Monaco
		Secretary General, the Fourth Tokyo International Conference on African	April 2020	(Retired from the position in December 2019) Adviser of the Company
	July 2008	Development Director-General, International Coopera- tion Bureau, the Ministry	June 2020	Outside Director, Marubeni Corporation (Current Position) Outside Director, Nippon Steel Corpora-
	,	Deputy Vice-Minister, the Ministry Assistant Chief Cabinet Secretary	March 2021	tion (Current Position) Outside Director of the Company
	November 2012	Ambassador Extraordinary and Plenipoten- tiary of Japan to People's Republic of China	Outside Direct	(Current Position) ncurrent Positions Outside the Company tor, Marubeni Corporation tor, Nippon Steel Corporation
	April 1977	Joined Nippon Telegraph and Tele-	June 2020	Corporate Advisor, NTT Communica-
ut-	June 2006	phone Public Corporation Senior Vice President and General Manager of the Personnel Department, Nippon Tele-	March 2021	tions Corporation (Current Position) Outside Director, Sapporo Holdings Limited (Current Position)
	June 2009	graph and Telephone West Corporation Senior Vice President and Head of General Affairs, Nippon Telegraph and	June 2021	Outside Director, Hitachi Zosen Corpo- ration (Current Position) Outside Director, Mitsubishi Logistics
	June 2012	Telephone Corporation Senior Executive Vice President and Representative Member of the Board,	March 2022	Corporation (Current Position) Outside Director of the Company (Current Position)
	June 2015	NTT Communications Corporation President & CEO and Representative Member of the Board, NTT Communica-	Corporate Adv Outside Direct	ncurrent Positions Outside the Company /isor, NTT Communications Corporation tor, Sapporo Holdings Limited tor, Littachi Zoson Comparation
	October 2010	tions Corporation	Outside Direct	tor, Hitachi Zosen Corporation





Naohiro Minami* Representative Director and Executive Vice President Date of birth: January 21, 1964 Number of shares held: 48,300

Masamichi Terabatake*

Representative Director and

President, Chief Executive

Date of birth: November 26, 1965

Number of shares held: 132,700

Officer

April 1986	Joined the Company
December 2005	5 Controller
July 2010	Deputy Chief Financial Officer; and
	Controller
June 2012	Senior Vice President; Chief Financial
	Officer; and Controller
July 2012	Senior Vice President; and Chief Finan-
	cial Officer
January 2018	Executive Vice President, Chief Financial
	Officer and Communications

March 2018	Representative Director and Executive Vice President, Chief Financial Officer
	and Communications
January 2022	Representative Director and Executive

Vice President; Finance and Corporate



Tetsuya Shoji	April 197
Director (Independent Out- side Director)	June 200
Date of birth: February 28, 1954 Number of shares held: 0	June 200

side Director)

side Director) Date of birth: April 4, 1961

side Director)

Date of birth: October 10, 1952

Number of shares held: 0

Masato Kitera Director (Independent Out-



October 2018 Representative Member of the Board, NTT, Inc. Outside Director, Mitsubishi Logistics Corporation

Integrated Report 2021

VALUE CREATION

Management structure

Five Audit & Supervisory Board Members (including three Outside Audit & Supervisory Board Members) (As of March 23, 2022)

April 1987

July 2008

June 2012



Ryoko Nagata
Standing Audit & Supervisory Board Member
Date of birth: July 14, 1963 Ferm of office: 4 years from March 2019 Number of shares held: 12,400

Hiroshi Yamamoto

Standing Audit & Supervisory

Term of office: 4 years from March 2019

Standing Audit & Supervisory

(Independent Outside Audit &

Term of office: 4 years from March 2019

Supervisory Board Member)

Date of birth: December 26, 1955

Number of shares held: 0

Date of birth: November 29, 1963

Number of shares held: 2,600

Toru Mimura

Board Member

Board Member

oril 1987	Joined the Company
oril 2001	Vice President, Products Division, Fo
	Business Division, Food Business
ine 2008	Senior Vice President; Head of Bever
	Business Division; and Vice Presiden
	Product Division, Food Business Div
	sion, Food Business
ly 2008	Senior Vice President; and Head of
	Beverage Business, Food Business
ly 2010	Senior Vice President; and Head of
	Beverage Business

Joined the Company

Business Assurance Division

June 2013 Senior Vice President, CSR boo January 2018 Senior Vice President, Assistant to President Standing Audit & Supervisory Board March 2018 erade Member of the Company (Current Position) June 2021

Outside Director, Honda Motor Co., Ltd. (Current Position) Significant Concurrent Positions Outside the Company Outside Director, Honda Motor Co., Ltd.

Vice President, Non-Tobacco Material Procurement Division. Tobacco Business Position)

July 2014

March 2019 Standing Audit & Supervisory Board Vice President, Operational Review and

Member of the Company (Current

Entered the Ministry of Finance April 1979 July 2010 Deputy Director-General of the Planning and Coordination Bureau; Secretary-General of the Executive Bureau, Certified Public Accountants; Auditing Oversight Board, Financial Services Agency July 2011 Director General, Kinki Local Finance Bureau, the Ministry of Finance

January 2012 Deputy Director-General, Minister's Secretariat, the Ministry of Defense (hereinafter the Ministry) September 2012 Director-General Bureau of Personnel and Education, the Ministry July 2013 Director-General, National Institute for

Defense Studies, the Ministry

October 2015 Vice-Minister of Defense for Internatio al Affairs, the Ministry September 2016 Chairman, Sompo Japan Nipponkoa Research Institute Inc. October 2017 Director, Eltes Co., Ltd. March 2018 Registered as Attorney at Law (Current Position) Standing Outside Audit & Supervisory March 2019

Equipment, the Ministry

Director-General, Bureau of Finance and

Board Member of the Company (Current Position)

Significant Concurrent Positions Outside the Company Attorney at Law, Shiba International Law Offices

Hiroshi Obayashi Audit & Supervisory Board Member (Independent Outside Audit & Supervisory Board Member) Date of birth: June 17, 1947 Term of office: 4 years from March 2019 Number of shares held: 0

April 1970 April 1972 May 2001	Judicial Apprentice Appointed as Public Prosecutor Director-General of the Rehabilitation Bureau, the Ministry of Justice (hereinaf-
January 2002	ter the Ministry) Deputy Vice-Minister of Justice, the Ministry
June 2004	Director-General of the Criminal Affairs
2005	Bureau, the Ministry
lune 2006	Vice-Minister of Justice, the Ministry
July 2007	Superintending Prosecutor, Sapporo
	High Public Prosecutors' Office
July 2008	Superintending Prosecutor, Tokyo High
	Public Prosecutors' Office
lune 2010	Prosecutor-General
March 2011	Registered as Attorney at Law (Current Position)
April 2011	Outside Audit & Supervisory Board
	Member, Daiwa Securities Co., Ltd.
	(Current Position)

June 2013 Outside Director, Mitsubishi Electric Corporation (Current Position) June 2014 Outside Audit & Supervisory Board Member, Nippon Steel & Sumitomo Metal Corporation (Current Nippon Steel Corporation) Outside Audit & Supervisory Board Mem-March 2015 ber of the Company (Current Position) Outside Director, Audit & Supervisory June 2020

Committee Member, Nippon Steel Corporation (Current position) Significant Concurrent Positions Outside the Company Attorney at Law, Obayashi Law Office Outside Audit & Supervisory Board Member, Daiwa

Securities Co. Ltd. Outside Director, Mitsubishi Electric Corporation Outside Director, Audit & Supervisory Committee Member, Nippon Steel Corporation



For reasons for appointment of the Directors, please refer to the Notice of Convocation of the 37th Ordinary General Meeting of Shareholders. For reasons for appointment of the Audit & Supervisory Board members, please refer to the Notice of Convocation of the 34th Ordinary General Meeting of Shareholders We have established a set of independence criteria. For details, please refer to 'JT Corporate Governance Policy'.

Executive Officers

President

Masamichi Terabatake Chief Executive Officer³

Executive Vice Presidents

Naohiro Minami Finance and Corporate Communications

Kiyohide Hirowatari Corporate, Sustainability Management, Pharmaceutical Business and Food Business

Senior Vice Presidents

Kazuhito Yamashita Corporate Governance, Compliance

Junichi Fukuchi Chief Executive Officer, Tobacco Business, Japan

Yuki Maeda Chief Financial Officer, Tobacco Business, Japan

Eiichi Kiyokawa Sales, Tobacco Business, Japan **Senior Vice Presidents**

Kenji Ogura Corporate Affairs & Communications, Tobacco Business, Japan

Chigusa Ogawa Leaf Procurement, Tobacco Business, Japan

Yasuhiro Nakajima Head of RRP Japan Office, Tobacco Business, Japan

Shuichi Hirosue Marketing, Tobacco Business, Japan

Akihiro Koyanagi Manufacturing, Tobacco Business, Japan

Daniel Torras Performance & Integration, Tobacco Business, Japan

Muneaki Fujimoto President, Pharmaceutical Business

Shigenori Ohkawa Head of Central Pharmaceutical Research Institute. Pharmaceutical Business

Members of JTI Executive Committee

Eddy Pirard President and Chief Executive Officer

Guergana Andreeva Senior Vice President, People & Culture and Corporate Security

Koji Shimayoshi Executive Vice President and Deputy CEO

Roland Kostantos Chief Operating Officer

Vassilis Vovos Senior Vice President, Finance & Sustainability, **Chief Financial Officer**

John Fraser Senior Vice President, Legal & Regulatory Affairs, and Chief Compliance Officer

Tom Greene Senior Vice President. Chief Digital and Information Officer, Global **Business Services**





(As of January 1, 2022)

Hiromasa Furukawa Food Business

Kei Nakano Corporate Strategy

Takehisa Shibayama Information Technology

Hiroyuki Fukuda Corporate Communications

Osamu Hirose General Counsel

Hisato Imokawa Chief Sustainability Officer

Nobuva Kato Chief Financial Officer

Yoshivuki Mishima People & Culture

* Masamichi Terabatake concurrently serves as President Tobacco Business

(As of April 1, 2022)

Lucine Ovumyan Senior Vice President, Corporate Affairs and Communications

Takehiko Tsutsui Senior Vice President. Reduced-Risk Products

* The members above report directly to Eddy Pirard, President and Chief Executive Officer.

The concept of skills necessary for the Directors

The JT Group aims to achieve sustainable profit growth and enhance corporate value over the mid to long term by pursuing the 4S model, which is our management principle. Based on our 4S model, our vision is to continue to be a growing global company that provides diverse value, unique to the JT Group.

We have adopted the following composition of the Board of Directors in order to enable the Directors to identify the JT Group management strategies and make decisions on important matters, as well as to effectively supervise all operations. The Advisory Panel on Nomination and Compensation has repeatedly engaged in discussions on the composition of the Board of Directors:

• The Board may have as many members as necessary and appropriate, up to a maximum of 15. It comprises diverse professionals with a high sense of ethics and integrity as

well as knowledge, experience and skills, taking into consideration such factors as gender, international experience, work experience, race, ethnicity, cultural background, and other aspects of diversity, along with the skills necessary to serve as Directors.

• The Board includes at least one-third of Independent Outside Directors with qualifications conducive to the Company's sustainable profit growth and corporate value over the mid to long term, in order to strengthen the supervisory functions and transparency of management.

We expect in particular that each Director will demonstrate skills based on their knowledge and experience in the following areas, in light of our management principle, vision and business plan, in order for the Board of Directors to properly fulfill its roles and responsibilities. We believe that the Board of Directors as a whole has the necessary skills at this time.

Areas in which skills are expected to be particularly effective

- "Corporate Management," including JT Group's management strategy, operations, and business strategy based on 4S model, our management principle
- "Global Management," which is essential for JT Group, which operates globally
- "Corporate Finance, Accounting and Capital Policy" and "Legal, Compliance, and Risk Management," which are basis of decision-making for effective management and business activities
- "IT/Information Security," is one important management foundation for strengthening competitiveness of JT Group
- "Corporate Governance," which is foundation of our corporate activities in order to maximize stakeholder value, pursue sustainable profit growth, and grow corporate value over long term
- "Sustainability/Environment and Society," which we consider core to our management initiatives and for which we formulate strategies based on 4S model and materiality analysis

- "D&I/Organizational Behavior and Human Resource Management," one of our focus areas, being promoted so that all JT Group employees can feel motivated in their work and maximize their abilities
- "Business Development/M&A" to formulate strategies and carry out measures for further development and business growth

In addition, in light of the roles and responsibilities of the members of the Audit & Supervisory Board to oversee the job performance of the Directors, we are particularly expecting members of the Audit & Supervisory Board to demonstrate their skills in the areas of "Corporate Finance, Accounting and Capital Policy," "Legal, Compliance and Risk Management," and "Corporate Governance." At present, we believe that the entire Audit & Supervisory Board has the necessary skills.

Skills matrix for proposed Directors and Members of the Audit & Supervisory Board

		Areas in which skills are expected to be particularly effective								
Name	Position	Corporate Manage- ment	Global Manage- ment	Corporate Finance, Account- ing and Capital Policy	Legal, Compli- ance and Risk Man- agement	IT/Infor- mation Security	Corporate Gover- nance	Sustain- ability/ Environ- ment and Society	D&l/Orga- nizational Behav- ior and Human Resource Manage- ment	Business Develop- ment/M&A
Mutsuo Iwai	Chairperson of the Board		٠				•			
Shigeaki Okamoto	Deputy Chairperson of the Board			•	•		•	•	•	
Masamichi Terabatake	Representa- tive Director	•	•		•	•	•		•	•
Naohiro Minami	Representa- tive Director	•	•	•			•			•
Kiyohide Hirowatari	Representa- tive Director	•			•	•	•	•	•	•
Kazuhito Yamashita	Director		٠		•		•	•		
Main Kohda	Outside Director		٠	•			•	•		•
Yukiko Nagashima	Outside Director	•					•		•	•
Masato Kitera	Outside Director		٠		•		•	•	•	
Tetsuya Shoji	Outside Director	•	•			•	•		•	•
Ryoko Nagata	Audit & Supervisory Board Standing Member	•					•	•	•	
Hiroshi Yamamoto	Audit & Supervisory Board Standing Member		•	•	•		•			
Toru Mimura	Audit & Supervisory Board Standing Outside Member			•	•	•	•			
Hiroshi Obayashi	Audit & Supervisory Board Outside Member				•		•	•	•	
Koji Yoshikuni	Audit & Supervisory Board Outside Member			•			•	•	•	



Internal controls

Risk management

The JT Group identifies and closely monitors risks that could affect its operations and implements measures to both prevent them from materializing and minimize their impacts if they were to materialize. We have established an integrated system for identifying and managing all identified risks. Our risk management process comprises the following four steps.

① Identify risks	An executive appointed by the CEO to be in charge of risk management (currently the director in charge of corporate governance and compliance) identifies all risks that could affect the JT Group.
② Assess risks	Executive Officers assess risks in their respective organizational units probability of materializing and the magnitude of its impact if it were to materialize. They identify material risks that need to be monitored and report them to the executive in charge of risk management. Based on such reports, the executive in charge of risk management identifies Group-level material risks with the potential to inflict major losses in terms of attainment of the Group's management targets and business strategies and reports said risks to the CEO.
③ Formulate plans to address risks	Executive Officers oversee formulation of plans to address the JT Group's material risks and submit them to the executive in charge of risk management and the CEO.
④ Monitor progress of plans	Executive Officers regularly report to the executive in charge of risk management and the CEO on the progress of the plans to address the Group's material risks.

We have prepared crisis management and disaster response manuals in preparation for emergencies. When a crisis or natural disaster occurs, we set up an emergency project task force. We have made advance arrangements to enable concerned organizational units and subsidiaries to swiftly take appropriate action in close coordination with each other under the direction of senior executives. Such incidents and pertinent information about them are reported to the Board of Directors in a timely and appropriate manner.

Please see Risk factors (P. 80) for more on risks facing the JT Group.

such guidelines to their personnel (defined as employees, directors, etc.; likewise below) and endeavor to increase compliance effectiveness by conducting various training programs and other educational activities for their respective personnel.



* Composed of 2 internal and 3 external members

Compliance

We enforce strict compliance. We have instituted a Code of Conduct that mandates that all directors and employees act in compliance with applicable laws, government regulations, our Articles of Incorporation and societal norms pursuant to regulations established by the Board of Directors. To ensure fair and effective compliance practices, we have established the JT Group Compliance Committee as a deliberative body that reports directly to the Board of Directors.

The JT Group Compliance Committee is headed by the Chairperson of the Board and includes external experts as key members. It meets regularly every year. It deliberates on Group-wide compliance-related matters, including annual Compliance Action Plans' implementation status and adoption/revision of compliance-related regulations and our Code of Conduct, to deeply instill a compliance mindset in employees. We have also appointed an Executive Officer in charge of compliance to oversee our Legal and Compliance Division, which implements and promotes a cross-Group compliance regime and endeavors to identify compliance deficiencies. In 2021, the JT Group Compliance Committee met three times to discuss compliance promotion initiatives, among other matters. The outcomes of its discussions were incorporated into the 2022 Compliance Action Plan.

Group companies' respective organizational units that promote compliance (e.g., JT's Legal and Compliance Division and subsidiaries' corresponding organizational units) distribute the JT Group Code of Conduct and other

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Compliance action plans

Action Plans formulated by the JT Group Compliance Committee include actions to maintain/enhance compliance programs, address priority compliance issues, conduct trainings and seminars, operate the internal reporting system and implement Compliance Promotion Month.

Compliance surveys

We annually conduct a Group-wide questionnaire survey to check the status of compliance practices in our Japanese operations. In 2021, 96.6% of employees completed the survey. The survey's findings are reported to directors and employees, and are used by concerned organizational units to reassess their respective compliance plans and formulate and implement measures to improve compliance.

Internal reporting system (whistle-blower system)

Group companies have set up hotlines for their employees and other parties to report acts suspected of being legal/ regulatory violations and other such concerns. Compliance promotion departments that receive a report or query via their hotlines investigate its details and then take action, including recurrence-prevention measures, as needed. Additionally, JT has set up another hotline apart from the one staffed by its Legal and Compliance Division. The second hotline is independent from organizational units involved in operational execution and staffed by Audit & Supervisory Board members, who investigate the details of any reports or gueries received via the hotline. JT then takes action, including recurrence-prevention measures, as needed. JT refers or reports serious problems involving the JT Group to the JT Group Compliance Committee for further review as needed.

Quality control

We are committed to maintaining the public's trust in our products. To do so, we have implemented quality assurance systems across all of our businesses.

Tobacco business

For tobacco products, we are building a globally uniform quality assurance model and making necessary changes based on this model with the aim of providing high-quality products.

Our quality assurance activities fundamentally aim to improve quality and rectify deficiencies by providing feedback to concerned organizational units about quality issues identified based on quality information from markets and related research. For example, when our RRP (reduced-risk product) devices are in the development stage, we confirm that they not only comply with applicable laws and regulations but also that they meet industry safety standards for electric products by having them evaluated as needed by external specialists.

Additionally, in conjunction with measures to strengthen the tobacco business's operating model, we established Global Quality Assurance in January 2022 as a new organization independent from the tobacco business's markets and other global operational functions. Global Quality Assurance endeavors to provide high-quality products by assuming accountability for quality assurance activities across the entire value chain from R&D through procurement, manufacturing, marketing, distribution and sales based on fair decisions from the consumer's* standpoint.

Pharmaceutical business

In our pharmaceutical business, we are strictly committed to safety and quality control in compliance with regulations such as the Pharmaceutical and Medical Device Act and ministerial ordinances that govern pharmaceutical quality and safety.

Processed food business

In our processed food business, we place utmost priority on food safety management across the entire value chain from sourcing ingredients to delivering products to consumers. We do so under our four-pronged framework, consisting of the following categories: Food Safety, Food Defense, Food Quality and Food Communication.

*Adult consumers. Minimum legal age for smoking varies in accordance with the legislation in each country.

Information security

We have established information security regulations to clearly demonstrate our commitment to information security and comprehensively promote information security measures on an ongoing basis. Specifically, we have adopted a JT Group IT Governance Policy and JT Group Information Security Standards and mandated and implemented required IT risk mitigation measures, including access restrictions, anti-virus defenses, education, audits and monitoring. We endeavor to appropriately manage and safeguard our IT systems, data and other information assets. We are pursuing initiatives to strengthen information security with respect to both hardware and software. Hardware-wise, we continually test and improve our key IT systems' security-related technologies and operations. Software-wise, we globally conduct security-related educational activities to promote proper handling of information assets by all employees. In 2021, 99.4% of JT and its Japanese Group companies' employees attended security training programs. Additionally, we designated effective information management as a 2021 compliance priority and provided user education in light of information security's growing importance in a remote work environment. We are also conducting educational activities in our international tobacco business, having rolled out our internally-developed i-secure program across all overseas geographies. The i-secure program's effectiveness is constantly being measured by employee behavior metrics. It has been instrumental in raising employees' information security consciousness.

Internal auditing

Our Operational Review and Business Assurance Division conducts internal audits from an objective standpoint independent from organizational units involved in operational execution and reports directly to the CEO. It assesses management and operational systems and the state of operational execution across all business activities from the standpoint of legal compliance and rationality with the aim of safeguarding company property and increasing operational efficiency. To fulfill its responsibilities, it has unrestricted authority to observe all activities, inspect all records and question all personnel on a Group-wide basis.

VALUE CREATION

The Division formulates annual internal audit plans subject to the CEO's approval. Its head mandatorily reports internal audit results to the CEO, reports annually to the Board of Directors, and may freely and regularly confer with the CEO and our subsidiaries' senior-most executives about internal audit findings, internal controls' status and risk assessments.

Internal controls over JT International

The tobacco business is operated by JTI, a subsidiary of holding company JT International Group Holding B.V. With appointees from JT occupying a majority of seats on the latter's Board of Directors, JT sets the tobacco business's overall strategy. Major decision-making authority and settlement procedures between JT and JTI are prescribed in internal regulations, most notably our Authority and Responsibility Regulations. From an operational agility standpoint, JT has delegated a certain degree of authority to JTI while retaining approval authority over JTI's budgets and mid-term plans, as well as proposed investments that exceed a certain materiality threshold. Through such arrangements, JT endeavors to exercise governance over JTI. JTI has its own internal regulations on delegation of responsibilities and authority called the JTI Operating Guidelines. JTI delegates authority to its market subunits,

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plants and Executive Officers within the scope of authority delegated to it by JT.

Additionally, JT's Audit & Supervisory Board members and Operational Review and Business Assurance Division are authorized to audit JTI. JT's Audit & Supervisory Board members audit JTI as warranted. While JTI's internal audits are conducted by its own internal auditing staff, JT's Operational Review and Business Assurance Division audits joint JT-JTI operations in coordination with JTI's internal auditing staff. The results of audits by JTI's internal auditing staff are reported to the president of JT's Tobacco Business Headquarters, who is also chairman of JT International Group Holding B.V.

Through these arrangements, JT is building an appropriate governance regime.