



FOR IMMEDIATE RELEASE

Tokyo, February 14, 2023

Opinion of the Board of Directors on the Shareholder's Proposal

Japan Tobacco Inc. (JT) (TSE:2914) hereby announces that the following proposal (the "Shareholder's Proposal") for the exercise of shareholders' rights at the 38th Ordinary General Meeting of Shareholders was received from the following shareholder and satisfies the requirements stipulated by laws and regulations. The Board of Directors' meeting held today resolved to make the Shareholder's Proposal an agenda item for the 38th Ordinary General Meeting of Shareholders and also resolved to oppose the Shareholder's Proposal.

1. Proposing Shareholder

LIM JAPAN EVENT MASTER FUND (hereinafter called the "Proposing Shareholder")

2. Agenda Items for Shareholder's Proposal

- (1) Partial amendment to the Articles of Incorporation (management of subsidiaries)
- (2) Partial amendment to the Articles of Incorporation (prohibition against former directors and employees serving in director positions at listed subsidiaries)
- (3) Partial amendment to the Articles of Incorporation (prohibition against using the cash management system (CMS) for financing with listed subsidiaries)
- (4) Acquisition of treasury shares

3. Details of the Shareholder's Proposal and Opinion of the Board of Directors on the Shareholder's Proposal

<Overarching Opinion of the Board of Directors of the Company on the Shareholder's Proposals>

There are four proposals from the Proposing Shareholder, and the Board of Directors of the Company is against any of these.

As stated at the beginning of the reasons of the proposal in the Shareholder's Proposal (1), a series of proposals from the Proposing Shareholder seek to dissolve the parent-subsidary listing status of the Company's listed subsidiary TORII PHARMACEUTICAL CO., LTD. (hereinafter referred to as TORII). The Company's Board of Directors' views on the foregoing is as follows:

Our Pharmaceutical Business complements the Group's profit growth target which consists of average annual mid to high single digit growth in operating profit (adjusted on a constant currency basis and over the medium to long term). To fulfill this role, we have set goals for research and development of strategic next-generation products and for the maximization of the value of each product. We are working

relentlessly on the pursuit of improving drug discovery capabilities, maximizing the value of individual products, and on reducing costs by optimizing the business' foundations over the medium to long term.

Regarding the profitability of our Pharmaceutical Business, we have continued to generate operating profits since the fiscal year ended December 2016, through aggressive out- and in-licensing activities, not sticking to launching in-house developed products on our own. Despite the termination of the contract with Gilead Sciences, Inc. for the sale of anti-HIV drugs in Japan, the Company achieved an operating profit in the fiscal year ended December 2022 at a level comparable to the previous year.

We have plans to increase profits for the fiscal year ending 2023, and will continue to accelerate the aforementioned initiatives so that the Pharmaceutical Business can continue to play an accretive role to our Group's profit.

TORII has announced a medium-/long-term business vision in February 2022, called "VISION2030". In the vision, it has set goals for achieving record-high sales and achieving record-high operating profit by 2030 through strengthening in-licensing activities and creating a framework to maximize product value.

In order for the Group's Pharmaceutical Business, including TORII, to fulfill these goals and their roles, we believe it is important to maintain and strengthen the efficient corporative structure in which both companies establish an integrated value chain, where the Company conducts research and development while TORII is responsible for manufacturing, sales, and promotional activities.

In order to maintain and strengthen the corporative structure, it is necessary to improve our competitive advantage by securing excellent human capital and acquiring trust, etc., which are important in the Pharmaceutical Business. In addition, we also comprehensively consider the management advantages of the subsidiary, such as discipline in the capital market, and the enhancement of engagement of human capital by utilizing stock remuneration. From these viewpoints, the Company believes that it is significant importance to have TORII as a listed subsidiary.

In fact, the brand and name recognition of TORII, with its over 150 years of history, has contributed to the acquisition of a wide range of other highly specialized important resources including industry specific insight, experience, and human resources, which are not always available within the Group alone. We believe that the acquisition of these is enabled because of the high level of trust that TORII has earned as a listed company.

Since the acquisition of a majority stake in TORII in 1998, its existing structure has never been held in a desultory manner. On the contrary, we are continuing to build an optimal business execution system at Group level, including the centralization of R&D and clinical development functions within the Company. We will continue to strengthen intra-group collaboration with the aim of enhancing the Group corporate value.

While it is true that TORII's Price to Book Value Ratio (PBR) is below 1x. On the other hand, in TORII's earnings announcement dated February 10, 2023, in addition to an explanation concerning the progress of major initiatives of the medium-term management plan for achieving the targets of the medium-/long-term business vision "VISION2030", TORII clarified its initiatives to enhance corporate value. In particular, regarding shareholder returns the company will propose to increase its annual dividend per share for FY2022 at its annual general meeting of shareholders. TORII will also announce that the company will maintain its basic policy of continuous and stable dividends while further enhancing shareholder returns. We, the board, support these announcements and will continue to strengthen our businesses' cooperation, and at the same time, we would like to fulfill our responsibility as a shareholder of a majority stake in a listed company in an appropriate manner.

These are our views on the dissolution of the parent-subsidary listing, which the Proposing Shareholder has.

The opinions of the Board of Directors on each Shareholder's Proposal are stated after each proposal.

The following contents of the proposal (summary of the proposal) and the reasons for the proposal are the English translation text of the relevant sections of the Shareholder's Proposal submitted by the Proposing Shareholder. These are prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.

<Proposal (1)>

Partial amendment to the Articles of Incorporation (Management of subsidiaries)

1. Summary of the proposal

The following chapter and article are newly incorporated in the Articles of Incorporation of the Company. In the event that a formality adjustment (including, but not limited to, amendment of the number of article) is required to be made to any of the provisions set forth in this proposal as a result of the passage of another proposal at this Ordinary General Meeting of Shareholders (including a proposal relating to a company proposal), the provisions pertaining to this proposal shall be deemed to be replaced with the provisions after the necessary adjustments have been made.

(Underlined indicates amended portions)

Current	Proposed Amendment
(Newly established)	<p style="text-align: center;"><u>Chapter 7 Management of Subsidiaries</u></p> <p><u>(Management of Subsidiaries)</u></p> <p><u>Article 35 The Company shall examine the following matters at the Board of Directors and shall specifically disclose the details of the examination, etc. (including the policy, etc. of converting a company into a wholly owned subsidiary or sale, etc.) in the report on corporate governance submitted by the Company to the Tokyo Stock Exchange:</u></p> <p><u>(1) Whether the effectiveness of group-wide governance (management and oversight of subsidiaries for this purpose) is compatible with flexible decision-making at subsidiaries</u></p> <p><u>(2) Whether listed subsidiaries have a reasonable reason to maintain listing from the viewpoint of maximizing corporate value as a group</u></p> <p><u>(3) Approach to appropriate exercise of the authority to appoint and dismiss directors to ensure effective governance systems for listed subsidiaries while giving due consideration to the interests of general shareholders of listed subsidiaries</u></p>

2. Reason of the proposal

A series of proposals by the proposing shareholder is aimed at seeking to dissolve the parent-subsidary listing. In December 1998, the Company acquired a majority stake in Torii Pharmaceutical Co., Ltd. (hereinafter referred to as "Torii"), which is listed on the Tokyo Stock Exchange, and in October 1999, the Company concentrated the research and development functions of the group's pharmaceuticals business within the Company and integrated the promotional functions, such as the sales and marketing of prescription drugs, into Torii. Today, Torii, the sole listed subsidiary of the Company, and the research and

development division of the Company, which has the office in the Torii headquarters building, are the core of the Company's pharmaceutical business.

However, the market value of Torii's shares held by the Company has changed little since the time of the acquisition. Originally, the Company aimed to sell the prescription drugs it developed independently through Torii, but it is only CORECTIM® Ointment for treatment of atopic dermatitis which the company began to sell in June 2020, and for which the Company received domestic manufacturing and marketing approval and for which a certain amount of sales has been recorded even when more than 20 years have passed since the acquisition. There was little mention regarding Torii in the Business Plan which was announced by the Company in February 2022 and it can be reasonably assumed that this was because the prospects around the time of the acquisition have disappeared and that synergies between parent and subsidiary are no longer be expected.

In the first place, a parent-subsidary listing is likely to cause "deadweight loss" in economics. If the allocation of management resources within the group is incorrect, the profits of the minority shareholders of listed subsidiaries, which are disciplined by their own cost of capital, are impaired, and the profits of the shareholders of the parent company are also impaired by the decrease in value of the listed subsidiary, and the economic efficiency of both parent and subsidiary is damaged.

In fact, Torii's share price is consistently below a Price Book-value Ratio (PBR) of 1, which is the dissolution value. Torii has assets under management comparable to its market capitalization, such as cash and deposits, cash management systems (CMS) deposits, and investment securities, and as of January 18, 2023, the enterprise value (EV) excluding assets under management that do not contribute to the core business, was negative. This is an extremely low share price at which, if one acquired Torii without a premium, its business could be obtained at no expense and one would even receive some change. Given such a situation, it can be said that Torii is no longer a listed company.

Even if EV is calculated including investment securities, Torii's EV/EBITDA multiple (dividing EV by earnings before interest, taxes, and depreciation) is around four times, which is well below the EV/EBITDA multiple of about 10 times for similar-sized pharmaceutical companies, meaning that the spread is narrowing to the level of the Company. Taking into account the indices to evaluate Torii's share price, which has decreased substantially, it is clear that the Company has failed for a long time to improve the value of Torii and has not fulfilled responsibilities as a major shareholder. Therefore, strategic decisions such as the delisting or the sale of Torii would contribute to enhancing the shareholder value of the Company.

In the first place, tobacco, the core business of the Company and a pharmaceutical business have little affinity. The Company aims to collaborate with domestic and overseas companies, healthcare professionals, and academia, but because it has a tobacco business as its core business, there are constraints concerning drug discovery and marketing activities. Last year, some media critically reported the rewards the Company and Torii paid to healthcare professionals for lecturers, writing, and consulting services.

The “Practical Guidelines on Group Governance Systems (Group Guidelines)” formulated by the Ministry of Economy, Trade and Industry on June 28, 2019 requires the parent company to “regularly inspect whether it is optimal to maintain it as a listed subsidiary from the viewpoint of enhancing the corporate value and capital efficiency of the group as a whole” (p. 124). In addition, if the parent company maintains a subsidiary’s listing, the Board of Directors is required to deliberate on “reasonable grounds for maintaining it as a listed subsidiary” and “ensuring the effectiveness of the governance structure of the listed subsidiary” and to fulfill sufficient accountability to investors through information disclosure (p. 126).

Furthermore, the “Practical Guidelines for Business Transformations – Toward Changes to Business Portfolios and Organizations - (Business Transformations Guidelines)” formulated by the Ministry of Economy, Trade and Industry on July 31, 2020 pointed out that “the form of a listed subsidiary structurally causes a risk of conflict of interest to minority shareholders, and it is not necessarily desirable to maintain a listed subsidiary aimlessly as it has been seen in some Japanese companies in the past” and that “it is desirable that the conversion to a listed subsidiary is regarded as a “transitional form” and... that policies are shown such that the purpose is to eventually make it as a non-subsiidiary or the period in which it is made as a non-subsiidiary” (p. 97-98).

Based on the above, in view of the background that the Company has failed for a long time to enhance the value of Torii, it is doubtful that the Board of Directors of the Company has deliberated on “reasonable grounds for maintaining it as a listed subsidiary” and or has been “ensuring the effectiveness of the governance structure of the listed subsidiary” in good faith and that the Company has not maintained the listed subsidiary aimlessly, and therefore, it is proposed that a provision is included in the Articles of Incorporation requiring the Board of Directors of the Company to fulfill sufficient accountability through these deliberations and information disclosure.

<Opinion of the Board of Directors of the Company on the Shareholder Proposal (1)>

The Board of Directors of the Company is against this Proposal.

In accordance with the "Enforcement Rules for Securities Listing Regulations" of the Tokyo Stock Exchange, Inc., the Company discloses the “Corporate Governance Report” specifying our views on the group management and the significance of owning a listed subsidiary. We believe that disclosing our group management policy to listed subsidiaries is a given responsibility and a step that a listed company should naturally comply with, and we will continue to constantly examine ways to enhance disclosure to better engage in a dialogue with the capital market. However, we believe that it is NOT appropriate to uniformly and fixedly stipulate in the Articles of Incorporation, which is the fundamental norm of the organization, that specific details regarding the acquisition of 100% ownership or sale of a subsidiary must be disclosed even at the stage of consideration, as this may cause unnecessary speculation in the capital market. We believe that the Board of Directors should carefully consider the content, timing, method, etc., of the announcement of specific details regarding the 100% acquisition or sale of a subsidiary, taking into account the dialogue with shareholders and investors, and then announce such details in a timely and appropriate manner once it has reached a conclusion that should be informed of.

Therefore, we believe that it is NOT appropriate to establish a provision in the Articles of Incorporation in accordance with this Shareholder Proposal.

As below, we reinforce the Company's approach to group management and the purpose of owning a listed subsidiary, focusing on the specific matters to be considered and disclosed in the Shareholder Proposals.

The Company aims to achieve sustainable profit growth and increase corporate value of the Group over the medium to long term by sharing and implementing the pursuit of the 4S model management philosophy throughout the Group. Based on the recognition that enhanced corporate governance will contribute to achieving the aforementioned goals, the Company is working to optimize the entire Group by defining functions, rules, etc. common to the Group and by conducting the Group management. In addition, the Company has established a compliance system (including a reporting system), an internal audit system, and a financial management system, in cooperation with its subsidiaries.

With regard to TORII, a listed subsidiary, we believe that ensuring its independence and appropriately protecting the interests of minority shareholders are essential to improving the corporate value of the Company and TORII. Based on this, we are striving to establish an appropriate governance system as a listed company. The Company has established company-wide rules of responsibility and authority as internal rules for decision-making, but TORII ensures its independence as a listed subsidiary by selectively applying these rules and by holding discretionary powers. In addition, at the general shareholders' meeting held on March 26, 2020, a resolution was passed to shift to a board of directors' structure in which the majority of directors are independent outside directors, and the company is further strengthening its effective governance system where independent outside directors are utilized.

As for the significance of owning a listed subsidiary, as mentioned above, we have TORII as a listed subsidiary, taking into consideration comprehensively the managerial advantages of the subsidiary, such as discipline in the capital market, the enhancement of engagement of human capital by utilizing stock-based remuneration and so forth, in addition to the competitive advantage by securing excellent human capital and obtaining trust which are important in the Pharmaceutical Business.

With regard to the exercise of appointing and removing directors appropriately to ensure an effective governance structure for a listed subsidiary, we believe that, if it is stipulated in the Articles of Incorporation that such exercise be stated uniformly in the "Corporate Governance Report," that there then is a possibility to practically impede TORII's independent judgment, given that the Company holds a majority of the voting rights in TORII. Given the business environment in uncertain social and economic conditions surrounding the Company and TORII, the required image of directors can change in parallel with the corporate image. Therefore, the Company believes that decisions should be made from the standpoint of shareholders, comprehensively considering the various factors at different times. From this perspective, we believe that it is NOT appropriate to stipulate in the Articles of Incorporation, which is the fundamental norm of the company, that such a policy decision be

uniformly stated in the "Corporate Governance Report." Of course, we believe that it is our important responsibility to ensure effective governance of listed subsidiaries, paying attention to the interests of general shareholders in such subsidiaries, and we will continue to discuss the appropriate exercise of the voting power of appointment and removal.

In the Reasons for the Proposal, the so-called Business Transformation Guideline formulated by the Ministry of Economy, Trade and Industry was cited. However, in the quote "It is desirable to place the listing of subsidiary as a 'transitional form,' and then (omission) indicate the policy that the subsidiary is aimed to eventually be a non-subsiary, and what time frame is set to be a non-subsiary, and so forth" the aforementioned is a guideline for the case where a listed subsidiary is temporarily established when the parent company conducts an equity carve-out as part of its restructuring for the purpose of divesting its business. It therefore does not require parent companies with listed subsidiaries in general to indicate such a policy (or to take such actions). Another part of the guideline stating that "it is not necessarily undesirable to maintain a listed subsidiary in a desultory manner as has been observed in some Japanese companies" also implies that if the risks associated with parent-subsiary listings can be reduced through appropriate governance, etc., and the interests of the entire group can be secured, then the form of the listed subsidiary is not necessarily denied. In light of the above, we believe that at least the quoted wording in the Reasons for the Proposal can NOT be a direct basis for the Proposal.

<Proposal (2)>

Partial amendment to the Articles of Incorporation (prohibition against former directors and employees serving in director positions at listed subsidiaries)

1. Summary of the proposal

The following chapter and article are newly incorporated in the Articles of Incorporation of the Company. In the event that a formality adjustment (including, but not limited to, amendment of the number of article) is required to be made to any of the provisions set forth in this proposal as a result of the passage of another proposal at this Ordinary General Meeting of Shareholders (including a proposal relating to a company proposal), the provisions pertaining to this proposal shall be deemed to be replaced with the provisions after the necessary adjustments have been made.

(Underlined indicates amended portions)

Current	Proposed Amendment
(Newly established)	<u>Chapter 8 Prohibition Against Former Directors and Employees Serving in Director Positions at Listed Subsidiaries</u> <u>(Prohibition Against Former Directors and Employees Serving in Director Positions at Listed Subsidiaries)</u>

Article 36 The Company shall not exercise its voting rights in favor of the proposal if a listed subsidiary of the Company submits a proposal for the election of Members of the Board to the General Meeting of Shareholders as a company proposal in which a person who has worked as an officer or an employee for five years or more at the Company or any of its subsidiaries or affiliates is a candidate for the Member of the Board.

2. Reason of the proposal

Since the Company acquired a majority stake in Torii in December 1998, the Company has continued to send those who retired from the Company to Torii as representative directors and directors, but the “Amakudari” by persons who retire from the Company who are not experts in the pharmaceutical business cannot be said to be an appropriate selection from the viewpoint of increasing the value of the investee. The representative directors from the Company such as Mr. Norihiko Matsuo, Mr. Shoichiro Takagi and Mr. Goichi Matsuda do not seem to have a wealth of knowledge on the pharmaceutical business. Therefore the value of shares of Torii held by the Company has been significantly discounted in terms of share prices and financial indicators such as PBR and EV/EBITDA for long time and as a result the shareholder value of the Company being a major shareholder of Torii has been impaired.

Mr. Goichi Matsuda, the only internal director of Torii who is a former officer or employee of the Company and took the representative director position, had been engaged in the work of a clearly different field when at the Company, for example, by serving as Vice President of the Planning Department, Senior Manager and Head of Beverage Business etc. of Beverage business division for many years and therefore, it cannot be acknowledged that he has a wealth of knowledge concerning the pharmaceutical business. Nevertheless, he suddenly assumed the position of Deputy President of the Pharmaceutical Business Division of the Company, perhaps as a stepping stone to taking position at Torii, and only one year later became Corporate Advisor of that Division, and two months later, he became Deputy Head of the Pharmaceutical Marketing and Promotion Group and Vice President of the Marketing Planning Department of Torii. After only two years of work in such business, he assumed the position of Representative Director, President and Chief Executive Officer of Torii.

As mentioned above, a parent-subsiary listing is likely to cause deadweight losses in economics. If the personnel practices of the parent company, where not the right person is in the right place, are also applied to listed subsidiaries, the profits of minority shareholders of listed subsidiaries that require their own management know-how are impaired, and the interests of shareholders of the parent company are also impaired due to decrease in value of the listed subsidiaries, and the economic efficiency of both parent and subsidiary is damaged.

The practice of persons from the Company becoming the president implies that Torii’s proper employees are unable to become president. This will hinder motivation of Torii employees, which will lead to a decline in Torii’s shareholder value, which in turn will undermine the shareholder value of the Company as a major shareholder of Torii.

Therefore, in order to correct the personnel practices in the Company and Torii, it is proposed that a

provision is included in the Articles of Incorporation preventing a person who has worked as an officer or an employee for five years or more at the Company or any of its subsidiaries or affiliates from being appointed as a director of Torii.

<Opinion of the Board of Directors of the Company on the Shareholder Proposal (2)>

The Board of Directors of the Company is against this Proposal.

The appointment of directors at TORII is conducted through a proper and transparent process by the company from a position that is independent to that of the Company (the Parent), and we believe that it is NOT appropriate to impede TORII's judgment as a listed company solely because a director is a former officer or employee of the Company. Rather, by having a person who has gained diverse experience at the Company return the know-how backed by its broad experience to TORII, such person can contribute to the invigoration of TORII and promote smooth cooperation throughout the Group.

In fact, each of TORII's directors who were appointed through a process whose objectivity and transparency were entirely ensured, received a high approval rate in the region of 94% to 97% for their election at the company's general shareholders' meeting, and the vast majority of shareholders not related to the Company also approved their election.

Considering the above effects of the appointment of directors from the Company and the objective figures of the approval rate at the general meeting of shareholders of TORII, we believe that establishing a provision in the Articles of Incorporation that effectively limits the appointment of directors to TORII solely because they are from the Company may damage the opportunity for the optimal appointment of directors at TORII, and may also damage the corporate value of TORII and furthermore the corporate value of the Company.

The issue of how to exercise voting rights on proposals for the election of directors at subsidiaries should be considered and implemented in a timely manner as a specific exercise of business execution authority to be administered precisely by the directors. We believe that it is NOT appropriate to stipulate this in the Articles of Incorporation in a fixed and uniform manner, as it would conflict with the basic concept of the distribution of authority under the Companies Act (of Japan). In addition, if the Articles of Incorporation restrain the exercise of voting rights for the election of directors, it could lead to practically impeding TORII's independent judgment, since the Company holds a majority of the voting rights in TORII. Therefore, we believe that such changes are NOT appropriate.

<Proposal (3)>

Partial amendment to the Articles of Incorporation (prohibition against using the cash management system (CMS) for financing with listed subsidiaries)

1. Summary of the proposal

The following chapters and articles are newly incorporated in the Articles of Incorporation of the Company. In the event that a formal adjustment (including, but not limited to, amendment of the number of articles) is required to be made to any of the provisions set forth in this proposal as a result of the passage of another proposal at this Ordinary General Meeting of Shareholders (including a proposal relating to a

company proposal), the provisions pertaining to this proposal shall be deemed to be replaced with the provisions after the necessary adjustments have been made.

(Underlined indicates amended portions)

Current	Proposed Amendment
(Newly established)	<p style="text-align: center;"><u>Chapter 9 Prohibition Against Using the Cash Management System (CMS) for Financing with Listed Subsidiaries</u></p> <p><u>(Prohibition Against Using the Cash Management System (CMS) for Financing with Listed Subsidiaries)</u> <u>Article 37 The Company shall not borrow or lend funds by means of a cash management system (CMS) with any listed subsidiary of the Company.</u></p>

2. Reason of the proposal

As of September 30, 2022, Torii had deposited the amount of 14.171 billion yen with the Company in the cash management system (CMS), through which the parent company centrally manages the group's funds. In 2019, Torii acquired more than 40 billion yen and its assets under management are expanded, as contracts for exclusive sales rights to HIV drugs manufactured by Gilliard Sciences, Inc. in the U.S. were terminated. Judging from the operational status of the CMS within the Company's group, the presence of the CMS means that opportunities to utilize this enormous amount of cash appropriately are taken away from Torii from the perspective of capital allocation. In view of the fact that the value of Torii shares held by the Company has been significantly discounted for a prolonged period in terms of share price and financial indicators such as PBR and EV/EBITDA, the value of Torii to its shareholders, and the value of the Company as the major shareholder of Torii are also impaired.

If one argues that "the CMS exists for the purpose of reallocating funds through the parent company because the profitability of other group businesses is higher than that of the pharmaceutical business," then in the first place, Torii and other medical businesses should be targeted for sale and the proceeds thereof should be reinvested in other businesses.

As mentioned above, a parent-subsidary listing is likely to cause deadweight losses in economic terms. If the allocation of capital focused only on the parent company is also applied to listed subsidiaries, which are disciplined by their own cost of capital, the profits of minority shareholders of listed subsidiaries are impaired and the interests of shareholders of the parent company are also impaired due to decrease in value of listed subsidiaries, and the economic efficiency of both parent and subsidiary is damaged.

As stated above, the CMS in the Company's group is detrimental to the shareholder value of the Company, and it is proposed that a provision is established in the Articles of Incorporation prohibiting lending and borrowing through the CMS between the Company and its listed subsidiaries.

<Opinion of the Board of Directors of the Company on the Shareholder Proposal (3)>

The Board of Directors of the Company is against this Proposal.

The CMS operates as a mechanism for more efficient fund management for the entire Group by concentrating surplus funds in each Group company temporarily into the Company, which is the parent of the Group, and by reallocating them to other Group companies that are in at that time temporarily

short of funds.

As a benefit for each subsidiary, we can cite an example that the CMS offers an interest rate at a level comparable to or higher than that at general financial institutions. In addition, the CMS funds can be recovered in a very short period of time like ordinary bank deposits, and therefore we recognize that CMS is used by companies as a temporary storage facility for very short-term surplus funds when they arise.

On the other hand, the Company never forces the subsidiaries to use the CMS, and each subsidiary decides on its own whether to use the CMS based on the aforementioned conditions that the Company offers to them. We recognize that TORII decides whether to manage its funds through our Group CMS by taking into consideration such factors as the convenience regarding fee payment and settlement of funds.

With regard to the future direction of TORII's financial management through our Group CMS, TORII has indicated a policy to reduce the amount of funds managed through the CMS to the amount necessary for the purpose of using it as a settlement account by the end of FY2023, and the Company respects this policy. We do not believe that it is particularly reasonable to limit the use of our Group CMS only to listed subsidiaries, as the use of our Group CMS is not mandatory and is voluntary after considering various conditions at each subsidiary.

The way in which such group-wide management of funds should be considered and implemented in a timely manner as a specific exercise of business execution authority by the directors. We do not believe that it is appropriate to provide for this in a fixed and uniform manner in the Articles of Incorporation., as it would conflict with the basic concept of the distribution of authority under the Companies Act (of Japan).

<Proposal (4)>

Acquisition of treasury shares

1. Summary of the proposal

Pursuant to the provisions of Article 156, Paragraph 1 of the Companies Act, the Company will acquire its ordinary shares within one year from the conclusion of this Ordinary General Meeting of Shareholders up to a total number of 96,357,680 shares and a total acquisition price of 250 billion yen in exchange for cash (provided, however, that if the total acquisition price permitted by the Companies Act (the "Distributable Amount" as set forth in Article 461 of the Companies Act) is less than said amount, the maximum total acquisition price will be the one permitted by the Companies Act)

2. Reason of the proposal

Tobacco business that is the core business of the Company and pharmaceutical business have low affinity. The reason why PBR of Torii, the core of the pharmaceuticals business, falls below 1, which is the dissolution value, and EV/EBITDA multiple is also lower than that of other companies in the same industry, is that synergies between the parent and subsidiary cannot be expected. Therefore, the proposing

shareholder believes that the sale of the entire pharmaceutical business, including Torii, embodies the potential value of the business and contributes to the shareholder value of the Company.

Taking into account the earning power of the pharmaceutical business, such as EBITDA, EV/EBITDA multiple based on a reference to similar companies when this business is separated, and the value of assets under management and the buildings of Torii, it is considered that the value of the pharmaceutical business is well over 250 billion yen.

The total acquisition price of 250 billion yen proposed corresponds to the value described above, and the total number of shares of 96,357,680 is the number obtained by dividing such total acquisition price by the closing share price on January 18, 2023.

<Opinion of the Board of Directors of the Company on the Shareholder Proposal (4)>

The Board of Directors of the Company is against this Proposal.

We believe that the Pharmaceutical Business will complement the Group's sustainable profit growth over the medium to long term and contribute to further growth in the future precisely because of its different business characteristics from the Tobacco Business, such as profitability and investment period.

There is no change in the role of the Pharmaceutical Business, which complements the profit growth of the Group, and there are no plans to sell this business currently.

Therefore, the acquisition of treasury shares using the funds obtained from this sale as a basis must be seen as a leap of logic based on a variety of assumptions, and we believe that the rationale for deciding to implement it is significantly lacking strength.

Our policy on shareholder returns is to maintain a globally competitive dividend payout ratio of about 75% while maintaining a strong financial foundation. There is no change to the Company's essential policy of considering the appropriateness of the acquisition of treasury shares based on the Company's financial condition for the relevant fiscal year, medium to long term capital needs and so forth.

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Japan Tobacco Inc. is a leading international tobacco company with operations in more than 130 countries and regions. With approximately 55,000 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 heated tobacco products under its Ploom brand and various e-cigarette products under its Logic brand. The Group is also present in the pharmaceutical and processed food businesses. For more information, visit <https://www.jt.com/>.

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